

Bulletin

NUMBER: 2005-2

TO: All Freddie Mac Sellers and Servicers

April 8, 2005

SUBJECTS

Both Selling and Servicing requirements are amended in this Bulletin.

We are:

- Revising our fidelity and errors and omissions (E&O) insurance requirements
- Providing more information about selling Initial InterestSM Mortgages through the Freddie Mac Selling System (Selling System) as of July 1, 2005
- Providing additional information for adjustable-rate Mortgages (ARMs) eligible under WAC ARM Cash and the WAC ARM Guarantor program through the Selling System
- Updating our requirements for special purpose cash-out refinance Mortgages

We're also revising our Servicing requirements by:

- Providing additional information on Forms 59 and 59E to assist Servicers in reconciling the Custodial Accounts they administer for us
- Revising the Freddie Mac mailing address and fax number for submission of Form 4
- Revising the Bank One address to which Servicers must forward redemption proceeds

EFFECTIVE DATES

All of these changes are effective immediately except:

- July 1, 2005—Initial Interest Mortgages are eligible for sale through the Selling System.
- The latter of October 8, 2005, or the anniversary date of a Seller/Servicer's fidelity bond or mortgagee's E&O policy—All Seller/Servicers must be in compliance with the new fidelity and E&O insurance requirements regarding A.M. Best Company ratings and insurer notification of cancellation or claims.

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

Selling and Servicing Changes

Fidelity and E&O insurance requirements

From time to time, we review our policies and processes to ensure that we remain current with changes and trends in our industry. As the result of such a review, we've made the following changes to our fidelity and E&O insurance requirements:

- To recognize the industry's historically lower exposure to E&O losses in relation to fidelity losses, we've reduced the amount of E&O coverage a Seller/Servicer is required to maintain.
- To help Seller/Servicers obtain coverages that meet our requirements, we've named typical fidelity and E&O policy forms where the required coverages may be found.
- To keep pace with marketplace developments including changes in rating processes, we've revised the requirements for fidelity and E&O insurers by:
 - Requiring these insurers to notify Freddie Mac of (i) changes in or cancellation of a Seller/Servicer's coverage and (ii) certain claims paid under such coverage
 - Raising the minimum acceptable A.M. Best Company rating for fidelity and E&O insurers

All Seller/Servicers must be in compliance with these new requirements by the latter of October 8, 2005, or the anniversary date of a Seller/Servicer's fidelity bond or mortgagee's E&O policy, as applicable.

We've revised Chapter 4 to incorporate these changes.

Selling Changes

Initial Interest Mortgages eligible for sale through the Selling System

We've updated Chapter J33 and Exhibit 17S, Mortgage Products Available Through the Selling System, to include additional information relating to eligibility requirements for Initial Interest ARMs that may be sold under WAC ARM Cash and the WAC ARM Guarantor program through the Selling System as of July 1, 2005.

In addition, we've revised Chapter D15 to designate that Initial Interest fixed-rate Mortgages will be eligible for sale under the MultiLender Swap program through the Selling System as of July 1, 2005. Note that Freddie Mac does not post PC Pools for every Mortgage type eligible for sale under the MultiLender Swap program; we announce MultiLender Swap PC Pool information for a particular month on the first Business Day of that month.

Other Selling System-related changes

To make information about ARMs that are eligible under WAC ARM Cash and the WAC ARM Guarantor program through the Selling System more accessible, we've added:

- Information regarding ARMs eligible under the WAC ARM Guarantor program to Chapter C15
- Information regarding ARMs eligible under WAC ARM Cash and the WAC ARM Guarantor program through the Selling System to Chapter 30

We've also revised language in Chapter 15 regarding Best Efforts Contracts and the requirement to sell specified Mortgages to Freddie Mac that have funded and closed under the original Best Efforts Contract.

Special purpose cash-out refinance Mortgages

In Chapter 24, we've updated our requirements regarding the loan amount of a special purpose cash-out refinance Mortgage when a Borrower buys out the equity of a co-owner.

Servicing Changes**Information added to Forms 59 and 59E**

To assist Servicers in successfully reconciling the Custodial Accounts they administer for us, we've revised Form 59, Principal and Interest Custodial Account Reconciliation Worksheet—Monthly Account Statement, and Form 59E, Escrow Custodial Account Reconciliation Worksheet, to include:

- Detailed information regarding the definition of “outstanding debit”
- Instructions for supporting documentation required for each line item

We've also added “prepared by” and “approved by” signature lines to Form 59, and we've revised Chapter 79 to note that Forms 59 and 59E now include instructions for required supporting documentation.

Revised contact information for submission of Form 4

In Form 4, Convertible Mortgage Conversion Confirmation, and Directory 20, we've revised the mailing address and fax number for submission of Form 4 to Freddie Mac.

Revised address for submission of redemption proceeds

We've revised Chapter 66 to update the Bank One address to which Servicers must forward redemption proceeds.

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 4, 5, 11, 15, A15, B15, C15, D15, 17, 22, 24, 27, 30, J33, 34, A34, 59, 66 and 79
- Exhibit 17S
- Forms 4, 11, 13SF, 59 and 59E
- 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,



David H. Stevens
Senior Vice President
Single-Family Sourcing

Exhibit A

Highlights of Revisions in this Package

Bulletin 2005-2 incorporates changes to the following chapters of the *Single-Family Seller/Servicer Guide* (Guide):

Chapters

- **Chapter 4**—Seller/Servicer Institutional Eligibility—Revises language related to fidelity and errors and omissions (E&O) insurance requirements.
- **Chapter 5**—Disqualification or Suspension of a Seller/Servicer—Removes outdated language related to Year 2000 Readiness.
- **Chapter 15**—Special Requirements for Selling Mortgages Through the Freddie Mac Selling System—Revises language regarding Best Efforts Contracts and the requirement to sell specified Mortgages that have funded and closed to Freddie Mac under the original Best Efforts Contract. Adds language regarding 5- and 7-year Balloon/Reset Mortgage eligibility exceptions.
- **Chapter A15**—WAC ARM Cash—Adds a cross reference to Chapter J33 for additional information regarding Initial Caps, Periodic Caps and Life Caps for Initial InterestSM ARMs eligible for sale under WAC ARM Cash through the Selling System as of July 1, 2005.
- **Chapter C15**—WAC ARM Guarantor Program Through the Selling System—Provides more detailed information regarding ARMs eligible under the WAC ARM Guarantor program.
- **Chapter D15**—MultiLender Swap Program Through the Selling System—Adds language regarding Initial Interest Mortgages being eligible for sale under the MultiLender Swap program through the Selling System as of July 1, 2005.
- **Chapter 17**—Mortgage Delivery and Settlement Processing—Adds language regarding Home Possible Neighborhood SolutionSM Mortgages that are Extended Buydown Mortgages being ineligible for sale under Gold Cash[®]. Adds language regarding Initial Interest Mortgages being eligible for sale under the MultiLender Swap program through the Selling System as of July 1, 2005.
- **Chapter 24**—Refinance Mortgages—Updates requirements regarding the loan amount of a special purpose cash-out refinance Mortgage when a Borrower buys out the equity of a co-owner.
- **Chapter 30**—Special Eligibility Requirements for Adjustable-Rate Mortgages—Adds language regarding ARMs eligible under WAC ARM Cash and the WAC ARM Guarantor program through the Selling System. Adds cross reference to Chapter J33 for information regarding Initial Interest ARMs.

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- **Chapter J33**—Initial Interest Mortgages—Modifies the chart describing the eligible cap structure for Initial Interest ARMs to add Life Cap requirements for Initial Interest ARMs sold under WAC ARM Cash and the WAC ARM Guarantor program through the Selling System.
 - **Chapter A34**—Home PossibleSM Mortgages—Adds language related to cash-on-hand requirements for Borrower Personal Funds.
 - **Chapter 66**—Foreclosure—Revises the Bank One address to which Servicers must forward redemption proceeds.
 - **Chapter 79**—Managing Custodial Accounts—Modifies text to state that Form 59, Principal and Interest Custodial Account Reconciliation Worksheet—Monthly Account Statement, and Form 59E, Escrow Custodial Account Reconciliation Worksheet, include instructions for required supporting documentation.

Exhibits

We've revised the following Exhibit:

- **Exhibit 17S**—Mortgage Products Available Through the Selling System

Forms

We've revised the following Forms:

- **Form 4**—Convertible Mortgage Conversion Confirmation
- **Form 11**—Mortgage Submission Schedule
- **Form 13SF**—Mortgage Submission Voucher
- **Form 59**—Principal and Interest Custodial Account Reconciliation Worksheet—Monthly Account Statement
- **Form 59E**—Escrow Custodial Account Reconciliation Worksheet

Glossary

We've deleted the following term:

- **Year 2000 Readiness**

Directory

We've revised the following Directories:

- **Directory 1**
- **Directory 11**
- **Directory 20**