

Bulletin

NUMBER: 2005-3

TO: All Freddie Mac Sellers and Servicers

June 10, 2005

SUBJECTS

Both Selling and Servicing requirements are amended in this Bulletin.

We are:

- Revising our requirements to expand the opportunities for a Seller to originate Mortgages that use Employer Assisted Homeownership (EAH) Benefits such as unsecured loans or secondary financing provided by a Borrower's employer pursuant to an employer benefit program (EAH Benefits)
- Reiterating the conditions under which a Seller's relief from creditworthiness and value, condition and marketability representations and warranties is valid for the life of a qualifying Loan Prospector[®] Mortgage
- Making several changes that will assist Sellers in complying with our First-Time Homebuyer (FTHB) data delivery requirements
- Adding requirements for an attorney's opinion of title covering material in the American Land Title Association (ALTA) endorsements related to adjustable-rate Mortgages (ARMs) and environmental matters
- Revising Chapter 17 to incorporate delivery and settlement processing requirements related to Mortgages sold through the Freddie Mac Selling System (Selling System)
- Revising the definition of Seasoned Mortgage
- Modifying language concerning Cash Contracts in the Guide by:
 - Adding language to address situations in which Sellers wish to exceed the amount of their Mandatory Cash Contract plus the applicable purchase tolerance
 - Removing our current maximum amount for Cash Contracts and adding language indicating that Freddie Mac may impose a maximum contract amount for Cash Contracts in the future

- Updating certain references in the Guide, including:
 - Removing references to MIDANET[®] for the PC and the market information services as a location for information on postsettlement delivery fees (delivery fees)
 - Modifying language to indicate that Sellers should rely on the Selling System or FreddieMac.com for information on available MultiLender Swap pools
- Providing revised appraisal report forms and related Guide replacement pages, as announced in our March 31, 2005, Industry Letter

We're also revising our Servicing requirements by:

- Making minor changes to our foreclosure requirements, including extending forbearance from foreclosure (under the Servicemembers Civil Relief Act of 2003 [SCRA]) to service members who have been released from active duty, increasing the number of days a Servicer has to initiate foreclosure and reducing the number of days a Servicer has to provide foreclosure counsel or trustee with additional documentation when requested
- Increasing the dollar amount for delinquent loan charge-offs to \$5,000 for conventional Mortgages and \$2,000 for FHA, VA and RHS Mortgages, regardless of the Borrower's equity position in the property
- Making minor changes to Chapter 72 and providing Seller/Servicers with a new e-mail address for submitting a request for a repurchase
- Revising our requirements for approving a release of or granting an easement on a portion of the Mortgaged Premises
- Incorporating detailed information from our Quick Reference Guide to supplement our existing underwriting requirements for delinquent loan modifications
- Making several minor changes to our collection efforts and collection techniques, such as enhancing our collection requirements for delinquent new Borrowers for certain Mortgages. We're also lengthening the timeframe for mailing the breach letter on delinquent modified Mortgages.
- Moving a portion of Exhibit 57, 1- to 4-Unit Property Approved Expense Amounts, into a new Exhibit 57A, Approved Attorney Fees and Title Expenses, and updating some of the amounts appearing within the exhibits
- Moving a portion of Exhibit 83, Freddie Mac State Foreclosure Time Lines—In Calendar Days, into a new Exhibit 83A, Determining Your Foreclosure Time Line Performance Penalties, and updating the information in both exhibits
- Removing references to MIDANET and revising language in the Form 960, Agreement for Concurrent Transfer of Servicing of Single-Family Mortgages, so the form applies to any Concurrent Transfer of Servicing, regardless of the manner in which Mortgages are sold to Freddie Mac

EFFECTIVE DATES

All of these changes are effective immediately except:

- July 1, 2005—The revised 1- to 4-unit property approved expense amounts and approved attorney fees and title expenses (detailed in Exhibit 57 and new Exhibit 57A) are effective on this date.
- January 1, 2006
 - The revised appraisal report forms (dated March 2005) are mandatory for all Mortgages sold to Freddie Mac with appraisal reports that have effective dates on or after this date.
 - The revised foreclosure time lines in Exhibit 83 are effective for foreclosure sales held on or after this date.

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

Selling Changes

Employer Assisted Homeownership Benefit

We're pleased to announce that we've expanded our requirements related to the use of Employer Assisted Homeownership (EAH) Benefits in order to help you serve more Borrowers with access to these benefits. Financial assistance provided to an employee from an employer pursuant to an established, ongoing and documented EAH Benefit program may now help qualify more Borrowers by supplementing the down payment or pay for Closing Costs, Financing Costs, Prepaid/Escrow and reserves.

EAH Benefits may take the form of gifts or grants, matching funds from an Individual Development Account, and fully repayable, deferred payment or forgivable unsecured loans and secondary financing. Unsecured loans from an employer and certain features of employer secondary financing that were formerly available only in connection with our affordable lending offerings are now available for all Borrowers. These changes expand the source of funds options for all Mortgage Products and offerings and provide Seller/Servicers with additional opportunities to serve Borrowers that have access to EAH Benefits developed by employers in their communities.

We've updated Chapters 17, 25, 26, D33, G33, 34 and A34; Exhibit 26; Forms 11 and 13SF; and the Glossary to reflect this new information.

Loan Prospector Mortgages—life of representation and warranty relief

Since introducing Loan Prospector, Freddie Mac has offered Sellers relief from the representations and warranties for Borrower creditworthiness and, as applicable, representation and warranty relief for value, condition and marketability of the Mortgaged Premises for Mortgages that met specific criteria in Loan Prospector and the Guide. We've now updated the Guide to reiterate and emphasize the specific criteria that Mortgages must meet in order to be Loan Prospector Mortgages, and the specific criteria Sellers must meet in order to receive relief from these representations and warranties.

To support the updated information, we've updated the Glossary definitions of a Loan Prospector Mortgage and a Non-Loan Prospector Mortgage and added a definition for Last Feedback Certificate.

In addition to reiterating the specific criteria that must be met for a Mortgage to be a Loan Prospector Mortgage, updated Section 2.2.1 now emphasizes these key points:

- Freddie Mac requires that the last information submitted to Loan Prospector is the same as the information for the Mortgage that is delivered to Freddie Mac. If the information changes or an error is identified in the prior submission, the Mortgage must be resubmitted to Loan Prospector for reassessment.
- Each new Feedback Certificate prior to closing of the Mortgage invalidates the prior Feedback Certificate.

If representation and warranty relief for a Mortgage is terminated, that Mortgage is treated as a Manually Underwritten Mortgage. If it is determined a Mortgage was ineligible to be submitted to Loan Prospector, that Mortgage is treated as a Non-Loan Prospector Mortgage.

We've updated and revised Chapters 2, 37 and 44 as well as the Glossary to reflect this information.

First-Time Homebuyer data delivery requirements

We are announcing several changes that we believe will assist Sellers in complying with our First-Time Homebuyer (FTHB) data delivery requirements. These changes do not represent substantive changes to our requirements; rather, they are designed to provide Sellers with additional guidance on completing the FTHB indicator on Form 11, Mortgage Submission Schedule, and Form 13SF, Mortgage Submission Voucher, when delivering Mortgages to Freddie Mac. The changes include:

- A revision to our definition of FTHB to reinforce the fact that, to be considered a FTHB, the applicant must occupy the property as his or her Primary Residence
- Revisions to Exhibit 1, Instructions for Completing the First-Time Homebuyer Indicator Field, to display the instructions for completing the FTHB indicator on Forms 11 and 13SF in an easier-to-use, job aid format
- Revisions to the Form 11 and Form 13SF instructions to add a reference to the additional instructions contained in Exhibit 1

We are asking Sellers to review the Glossary definition of FTHB and the instructions for completing the FTHB indicator to ensure that their systems and processes are aligned with our requirements. More specifically, we are asking Sellers to:

- Review their systems to ensure that there are no data mapping inconsistencies between loan origination data and the FTHB data delivered to us
- Review their systems to ensure that their systems are not erroneously defaulting to a "NO" value for the FTHB indicator
- Ensure that staff responsible for delivery of data to Freddie Mac are properly trained on our requirements and understand the importance of delivering complete and accurate data

The accuracy of this data is crucial to help Freddie Mac track and monitor our efforts in meeting our affordable housing mission. It is also crucial to our ability to comply with our regulatory reporting requirements. We are reminding Sellers of their responsibility and obligation to deliver complete and accurate data for the Mortgages they sell to us. We are also reminding Sellers that effective July 5, 2005, we will be implementing edits for Mortgages delivered through the Selling System to ensure that only valid values for the FTHB indicator field are delivered.

We perform ongoing reviews of delivery data and will continue to monitor the FTHB data. We may be communicating other actions we will be taking or may request Sellers to take in the future in order to further enhance the quality of this data. In the meantime, we are asking Sellers to take the proactive steps outlined above to ensure that the data they deliver are accurate and complete.

If you have any questions regarding our FTHB data delivery requirements, please contact your Freddie Mac Account Manager.

We've revised Exhibit 1, Forms 11 and 13SF and the Glossary to reflect these changes.

American Land Title Association (ALTA) Lender's Policy and endorsements

We've revised Chapter 39 to add requirements for an attorney's opinion of title covering material in the ALTA endorsements related to ARMs and environmental matters. We've also updated the text of this chapter to reflect the precise title of the ALTA 1992 Lender's Policy.

Selling System-related changes

We have revised Chapter 17 to provide more information about the delivery and settlement processing requirements for Mortgages that can be sold under specific executions through the Selling System.

Seasoned Mortgage definition

We've revised the definition of Seasoned Mortgage in the Glossary to include exceptions for determination of seasoning previously included in Chapter 36 but not in the definition of Seasoned Mortgage itself, including:

- Construction to permanent Mortgages, where whether or not the Mortgage is a Seasoned Mortgage is based on the conversion from construction financing to permanent financing
- Seller-Owned Modified and Seller-Owned Converted Mortgages, where whether or not the Mortgage is a Seasoned Mortgage is based on the modification or conversion date, as applicable
- Refinance Mortgages documented using a New York Consolidation, Extension and Modification Agreement (NY CEMA), where seasoning is determined based on the NY CEMA date

The definition has also been expanded to provide that, for Mortgages sold through the Selling System, whether or not a Mortgage is a Seasoned Mortgage is based on the Settlement Date, not the Delivery Date.

We've also revised Chapters 15, A15, B15, C15, D15, 22, 23, 32, 33 and 36 to reflect these changes.

Changes to Cash Contract requirements

We've revised the Guide to reflect our current business practices as well as changes that have recently been made to the Selling System.

Sellers who want to allocate Mortgages to a Mandatory Cash Contract must contact (800) FREDDIE if the Mortgages have an aggregate unpaid principal balance (UPB) greater than the Mandatory Cash Contract amount plus the applicable purchase tolerance amount. The Seller may also utilize the payoff and recommit feature as described in Section 15.22(a) to take out a new contract with a different amount.

We've also removed references to a fixed maximum amount per Cash Contract. However, Freddie Mac may, at its discretion and at any time, impose a maximum contract amount for Gold Cash[®] commitments, Original Cash commitments and Mandatory Cash Contracts available through the Selling System.

As always, Freddie Mac reserves the right to limit the dollar amount of the Mortgage commitments that it will accept from any Seller. See Section 2.3 of the Guide for additional information.

We've revised Chapters 9 and 15 to reflect these changes.

Other updates

We've updated references in the Guide for information on postsettlement delivery fees (delivery fees) and MultiLender Swap pools to remove references to MIDANET for the PC and the market information services:

- Sellers should rely on Exhibit 19, Postsettlement Delivery Fees, for information on eligibility for delivery fees and delivery fee rates
- Freddie Mac's pool offerings under MultiLender Swap are available on the Selling System or FreddieMac.com at <http://www.freddiemac.com/sell/secmktg/swap.html>

We've revised Chapters 2, 8, 22, 23, 24, 25, 27, 30, 33, A33, C33, D33, G33, H33, 34, A34, 36, 37 and 42 to reflect these changes.

Revised appraisal report forms

As announced in our March 31, 2005, Industry Letter, we've revised our appraisal report forms. The March 2005 forms, designed to support current mortgage industry and appraisal practices, are mandatory for all Mortgages sold to Freddie Mac with appraisals that have effective dates on or after January 1, 2006. These forms may be used immediately.

The following March 2005 forms are mandatory for Mortgages sold to Freddie Mac with appraisals that have effective dates on or after January 1, 2006:

- Form 70—Uniform Residential Appraisal Report
- Form 70B—Manufactured Home Appraisal Report
- Form 72—Small Residential Income Property Appraisal Report
- Form 442—Appraisal Update and/or Completion Report
- Form 465—Individual Condominium Unit Appraisal Report
- Form 466—Exterior-Only Inspection Individual Condominium Unit Appraisal Report
- Form 1032—One-Unit Residential Appraisal Field Review Report
- Form 1072—Two- to Four-Unit Residential Appraisal Field Review Report
- Form 2055—Exterior-Only Inspection Residential Appraisal Report

Refer to Exhibit A for a list of forms that will be retired as of December 31, 2005.

We've also revised Chapters 24, A33, D33, G33, H33, 37, 42, 44, 46 and 48 to incorporate changes in our requirements related to use of the revised forms.

Servicing Changes

Forbearance from foreclosure for service members, other foreclosure requirements

Foreclosure best practices continue to evolve within the mortgage industry. To keep pace with these changing practices, we've made several minor changes to our foreclosure requirements, including:

- Extending forbearance from foreclosure related to the SCRA—For Mortgages with service members who have been released from active military duty, Servicers must not initiate or resume foreclosure for at least 90 days from the release date. During this period, Servicers must work with the Borrower to explore all relief options available.
- Changing the number of days a Servicer has to initiate foreclosure
- Reducing the number of days a Servicer has to provide foreclosure counsel or trustee with additional documentation when requested while a case is pending

We've revised Chapters 66 and 82 to reflect these changes.

Low unpaid principal balance (UPB) charge-offs

We've increased the dollar amount for delinquent loan charge-offs from \$1,000 to \$5,000 for conventional Mortgages and from \$1,000 to \$2,000 for FHA, VA and RHS Mortgages, regardless of the Borrower's equity position in the property.

These changes should help Servicers' foreclosure time line management by removing Mortgages with low UPBs and providing updated guidelines around the treatment of delinquent Mortgages with low UPBs.

We've revised Chapter B65 and Directory 11 to reflect these changes.

Requesting repurchases

We've revised Chapter 72 and provided Seller/Servicers with a new e-mail address for submitting a request for a repurchase.

Changes to the Mortgaged Premises

We've revised our requirements for approving a release of or granting an easement on a portion of the Mortgaged Premises. These revisions will allow Servicers to approve certain changes to the Mortgaged Premises without consulting Freddie Mac and will provide Servicers with updated instructions on the documentation that must be collected when submitting requests to Freddie Mac for review and approval when necessary.

We've revised Chapter 51 to reflect these changes.

Loan modification underwriting requirements

To provide more transparency and direction to Servicers on how to qualify Borrowers for loan modifications on delinquent Mortgages, we've updated Chapter B65 to supplement our existing underwriting requirements by incorporating detailed information from our Quick Reference Guide.

Collection requirements

To keep pace with mortgage industry changes in collection techniques, we've made several changes to our collection effort and collection technique requirements. These changes include enhancing our collection requirements for certain Mortgages and collection efforts for delinquent new Borrowers. We've also lengthened the timeframe for filing the Notice of Default (NOD) on delinquent modified Mortgages.

We've revised Chapter 64 to reflect these changes.

1- to 4-Unit Property Approved Expense Amounts, Approved Attorney Fees and Title Expenses

We've moved a portion of the current Exhibit 57 into a new Exhibit 57A. The new version of Exhibit 57 retains the title 1- to 4-Unit Property Approved Expense Amounts. The new Exhibit 57A, Approved Attorney Fees and Title Expenses, contains the remainder of the information found on the current Exhibit 57.

We've also updated some of the amounts we will reimburse Servicers appearing within the new exhibits. These changes will become effective on July 1, 2005.

We've also revised Chapters 65, A65, B65, 66, 67, 70 and 71 to reflect these changes.

Freddie Mac State Foreclosure Time Lines and Time Line Performance Penalties

We've moved a portion of the current Exhibit 83 into a new Exhibit 83A. The new version of Exhibit 83, Freddie Mac State Foreclosure Time Lines—In Calendar Days, contains an updated State foreclosure time lines chart. The new Exhibit 83A, Determining Your Foreclosure Time Line Performance Penalties, contains the remainder of the information found on the current Exhibit 83, including two examples of how to calculate those penalties.

After completing our regularly scheduled review of State foreclosure time lines (“State” in the Guide includes the District of Columbia, Guam, Puerto Rico and the Virgin Islands), we have adjusted those time lines by increasing or decreasing the number of calendar days, based on the average foreclosure time lines for each State.

We’ve also set the State foreclosure time lines in five-day increments as opposed to the current one-day increment, which should simplify Servicer calculations for both incentives and penalties.

The revised foreclosure time lines in Exhibit 83 are effective for foreclosure sales held on or after January 1, 2006.

We’ve also revised Chapter 66 to reflect these changes.

Agreement for Concurrent Transfer of Servicing of Single-Family Mortgages

We’ve revised the language on Form 960, Agreement for Concurrent Transfer of Servicing of Single-Family Mortgages, so the form applies to any Concurrent Transfer of Servicing, regardless of the manner in which the Mortgages for which Servicing is being transferred are sold to Freddie Mac.

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 2, 8, 9, 12, 15, A15, B15, C15, D15, 17, 22, 23, 24, 25, 26, 27, 30, 32, 33, A33, C33, D33, G33, H33, 34, A34, 36, 37, 39, 42, 44, 46, 48, 51, 64, 65, A65, B65, 66, 67, 70, 71, 72 and 82
- Exhibits 1, 4, 5, 26, 57 and 83
- New Exhibits 57A and 83A
- Forms 11, 13SF, 70, 70B, 72, 442, 465, 960, 1032 and 2055
- New Forms 466 and 1072
- 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,



James J. Cotton
Vice President
Single-Family Marketing