

# Bulletin

NUMBER: 2004-2

Freddie  
Mac

TO: All Freddie Mac Sellers and Servicers

May 21, 2004

## SUBJECTS

Freddie Mac is:

- Introducing Initial Interest<sup>SM</sup> Mortgages, a suite of fixed-rate and adjustable-rate Mortgage (ARM) products that allow Borrowers to make interest only payments for a set initial period at the beginning of the loan, then pay principal and interest for the remainder of a fully amortizing loan period
- Providing *Single-Family Seller/Servicer Guide* (Guide) replacement pages in support of the MultiLender Swap program enhancements, which provide Giant PCs in exchange for certain conventional 15-year and 30-year fixed-rate Mortgages, as announced in our March 24 Industry Letter
- Revising Loan Prospector<sup>®</sup> fees to differentiate between loan assessments using in-file credit reports and loan assessments using merged credit reports or Reference Numbers
- Increasing to 165% the Area Median Income limits for Affordable Gold<sup>®</sup> Mortgages secured by Mortgaged Premises located in certain high-cost counties and Metropolitan Statistical Areas (MSAs) in the State of New York
- Allowing rental income from a live-in aide generated from a 1-unit Primary Residence to be used as qualifying income for Borrowers with disabilities
- Adding A-minus Mortgages secured by Mortgaged Premises located in New Jersey and Section 502 Guaranteed Rural Housing (GRH) Mortgages to the list of Mortgages ineligible for sale under Gold Cash Xtra<sup>®</sup> servicing-released
- Retiring the Gold Cash Xtra<sup>®</sup> (GCX) software system and replacing it with the Freddie Mac Selling System
- Increasing the number of special characteristics codes (SCCs) that may be delivered for a Mortgage from six to 10 and making the SCC fields alphanumeric
- Specifying Servicing requirements for Section 502 GRH Mortgages
- Removing expense codes that are no longer needed from Exhibit 57, 1-4 Unit Property Approved Expense Amounts, and Exhibit 74, Expense and Income Codes for Form 104SF

## EFFECTIVE DATES

All of these changes are effective immediately except:

- **June 6, 2004**—On and after this date, Sellers can order loan assessments from Loan Prospector using merged credit reports or Reference Numbers for a loan assessment fee of \$15.
- **June 21, 2004**—On and after this date, Sellers can deliver up to 10 SCCs for a Mortgage, and the SCC fields provided in our delivery systems for data entry will be alphanumeric.
- **July 1, 2004**
  - On and after this date, Sellers can submit their Initial Interest Mortgages to Loan Prospector.
  - On and after this date, Sellers can enter into Master Commitment Conversions under the Guarantor or MultiLender Swap programs for the delivery of Initial Interest Mortgages.
  - Effective for settlements on and after this date, the following Initial Interest Mortgages will be assessed a postsettlement delivery fee of 25 basis points:
    - An Initial Interest Mortgage that has an LTV ratio greater than 90%
    - An Initial Interest Mortgage with secondary financing that has an LTV ratio greater than 75% and less than or equal to 90%, and a TLTV ratio greater than 80% and less than or equal to 95%

## WHY WE'RE MAKING THESE CHANGES AND HOW THEY AFFECT YOU

### Selling and Servicing Changes

#### **Initial Interest Mortgages**

Freddie Mac is pleased to introduce Initial Interest Mortgages, a suite of fixed-rate and ARM products that allow Borrowers to make interest only payments for a set initial period at the beginning of the loan, then pay principal and interest for the remainder of a fully amortizing loan period. Initial Interest Mortgages may provide lower monthly payments during their Interest Only Period than comparable 30-year fixed-rate Mortgages or ARMs.

Initial Interest Mortgages must be submitted to Loan Prospector and receive an Accept Risk Class; however, a Mortgage with a Caution Risk Class may be eligible if the repository file used to create the Selected Borrower's credit report contains significant inaccurate credit information and the Mortgage can be underwritten in accordance with the requirements for Manually Underwritten Mortgages in Chapter 37. Caution Mortgages must also meet the additional underwriting requirements set forth in Section J33.7(c). Initial Interest fixed-rate Mortgages may be sold under the fixed-rate Guarantor or MultiLender Swap programs only. Initial Interest ARMs are eligible for sale under the WAC ARM Guarantor program.

Freddie Mac has developed Uniform Instruments that should be used when originating Initial Interest Mortgages for sale to Freddie Mac. These Uniform Instruments are posted on Freddie Mac's website at [www.freddiemac.com/uniform/](http://www.freddiemac.com/uniform/).

Sellers can submit Initial Interest Mortgages to Loan Prospector on and after July 1, 2004. Sellers can enter into Master Commitment Conversions under the Guarantor or MultiLender Swap programs and deliver Initial Interest Mortgages on and after July 1, 2004. MultiLender Pools for Initial Interest fixed-rate Mortgages will be posted July 1 for settlements in October. Under MultiLender Swap, Sellers will receive a Gold PC<sup>®</sup> in exchange for their Initial Interest fixed-rate Mortgages.

The following Initial Interest Mortgages will be subject to a postsettlement delivery fee of 25 basis points, for settlements on and after July 1, 2004:

- An Initial Interest Mortgage that has an LTV ratio greater than 90%
- An Initial Interest Mortgage with Secondary Financing that has an LTV ratio greater than 75% and less than or equal to 90%, and a TLTV ratio greater than 80% and less than or equal to 95%

When delivering Initial Interest Mortgages, Sellers must follow the instructions below for Form 11 or Form 13SF:

- The Date of First P&I Payment field must be completed with the Due Date of the first interest only payment stated in the Initial Interest Note
- The Monthly P&I Payment field must be completed with the amount of the first interest only payment specified in the Initial Interest Note
- The Reference Code field must be completed with a value of "0012" to indicate that the Mortgage is an Initial Interest Mortgage
- The Mod/Conv date field must be completed with the First Amortizing Payment Date, which is the date stated in the Initial Interest Note that is the Due Date of the first monthly amortizing principal and interest payment

We have revised Chapters 6, 11, 13, A13, 17, 25, 32, A33, B33, C33, D33, E33, G33, H33, 34, 36, 51 and 59; Exhibits 4, 5, 17, 19 and 26; Forms 11 and 13SF; and the Glossary to reflect this new information. We have also added a new Chapter J33.

## **Selling Changes**

### **Enhancements to the MultiLender Swap program**

In this Bulletin, we are providing replacement pages to support enhancements to our MultiLender Swap program announced in our March 24 Industry Letter. Effective with MultiLender Pools posted on and after April 1, 2004, for settlements occurring on and after July 1, 2004, Sellers will swap certain conventional 15- and 30-year fixed-rate Mortgages for Giant PCs instead of Gold PCs.

The pooling requirements for the MultiLender Swap program remain the same. There are no changes to commitments, contract options, delivery requirements or settlement procedures, and there are no fees associated with this enhancement.

The enhancement to our MultiLender program enables Freddie Mac to create Giant PCs by combining Gold PCs backed by Mortgages purchased under our Cash programs with Gold PCs backed by Mortgages purchased under the MultiLender Swap program. This capability will expand and enhance our MultiLender program by providing large, liquid and more predictable Giant PCs in exchange for the eligible Mortgages.

For more information, Sellers should refer to the March 24 Industry Letter.

We have revised Chapters 8, 11, 12, 13, 17, B33 and 77, as well as the Glossary, to reflect these changes.

### **Enhancements to Loan Prospector**

Earlier this month, Freddie Mac announced an enhancement to Loan Prospector allowing customers to:

- Obtain and view merged credit reports within LoanProspector.com before submitting a loan for an assessment
- Retrieve and view credit reports obtained outside of LoanProspector.com using a Reference Number provided by a participating credit reporting company

Effective June 6, 2004, we are revising the Loan Prospector pricing structure in the Guide to provide for a reduced Loan Prospector assessment fee of \$15 for Loan Prospector customers who take advantage of the new merged credit options. The \$15 fee will be charged for a loan assessment with a merged credit report obtained from LP Classic or LoanProspector.com. The \$15 per loan assessment fee will also apply when Loan Prospector customers use a Reference Number in LoanProspector.com to retrieve a credit report that was obtained before the loan assessment. The reduced fee is effective for all Loan Prospector customers and all loan types, including conventional, FHA and VA. Note that our current fee of \$20 per loan assessment will continue to apply to loan assessments with in-file credit reports.

We are also revising Chapter 37 to indicate that merged credit reports obtained through LoanProspector.com are considered to be credit reports provided by Loan Prospector.

For more information, refer to LoanProspector.com at [www.loanprospector.com/news/merged-credit.html](http://www.loanprospector.com/news/merged-credit.html).

We have revised Chapter 37 and Exhibit 18 to reflect these changes.

### **Increasing Area Median Income limits for certain high-cost areas in New York**

Freddie Mac is also pleased to announce that effective for Affordable Gold Mortgages delivered on and after the date of this Bulletin, we're increasing the Area Median Income limits to 165% in the following counties and MSAs in the State of New York:

- Dutchess County
- Nassau-Suffolk MSA
- Newburgh (Orange County) MSA
- Rockland County
- Ulster County
- Westchester County

These new Area Median Income limits will allow more Borrowers in these high-cost areas to qualify for Affordable Gold Mortgages.

We have revised Chapter 34 to reflect these changes.

### **Rental income from the subject 1-unit Primary Residence**

Freddie Mac is pleased to announce that effective for Mortgages delivered on and after the date of this Bulletin, we will allow rental income from a live-in aide generated from a 1-unit Primary Residence to be used as qualifying income for a Borrower with a disability.

We have revised Chapter 37 to reflect this change.

### **Replacing GCX software with the Freddie Mac Selling System**

As announced earlier this year, the Freddie Mac Selling System, our web-based system that integrates selling functions from pricing through delivery onto a single technology platform, will replace our GCX software. With the addition of Best Efforts Contracts and the Servicing Released Sales Process to the Selling System, as announced in the March 26 Guide Bulletin, the Selling System now offers functionality comparable to that of the GCX software system. Accordingly, the GCX software is being retired.

Over the last few months, we have contacted each Seller using GCX software to offer them the opportunity to train on and receive Freddie Mac's approval to transition to the Selling System. We have also notified those Sellers of the date on which they will no longer be able to enter into commitments using GCX software. After that date, while Sellers will not be able to enter into new GCX commitments, they will have an additional 90 days to access GCX to fulfill all of their existing GCX commitments. GCX Sellers who have not yet arranged for training on the Selling System should make arrangements to do so as soon as possible.

Sellers who need access to detailed data found on the GCX software system for accounting or other purposes should secure it (by copying or printing the applicable screens) while they have access to GCX. We can continue to provide Sellers with details from their billing statements about GCX contracts that have been fulfilled; however, data on detailed transactions may not be available after 2004.

We will be updating the Guide to reflect the retirement of the GCX software system in a future Guide Bulletin.

### **Mortgages ineligible under Gold Cash Xtra servicing-released**

Freddie Mac is adding A-minus Mortgages secured by Mortgaged Premises located in the State of New Jersey and Section 502 GRH Mortgages to the list of Mortgages ineligible for sale under Gold Cash Xtra servicing-released. We will continue to purchase these Mortgages on a servicing-retained basis.

We have revised Chapters 9 and 17 to reflect these changes to the eligibility of Mortgages sold under GCX. For information on Mortgages eligible for sale under Freddie Mac Cash using the Selling System, check Freddie Mac's website at

**<http://www.freddiemac.com/sell/secmktg/sellingloans-availmatrix.html>**.

### **Special characteristics code (SCC) expansion**

Freddie Mac requires Sellers to specifically identify certain Mortgages by delivery of an SCC to describe the unique characteristics of the individual Mortgage or the Mortgage product.

Previously, up to six SCCs could be delivered for any one Mortgage. Because the number of SCCs required for some Mortgages has increased, we are expanding the number of SCCs that may be delivered for a Mortgage from six to 10 and making the SCC fields alphanumeric.

We have revised Forms 11 and 13SF to reflect these changes.

### **Servicing Changes**

#### **Section 502 GRH Mortgages**

We are revising the Guide to specify that for Section 502 GRH Mortgages, Servicers must comply with the Servicing requirements of the Rural Housing Service (RHS). We have revised Chapters 51, 53, 55, 56, 58, 59, 60, 64, 65, B65, 66, 67, 70 and 71, as well as the Directory, to reflect these changes.

#### **Removal of certain expense codes and foreclosure amounts**

We have revised Exhibit 57, 1-4 Unit Property Approved Expense Amounts, and Exhibit 74, Expense and Income Codes for Form 104SF, to remove expense codes that are no longer needed and update expense amounts for attorney fees in certain States.

### **REVISIONS TO THE *SINGLE-FAMILY SELLER/SERVICER GUIDE***

Descriptions of revised Guide text are located in Exhibit A of this Bulletin. The revisions include:


- Chapters 6, 8, 9, 11, 12, 13, A13, 17, 18, 25, 32, A33, B33, C33, D33, E33, G33, 34, 36, 37, 51, 53, 55, 56, 58, 59, 60, 64, 65, B65, 66, 67, 70, 71 and 77
- New Chapter J33
- Exhibits 4, 5, 17, 18, 19, 26, 57 and 74
- Forms 11 and 13SF
- Glossary
- Directory

At the end of this Bulletin, you'll find replacement pages for the Guide.

## CONCLUSION

We believe that these changes support Freddie Mac's commitment to making the mortgage finance process simpler and more efficient. If you have any questions about the changes announced in this Bulletin, please call your Freddie Mac Account Manager or (800) FREDDIE.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael C. May". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Michael C. May  
Senior Vice President  
Mortgage Sourcing, Operations & Funding

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# Exhibit A

## Highlights of Revisions in this Package

Bulletin 2004-2 incorporates changes to the following chapters, exhibits, forms, glossary and directories in Volumes 1, 1A, 2 and 2A of the *Single-Family Seller/Servicer Guide* (Guide).

- **Chapter 6**—General Warranties and Responsibilities of the Seller/Servicer—Adds a reference to the loan instruments for Initial Interest<sup>SM</sup> Mortgages.
- **Chapter 8**—General Purchase Program Requirements and Characteristics—Revises language regarding the MultiLender Swap program.
- **Chapter 9**—Cash Program for Fixed-Rate (Including Balloon/Reset) Mortgages—Adds A-minus Mortgages secured by Mortgaged Premises located in the State of New Jersey and Section 502 Guaranteed Rural Housing (GRH) Mortgages to the list of Mortgages ineligible for sale under Gold Cash Xtra<sup>®</sup> servicing-released.
- **Chapter 11**—Guarantor and MultiLender Swap Programs—Revises language regarding the MultiLender Swap program. Adds language regarding Initial Interest Mortgages.
- **Chapter 12**—Master Agreements and Master Commitment Contracts—Revises language regarding the MultiLender Swap program.
- **Chapter 13**—Pooling and Disclosure Requirements for Fixed-Rate and Balloon/Reset Mortgages Under the Guarantor or MultiLender Swap Programs—Revises language regarding the MultiLender Swap program. Adds language regarding Initial Interest Mortgages.
- **Chapter A13**—Pooling and Disclosure Requirements for Adjustable-Rate Mortgages (ARMs) Under the WAC ARM Guarantor Program—Adds language regarding Initial Interest Mortgages.
- **Chapter 17**—Mortgage Delivery and Settlement Processing—Revises language regarding the MultiLender Swap program. Revises language to refer to Chapters 9 and 11 for eligibility for Cash, fixed-rate Guarantor and MultiLender Swap programs. Adds language regarding Initial Interest Mortgages.
- **Chapter 25**—Secondary Financing and Other Financing Agreements—Adds language regarding Initial Interest Mortgages.
- **Chapter 32**—Special Eligibility Requirements for Seller-Owned Converted and Seller-Owned Modified Mortgages—Adds language regarding Initial Interest Mortgages.
- **Chapter A33**—Streamlined Purchase for Homeowners—Adds language regarding Initial Interest Mortgages.
- **Chapter B33**—Prepayment Protection Mortgages—Adds language regarding Initial Interest Mortgages. Revises language regarding the MultiLender Swap program.
- **Chapter C33**—A-minus Mortgages—Adds language regarding Initial Interest Mortgages.

- **Chapter D33**—Alt 97<sup>®</sup> Mortgages—Adds language regarding Initial Interest Mortgages.
- **Chapter E33**—Affordable Merit Rate<sup>®</sup> Mortgages—Adds language regarding Initial Interest Mortgages.
- **Chapter G33**—Freddie Mac 100 Mortgages—Adds language regarding Initial Interest Mortgages.
- **Chapter H33**—Manufactured Homes—Adds language regarding Initial Interest Mortgages.
- **Chapter J33**—Initial Interest Mortgages—New chapter that contains requirements for Initial Interest Mortgages.
- **Chapter 34**—Special Eligibility Requirements for Affordable Gold<sup>®</sup> Mortgages—Adds language regarding Area Median Income limits and Initial Interest Mortgages.
- **Chapter 36**—Special Eligibility Requirements for the Purchase of Seasoned Mortgages—Adds language regarding Initial Interest Mortgages.
- **Chapter 37**—Underwriting the Borrower—Adds language to allow rental income from a live-in aide generated from a 1-unit Primary Residence to be used as qualifying income for Borrowers with disabilities.
- **Chapter 51**—General Freddie Mac Policies—Specifies that Servicers must comply with the Servicing requirements of the Rural Housing Service (RHS) for Section 502 GRH Mortgages. Adds language regarding Initial Interest Mortgages.
- **Chapter 53**—Servicer Agreements—Specifies that Servicers must comply with the Servicing requirements of the RHS for Section 502 GRH Mortgages.
- **Chapter 55**—Servicing Reports—Specifies that Servicers must comply with the Servicing requirements of the RHS for Section 502 GRH Mortgages.
- **Chapter 56**—Transfers of Servicing—Specifies that Servicers must comply with the Servicing requirements of the RHS for Section 502 GRH Mortgages.
- **Chapter 58**—Property Insurance—Specifies that Servicers must comply with the Servicing requirements of the RHS for Section 502 GRH Mortgages.
- **Chapter 59**—Escrow and Prepayments—Specifies that Servicers must comply with the Servicing requirements of the RHS for Section 502 GRH Mortgages. Adds language regarding Initial Interest Mortgages.
- **Chapter 60**—Transfers of Ownership (Assumptions)—Specifies that Servicers must comply with the Servicing requirements of the RHS for Section 502 GRH Mortgages.
- **Chapter 64**—Delinquencies—Specifies that Servicers must comply with the Servicing requirements of the RHS for Section 502 GRH Mortgages.
- **Chapter 65**—Loss Mitigation—Specifies that Servicers must comply with the Servicing requirements of the RHS for Section 502 GRH Mortgages.
- **Chapter B65**—Workout Options—Specifies that Servicers must comply with the Servicing requirements of the RHS for Section 502 GRH Mortgages.

- **Chapter 66**—Foreclosure—Specifies that Servicers must comply with the Servicing requirements of the RHS for Section 502 GRH Mortgages.
- **Chapter 67**—Adverse Matters—Specifies that Servicers must comply with the Servicing requirements of the RHS for Section 502 GRH Mortgages.
- **Chapter 70**—REO—Specifies that Servicers must comply with the Servicing requirements of the RHS for Section 502 GRH Mortgages.
- **Chapter 71**—Reimbursement of Expenses—Specifies that Servicers must comply with the Servicing requirements of the RHS for Section 502 GRH Mortgages.
- **Chapter 77**—Establishing Investor Accounting Functions—Revises language regarding the MultiLender Swap program.

### **Exhibits**

We've revised the following Exhibits:

- **Exhibit 4**—Single-Family Uniform Instruments
- **Exhibit 5**—Authorized Changes to Notes, Riders and Security Instruments
- **Exhibit 17**—Offer Product and Offer Program Numbers
- **Exhibit 18**—Loan Prospector<sup>®</sup> Price Structure
- **Exhibit 19**—Postsettlement Delivery Fees
- **Exhibit 26**—Discretionary Provisions
- **Exhibit 57**—1-4 Unit Property Approved Expense Amounts
- **Exhibit 74**—Expense and Income Codes for Form 104SF

### **Forms**

We've revised the following Forms:

- **Form 11**—Mortgage Submission Schedule
- **Form 13SF**—Mortgage Submission Voucher

### **Glossary**

We've added the following terms:

- **Amortizing Period**
- **First Amortizing Payment Date**
- **Giant PC**
- **Giant PC Offering Circular**
- **Giant PC Pool**

- **Initial Interest Mortgages**
- **Interest Only Period**
- **WAC ARM PC**

We've revised the following terms:

- **Book-Entry Form**
- **Book-Entry Rules**
- **CUSIP Number**
- **Due Date**
- **Federal Reserve Bank**
- **PC Coupon**
- **PC Issue Date**
- **PC Pool Number**
- **PC Prefix**
- **Purchase Proceeds**
- **Settlement Date**

### **Directory**

We've revised the following Directory:

- **Directory 17**