

Bulletin

NUMBER: 2006-3

TO: All Freddie Mac Sellers and Servicers

August 21, 2006

SUBJECTS

Both Selling and Servicing requirements are amended in this Bulletin.

We are making the following changes to our Selling requirements:

- Introducing Freddie Mac's 40-year fixed-rate Mortgage
- Updating *Single-Family Seller/Servicer Guide* (Guide) text to reflect the Home PossibleSM Mortgage enhancements that were announced in our June 26, 2006, Bulletin
- Providing direction to Sellers on how to calculate qualifying income for Alt 97[®] and Freddie Mac 100 Mortgages using Affordable Seconds[®] and all Home Possible Mortgages to avoid understating income
- Revising our pooling requirements to permit commingling of different assumability features within WAC ARM Participation Certificates (PCs)
- Revising our Guide requirements for the sale of Prepayment Protection Mortgages to:
 - Change the name of the offering to Prepayment Penalty Mortgages
 - Prohibit the sale of Mortgages with prepayment penalty periods longer than three years
 - Permit the sale of adjustable-rate Prepayment Penalty Mortgages
 - Require the use of a special characteristics code (SCC)
- Expanding the Freddie Mac Selling System (Selling System) to include additional adjustable-rate Mortgages (ARMs), expanded product capabilities including the ability to sell fixed-rate Mortgages and ARMs with prepayment penalties, and new execution options. In connection with the additional eligible ARM products, we are providing 12 new ARM Notes and riders to permit a first Business Day lookback.
- Updating the A.M. Best Company minimum rating for insurance related to document custody to align with our minimum rating for Seller/Servicer fidelity and errors and omissions (E&O) insurance requirements
- Revising the requirements related to the use of an Allonge for endorsement of a Note
- Revising requirements related to electronic transactions, electronic Mortgage applications and electronic appraisal and inspection reports
- Adding the web site address for information for each of the Mortgages backing Freddie Mac PCs based on information furnished by the Seller of the Mortgage

- Expanding provisions to permit the purchase of certain Mortgages secured by Mortgaged Premises subject to deed restrictions or inclusionary zoning (“restricted units”), subject to certain conditions
- Updating the acceptable methods Seller/Servicers may use to submit the Form 1107SF, Seller/Service Change Notification Form, to include fax transmission or as an original paper form, in addition to electronic filing via freddiemac.com
- Updating Exhibit 13 (Standard Flood Hazard Determination Form, FEMA Form 81-93) to incorporate the latest version of the form, which has a new expiration date
- Updating language to specify the exhibits that are required for each appraisal or inspection report, instead of indicating the exhibits that are not required
- Revising contact information on Form 987, Wire Transfer Authorization for a Cash Warehouse Delivery, and Form 996, Warehouse Lender Release of Security Interest

We’re making the following changes to our Selling and Servicing requirements:

- Allowing Document Custodians to image copies of all versions of the Custodial Certification Schedules and Summaries, and establishing minimum retention requirements for these documents
- Updating Guide text to reflect the increased deductibles for property insurance policies maintained by Borrowers and common-interest communities, and for flood insurance policies maintained by condominium owners associations, that were announced in our May 30, 2006, Bulletin

We’re also making the following changes to our Servicing requirements:

- Updating our requirements for Servicing Mortgages affected by a disaster
- Adding information to assist Servicers with handling instances where a Borrower has filed two or more bankruptcies
- Adding language to explicitly state that, for bankruptcy conversions, we will reimburse Servicers for the allowable bankruptcy fee for each of the chapters filed
- Updating our redemption process requirements for third-party and Real Estate Owned (REO) sales
- Adding an e-mail address for Electronic Default Reporting (EDR) so that Servicers can more easily ask questions related to EDR reporting
- Revising terminology to refer to Prepayment Penalty Mortgages

EFFECTIVE DATES

All of these changes are effective immediately except:

- **May 30, 2006**—On this date, the increased deductibles for property insurance and flood insurance announced in our May 30, 2006, Bulletin became effective.
- **June 26, 2006**—On this date, the Home Possible enhancements related to minimum Borrower contribution, homeownership education and submission of Affordable Seconds through Loan Prospector became effective. The requirement for delivery of Loan Prospector® AUS Key Number for Home Possible Mortgages submitted to Loan Prospector that receive an evaluation status of invalid, ineligible or incomplete also became effective on this date.
- **July 1, 2006**—The December 2005 version of the FEMA Form 81-93 (Standard Flood Hazard Determination Form) must be used for any flood zone determination made on and after this date.

- **August 1, 2006**—Removal of transaction fee for submission of conforming conventional Mortgages to Loan Prospector that receive a Risk Class of Caution on their first submission announced in our June 26, 2006, Bulletin was effective on this date.
- **August 21, 2006**—The new Selling System features and new products eligible for sale announced in this Bulletin become available; this includes commingling of ARMs with various assumability periods and Prepayment Penalty Mortgages.
- **September 1, 2006**
 - The revised Home Possible requirements related to minimum Borrower Contribution required for Mortgages secured by 3- to 4-unit Primary Residences, the eligibility of Home Possible 3% Cash Mortgages and Home Possible Neighborhood Solutions 3% Cash Mortgages for submission to Loan Prospector and delivery to Freddie Mac, and the availability of Mortgage Credit Certificates (MCCs) and RHS Leveraged Seconds, permitted for Home Possible Mortgages will be effective on this date.
 - 40-year fixed-rate Mortgages may be sold to Freddie Mac through the Selling System.
 - 40-year fixed-rate Mortgages can be submitted to Loan Prospector.
- **December 31, 2006**—The retirement of Affordable Gold[®] Mortgages announced in our June 26, 2006, Bulletin becomes effective. On or before this date, Freddie Mac will purchase Affordable Gold Mortgages originated under the terms of the Guide in effect on August 18, 2006.
- **The latter of February 21, 2007, or the anniversary date of a Document Custodian’s fidelity bond, mortgagee’s E&O policy or Seller/Servicer’s in-transit coverage**—All Document Custodians must be in compliance with the new fidelity, in-transit and E&O insurance coverage requirements.

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

Selling Changes

40-year fixed-rate Mortgages

To help you meet the needs of more Borrowers, Freddie Mac is pleased to introduce the 40-year fixed-rate Mortgage. A 40-year Mortgage amortizes over a longer period, allowing Borrowers to extend the time for making principal payments and reducing the amount of each monthly Mortgage payment. This reduces a Borrowers’ monthly housing expense so that they can qualify to purchase a home in a high-cost housing area.

Our 40-year fixed-rate Mortgage can be originated with our affordable lending and low down payment products—Home Possible, Freddie Mac 100, Alt 97 and A-minus Mortgages—adding more flexibility for Borrowers and more ways for Sellers to compete for Community Reinvestment Act (CRA) business.

With the introduction of the 40-year fixed-rate Mortgage and the expansion of Home Possible Mortgages, it continues to be important that Borrowers have sufficient information on the terms of a Mortgage product and that the associated features, benefits and risks of the selected Mortgage product are clearly explained to the Borrower prior to the Borrower making a product or payment choice.

40-year fixed-rate Mortgages may be submitted to Loan Prospector (beginning September 1, 2006) or manually underwritten (in accordance with the product requirements and Chapter 37 of the Guide). See Section 23.4 for the LTV, TLTV and HTLTV ratio requirements for Loan Prospector and Manually Underwritten 40-year fixed-rate Mortgages.

These Mortgages must be sold to Freddie Mac under fixed-rate Cash or the fixed-rate Guarantor program through the Selling System (40-year fixed-rate Mortgages are not eligible for sale under the MultiLender Swap program at this time). Sellers may begin selling 40-year fixed-rate Mortgages to Freddie Mac through the Selling System on September 1, 2006. 40-year fixed-rate Mortgages are not eligible for sale through MIDANET®.

A special postsettlement delivery fee (delivery fee) will be assessed and billed in connection with the sale of 40-year fixed-rate Mortgages. Refer to Exhibit 19, Postsettlement Delivery Fees, for applicable delivery fee rates. New mortgage instruments are not needed; refer to the mortgage instruments identified in Exhibit 4, Single-Family Uniform Instruments, and listed on the Single-Family Uniform Instrument web site at <http://www.freddiemac.com/uniform/>. Note that 40- and 30-year Mortgages may not be pooled together.

We've revised Chapters 9, 11, 13, B15, 17, 22, 23, 27, I33 and A34; Exhibit 17S, Mortgage Products Available Through the Selling System; and Exhibit 19, Postsettlement Delivery Fees, to incorporate this offering.

Expansion of Home Possible Mortgages and retirement of Affordable Gold Mortgages

In our June 26, 2006, Bulletin we introduced several enhancements to our Home Possible Mortgage offerings, some of which were effective on the date of that Bulletin and others that will become effective on September 1, 2006. We also announced the retirement of Affordable Gold Mortgages and we incorporated certain Affordable Gold Mortgage features into our Home Possible Mortgage offering.

In connection with these changes, we are moving the following Affordable Gold provisions that still apply to other sections of the Guide:

- Income limits
- Rental income from a 1-unit Primary Residence
- MCCs
- Cash-on-hand requirements

In addition to the previously announced changes, with this Bulletin, we are providing further direction on how to calculate income used to qualify the Borrower and to determine if the Borrower meets income limits. This direction applies to Alt 97 and Freddie Mac 100 Mortgages using Affordable Seconds and all Home Possible Mortgages.

The following chapters have been revised to reflect these changes and incorporate the enhancements announced in our June 26, 2006, Bulletin:

- Chapters 2, 17, 25, 26, 32, D33, G33, H33, J33, A34, 35 and 37
- Deleted Chapter 34
- Exhibits 19, 23, 25 and 26
- Forms 11 and 13SF
- Glossary

Changes related to pooling of ARMs

We've revised our requirements to allow the underlying ARMs in each WAC ARM PC Pool to be assumable either during the life of the loan or assumable after the Initial Period. This gives you the flexibility to originate these ARMs as assumable during the life of the loan or assumable after the Initial Period, depending on your own lending programs, without having to be concerned about separate PC Pools and separate offer products and programs for the different assumability periods.

Freddie Mac will continue to provide separate Uniform ARM Instruments for the 1-Year Constant Maturity Treasury (CMT)-Indexed ARMs, 1-Year London Interbank Offering Rate (LIBOR)-Indexed ARMs and Initial InterestSM ARMs that are hard-coded for each assumability period. Until now, Freddie Mac has required that certain ARM products be assumable for the life of the loan and other ARM products be assumable only after the Initial Period, and that ARMs be originated with appropriate ARM instruments reflecting their assumability period. For this reason, our ARM loan instrument requirements have been finely detailed.

Permitting ARMs with different assumability periods to be commingled has required us to revise provisions of the Guide that describe various due-on-sale provisions and has permitted us to revise and simplify our Uniform Instrument requirements for ARMs and Initial Interest ARMs.

We have revised Chapters 8, A13, 30 and J33; Exhibit 4, Single-Family Uniform Instruments; Exhibit 17, Offer Product and Offer Program Numbers; and Exhibit 17S, Mortgage Products Available Through the Selling System, to reflect these changes.

Changes related to Prepayment Penalty (formerly Prepayment Protection) Mortgages

To be more consistent with the market, we are changing the terminology used in the Guide from “prepayment premium” to “prepayment penalty” and from “Prepayment Protection Mortgage” to “Prepayment Penalty Mortgage.” We are also reducing the maximum period during which a prepayment penalty can be imposed from five years to three years for Mortgages purchased under the Guide.

We are also revising the Guide to permit the sale of adjustable-rate Prepayment Penalty Mortgages under the WAC ARM Guarantor program through the Selling System. Any ARM eligible for sale through the Selling System will now be eligible for sale with a prepayment penalty.

All Prepayment Penalty Mortgages must be pooled separately. An Additional Supplement is required in connection with Prepayment Penalty Mortgage PC Pools that contain ARMs, 40-year fixed-rate Mortgages and 15-, 20- and 30-year fixed-rate Mortgages that are various Prepayment Penalty Mortgages.

We have revised Chapters 6, 9, B9, 11, 13, A13, B15, C15, D15, 30, 32, 17, 22, B33, C33, E33, F33, J33, A34 and 51; Exhibit 17, Offer Product and Offer Program Numbers; Exhibit 17S, Mortgage Products Available Through the Selling System; and Exhibit 22, Form of Additional Supplement—Prepayment Penalty Mortgages, to reflect these changes.

Selling System expansion

We are enhancing the Selling System, our single-platform web-based system for selling Mortgages, to:

- Add ARMs eligible for sale under the Guide, including new rate and cap structures for 3/1, 5/1, 7/1 and 10/1 ARMs; new 6-Month LIBOR-Indexed ARMs with Initial Periods of 3, 5, 7 and 10 years; and a streamlined lookback for all 1-Year CMT and 6-Month and 1-Year LIBOR-Indexed ARMs
- Expand product capabilities to permit the sale of:
 - Fixed-rate Mortgages and ARMs with prepayment penalties under the Guarantor program
 - Fixed-rate Section 184 Native American Mortgages and assumable Section 502 Guaranteed Rural Housing (GRH) Mortgages under the fixed-rate Cash, Guarantor and MultiLender Swap programs
 - FHA/VA Mortgages under the fixed-rate Guarantor and MultiLender Swap programs
- Offer a new servicing-released cash sale option for fixed-rate Home Possible Mortgages

To support the new Selling System products we are providing 12 new ARM loan instruments (ARM Notes and riders) supporting CMT and LIBOR indices with both a 45-day Lookback Period and a first Business Day of the preceding month Lookback Period.

In connection with the sale of Prepayment Penalty Mortgages through the Selling System, Sellers must insert SCC 113 on the Form 11, Mortgage Submission Schedule, or Form 13SF, Mortgage Submission Voucher, as applicable.

To reflect these changes, the Guide has been updated in the following locations:

- Chapters 6, 8, 9, B9, 10, A10, 11, 13, A13, B15, C15, D15, 17, 22, 25, 30, 32, B33, C33, E33, F33, H33, J33 and A34
- Exhibits 4, 17, 17S, 22 and 30
- Forms 11 and 13SF
- Glossary

Document custody-related fidelity, in-transit and E&O insurer rating requirements

From time to time, we review our policies and processes to ensure that we remain current with changes and trends in our industry. To keep pace with marketplace developments, including changes in rating processes, and to align with our minimum insurer ratings for Seller/Service provider fidelity and E&O coverage, we've raised the minimum acceptable A.M. Best Company rating for document custody-related fidelity, in-transit and E&O insurance coverage requirements. All Custodians must be in compliance with these new requirements by the latter of February 18, 2007, or the anniversary date of a Custodian's fidelity bond, mortgagee's E&O policy or Seller/Service provider's in-transit coverage.

We've revised Chapter 18 to reflect this change.

Use of an Allonge for the endorsement of a Note

We've updated Chapter 16 to reflect the following changes in our requirements for use of an Allonge to endorse a Note:

- Removal of the requirement that the Allonge reference the date of the Note
- Removal of the requirement that the Note reference the attached Allonge

We have also revised our requirements relating to the use of a facsimile signature stamp to endorse a Note. Effective immediately, we no longer require that a Seller always furnish us with its opinion of counsel as to the validity of the facsimile signature prior to the Delivery Date. Instead, we will require that a Seller provide us with such an opinion only upon our request.

We've revised Chapter 18 to remove the requirement that the Custodian call Freddie Mac to ensure the opinion of Seller's counsel exists.

We've also added a definition of Allonge to the Glossary and revised Directory 4 to reflect these changes.

Electronic transactions, electronic initial applications and electronic appraisals

Section 1.3 (acknowledgment and consent to electronic transactions); new subsection 1.3(j) (representations, warranties and additional agreements for third party Records, Electronic Records and Electronic Signatures); and new subsection 1.3(k) (special representations and warranties for third-party fax transmissions)

We are adding Guide subsections 1.3(j) and 1.3(k) to provide Seller/Servicers with guidance regarding conducting electronic transactions with third parties, including representations and warranties that must be made and other requirements that must be met if Freddie Mac gives a Seller/Servicer consent to use Records, Electronic Records or Electronic Signatures to conduct electronic transactions with third parties that directly or indirectly affect Mortgages sold to or serviced for Freddie Mac.

Seller/Servicers contemplating conducting electronic transactions with third parties in the origination of Mortgages to be sold to or the Servicing of Mortgages for Freddie Mac should contact their Account Managers to begin the process of obtaining Freddie Mac's written consent.

Electronic and fax copies of loan applications

Section 37.8 has been revised to permit Seller/Servicers to receive the initial (preliminary) Form 65, Uniform Residential Loan Application, including the Form 65A, Statement of Assets and Liabilities, if applicable, as an Electronic Record containing the Borrower's, and if applicable the co-Borrower's, Electronic Signatures or as a fax copy of the original signed initial loan application containing a copy or representation of their signatures, so long as the initial Form 65 complies with subsection 1.3(j) or 1.3(k) of the Guide, as applicable, and the Seller/Servicer receives a final original paper Form 65, signed by the Borrower, and if applicable the co-Borrower, with pen and ink signatures on or before the loan settlement date.

Faxing and other electronic transmission of appraisal and inspection reports

Section 44.21 has been revised to provide additional guidance regarding the receipt of appraisal and inspection reports via fax transmission or other means of electronic transmission.

Effective immediately, a Seller must ensure that the appraiser's systems, processes and procedures for creating, signing, transmitting, sending, storing and maintaining electronic or fax copies of appraisal or inspection reports are safe, sound and secure.

Revised Section 44.21 also requires that a Seller/Servicer notify Freddie Mac immediately if it becomes aware of the unauthorized or improper use of the appraiser's signature in connection with any appraisal or inspection report submitted as an Electronic Record or as a fax copy or suspects there has been an unauthorized alteration of an appraisal or inspection report, including photographs and other supporting materials submitted as an Electronic Record or as a fax copy.

Loan level disclosure

In December 2005, Freddie Mac began providing certain information regarding each of the Mortgages backing Freddie Mac PCs based on information furnished by the Sellers of the Mortgages. We have updated Chapters 13 and A13 to provide a web site address for this information.

Deed restrictions

We've expanded our Section 22.25 provisions to permit the purchase of Mortgages secured by Mortgaged Premises subject to deed restrictions or inclusionary zoning ("restricted units") that require the payment or repayment of financial subsidies or other payment obligations, provided any such deed restrictions state that the payment or repayment obligations are subordinate to the First Lien Mortgage.

Form 16SF- and Form 1107SF-related changes

Form 16SF

We have revised the Certification, Consent and Agreement section of the Form 16SF, Annual Eligibility Certification Report, to reflect elimination of paper Guide subscriptions. We have also added certifications related to compliance with the revised Special Warranties for Seasoned Mortgages announced in our April 25, 2006, Bulletin, fair lending practices and compliance with laws.

As a reminder, Form 16SF is not available through AllRegs, but may only be accessed on-line at <http://www.freddie.mac.com/singlefamily/forms>.

Form 1107SF

Because understanding the organizational changes that Seller/Servicers experience is important to us, we are expanding the acceptable methods for submission of the Form 1107SF, Seller/Servicer Change Notification Form. Effective immediately, Seller/Servicers may submit the Form 1107SF via fax transmission or as an original paper form, in addition to electronic filing via freddiemac.com.

We've revised Chapter 4 to reflect these changes.

FEMA Form 81-93 with new expiration date

We've updated Exhibit 13 to incorporate the latest version of the Federal Emergency Management Agency (FEMA) Form 81-93 (Standard Flood Hazard Determination). There were no changes to the format or content of the form.

The new form has an October 31, 2008 expiration date and was approved for use effective December 2005, but to allow users time to transition to the new version, FEMA's effective date for mandatory use of the new form was July 1, 2006. Flood zone determinations made on and after July 1, 2006 must be documented using the new version of the form.

Appraisal exhibits

We've revised Section 44.12 to indicate the exhibits required for each appraisal or inspection report, instead of indicating the exhibits that are not required. This should make it easier for Sellers to determine the information that is needed. There were no changes to existing requirements.

Lender-paid mortgage insurance with Initial Interest

We've revised Chapter 27 to explicitly state that lender-paid mortgage insurance may be used with Initial Interest Mortgages. This is not a change to existing requirements.

Changes to contact information on Form 987, Form 996 and several Directories

As a result of a Freddie Mac department's relocation, we have revised the "Mailing Instructions" information on Form 987, Wire Transfer Authorization for a Cash Warehouse Delivery, and both the "Mailing Instructions" and "Fax Instructions" on Form 996, Warehouse Lender Release of Security Interest.

We have also revised Chapter 9 and Directories 3 and 8 to reflect this change.

Selling and Servicing Changes**New imaging and document retention requirements**

As a result of feedback we've received from Servicers and Custodians, we've revised our document retention requirements to allow imaging of the Custodial Certification Schedules and Summaries, as well as the Form 1036, Request for Release of Documents. We are also establishing a minimum time period of three months for which these documents must be retained, which is significantly reduced from time periods previously recommended in the Document Custody Procedure Handbook. If these documents are destroyed once the minimum retention period has expired, Custodians must ensure that their disposal methods safeguard Borrower confidentiality and privacy.

We've revised Chapters 16, 17, 18, 56 and 83 to reflect this change.

Allow increased deductibles for property insurance policies maintained by Borrowers and common-interest communities

We've updated Chapter 58 to reflect the higher deductibles we will accept for property insurance policies maintained by Borrowers and common-interest communities and for flood insurance maintained by common-interest communities, announced in our May 30, 2006, Bulletin.

Servicing Changes

Requirements for Servicing a Mortgage affected by a disaster

During the past two years, the United States has experienced some of the most devastating natural disasters in its history. In 2004, numerous hurricanes hit the Florida coastline. Last year, Hurricanes Katrina and Rita hit the Gulf Coast. In order to provide relief to Borrowers whose lives were devastated by these storms, Freddie Mac issued numerous Bulletins announcing temporary Servicing requirements. Based on what we have learned from these disasters, we've updated our disaster-related Servicing requirements in the Guide, which we believe will help expedite recovery efforts for Borrowers and help Servicers with resources that are taxed as a result of a disaster. The changes will apply to Mortgages secured by properties located in areas comprised of counties or municipalities declared by the President of the United States to be Major Disaster Areas where federal aid in the form of individual assistance is being made available, and include changes to requirements for:

- Forbearance relief—Servicers are instructed to perform an individual assessment of each impacted Mortgage to determine if forbearance in the form of a suspension or reduction of payments for up to a total of 12 months should be extended. Servicers may suspend collection activity, foreclosure and eviction proceedings for up to a total of 12 months from the date a disaster strikes, based on the relative merits of each case. Servicers should reassess each impacted Mortgage on a regular basis during the forbearance or suspension period to determine if forbearance or suspension should continue to be extended up to a total of 12 months.
- Credit repository reporting—Servicers must not report delinquencies to credit repositories if a Borrower has been extended forbearance (including suspension, a reduced payment plan or a repayment plan) due to disaster-related circumstances.

We've consolidated Freddie Mac's disaster-related Servicing requirements in new Chapter 68. We've also revised Chapters 58, 65, A65, 66 and 67 to reflect these changes.

Bankruptcy fee adjustments

In response to the *Bankruptcy Abuse Prevention and Consumer Protection Act of 2005*, we've added the following information to the Guide to assist you with handling cases where a Borrower has filed two or more bankruptcies:

- Additional direction concerning multiple filers, such as how we expect Servicers to handle multiple filers whose bankruptcies were filed more than 12 months apart as opposed to multiple filers whose bankruptcy filing is within 12 months of the previous filing
- Provided for reimbursement of up to \$350 for Servicers to object in the event that a multiple filer petitions the court to extend the stay. In the event that the court denies the objection and you must protect our interest in the bankruptcy proceeding, we will also reimburse you for the allowable bankruptcy fee for the chapter of bankruptcy filed.

We've also added language to explicitly state that, for bankruptcy conversions, we will reimburse Servicers for the allowable bankruptcy fee for each of the chapters filed.

We've updated Chapters 67 and 71 and Exhibit 57A, Approved Attorney Fees and Title Expenses, to reflect this information.

Redemption process for third-party and REO sales

Third-party foreclosure sales and redemptions

For properties sold to third parties at foreclosure sales and subsequently redeemed, we've updated Chapter 66 to state that, if the third-party sale proceeds cover more than Freddie Mac's required principal and interest (P&I), Servicers must remit the required P&I to Freddie Mac but may retain the amounts necessary to cover reimbursable and non-reimbursable expenses. However, if the sale proceeds are less than total indebtedness, Servicers must remit to Freddie Mac the total required P&I and submit a Form 104SF, Statement of Loan, Workout and REO Expenses and Income, for the reimbursement of expenses.

The third-party full redemption process will mirror the process for third-party payoff, so Servicers will only remit the amount due Freddie Mac, enabling Servicers to retain both their reimbursable and non-reimbursable expenses. Likewise, if redemption proceeds are less than the total indebtedness, Servicers will remit the required P&I and request reimbursement of reimbursable expenses through the Form 104SF process.

We anticipate that Servicers will find our consistent processes for third-party sales and third-party redemptions to be helpful.

REO redemptions

We've also revised Chapter 66 to reflect that, if REO redemption proceeds cover both the P&I due to Freddie Mac and the amount claimable by the Servicer for reimbursable expenses, the Servicer may retain any excess funds collected as part of the redemption to recover amounts that are non-reimbursable by Freddie Mac. The Servicer may not retain any funds to cover reimbursable expenses but must continue to follow the Form 104SF submission process for reimbursement of these expenses.

We've also updated Directory 5 to reflect these changes.

EDR e-mail address

In Chapter 64, we've added an e-mail address (edr@freddiemac.com) to make it easier for Servicers to ask questions related to EDR reporting.

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

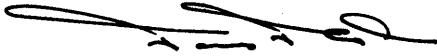
Descriptions of revised Guide text are located in Exhibit A of this Bulletin. The revisions include:

- Chapters 1, 2, 4, 5, 6, 8, 9, B9, 10, A10, 11, 13, A13, B15, C15, D15, 16, 17, 18, 22, 23, 25, 26, 27, 30, 32, B33, C33, D33, E33, F33, G33, H33, I33, J33, A34, 35, 37, 42, 44, 50, 51, 53, 56, 58, 64, 65, A65, 66, 67, 71 and 83
- Deleted Chapter 34
- New Chapter 68
- Exhibits 4, 13, 17, 17S, 19, 22, 23, 25, 26, 30, 57A and 82
- Forms 11, 13SF, 16SF, 987 and 996
- Directories 1, 3, 4, 5, 6 and 8
- Glossary

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

Exhibit A

Highlights of Revisions in this Package

Bulletin 2006-3 incorporates changes to the following documents of the *Single-Family Seller/Servicer Guide* (Guide):

Chapters

- **Chapter 1**—Introduction—Revises requirements related to electronic transactions.
- **Chapter 2**—General Freddie Mac Policies—Revises language to reflect the expansion of Home PossibleSM Mortgages as announced in our June 26, 2006, Bulletin. Adds language regarding requirement to resubmit to Loan Prospector[®] for Alt 97[®] and Freddie Mac 100 Mortgages with an Affordable Second[®] and all Home PossibleSM Mortgages if the income used to qualify the Borrower increases.
- **Chapter 4**—Seller/Servicer Institutional Eligibility—Updates the acceptable methods Seller/Servicers may use to submit the Form 1107SF, Seller/Servicer Change Notification Form, to include fax transmission or as an original paper form, in addition to electronic filing via freddiemac.com.
- **Chapter 8**—General Purchase Program Requirements and Characteristics—Revises language describing the features of adjustable-rate Mortgages (ARMs) that are assumable only after the Initial Period and assumable during the life of the loan and related ARM Uniform Instruments required for different assumability periods.
- **Chapter 9**—Fixed-Rate Cash Through the Selling System—Adds requirements for 40-year fixed-rate Mortgages and revises language to reflect eligibility for sale of fixed-rate Section 184 Native American and assumable Section 502 Mortgages through the Selling System. Revises Servicing Released Sales Process contact information as a result of a Freddie Mac department's relocation.
- **Chapter 10**—WAC ARM Cash Through the Selling System—Removes chart identifying ARMs eligible for sale under WAC ARM Cash; this information is located in Chapter 30. Updates information regarding when a Yield Maintenance Fee will be assessed.
- **Chapter A10**—ARM Cash Through MIDANET[®]—Removes chart identifying ARMs eligible for sale under ARM Cash; this information is located in Chapter 30.
- **Chapter 11**—Guarantor and MultiLender Swap Programs—Adds requirements for 40-year fixed-rate Mortgages. Removes charts describing security offerings; this information is summarized in Chapter 11 with complete details provided in Exhibit 17, Offer Product and Program Numbers, and Exhibit 17S, Mortgage Products Available Through the Selling System.

- **Chapter 13**—Pooling and Disclosure Requirements for Fixed-Rate and Balloon/Reset Mortgages Under the Fixed-Rate Guarantor or MultiLender Swap Programs—Adds web site address for information regarding each of the Mortgages backing Freddie Mac Gold PC[®]s based on information furnished by the Seller of the Mortgage. Revises requirements regarding pooling and disclosure for 3-Year and various Prepayment Penalty Mortgages and PC Pools. Provides pooling requirements for 40-year Gold PC Pools.
- **Chapter A13**—Pooling and Disclosure Requirements for ARMs Under the WAC ARM Guarantor Program—Adds web site address for information regarding each of the Mortgages backing Freddie Mac WAC ARM PCs based on information furnished by the Seller of the Mortgage. Revises language to reflect that assumable ARMs with different assumable periods may be commingled in a WAC ARM PC Pool. Adds pooling and disclosure requirements for Prepayment Penalty ARMs in various prepayment penalty WAC ARM PC Pools. Provides language regarding Additional Supplement requirements for Prepayment Penalty WAC ARM PCs under the WAC ARM Guarantor program.
- **Chapter B15**—Fixed-Rate Guarantor Program Through the Selling System—Adds language related to 40-year fixed-rate Mortgages. Revises language to indicate eligibility for sale of fixed-rate Prepayment Penalty, fixed-rate Section 184 Native American, FHA/VA and assumable Section 502 Guaranteed Rural Housing (GRH) Mortgages under the fixed-rate Guarantor program through the Selling System.
- **Chapter C15**—WAC ARM Guarantor Program Through the Selling System—Removes chart identifying ARMs eligible for sale under the WAC ARM Guarantor program through the Selling System. This information is located in Chapter 30.
- **Chapter D15**—MultiLender Swap Program Through the Selling System—Updates language to indicate eligibility for sale of fixed-rate Section 184 Native American, FHA/VA and assumable Section 502 Mortgages under the MultiLender Swap program through the Selling System.
- **Chapter 16**—Document Delivery—Revises requirements for use of an Allonge to endorse a Note and for use of facsimile signature stamp to endorse a Note. Revises retention requirements for Custodial Certification Schedules and Summaries.
- **Chapter 17**—Mortgage Delivery and Settlement Processing—Revises language to reflect the expansion of Home Possible Mortgages and the retirement of Affordable Gold Mortgages as announced in our June 26, 2006, Bulletin. Adds language to indicate that fixed-rate Section 184 Native American and assumable Section 502 Guaranteed Rural Housing (GRH) Mortgages are eligible for sale under the fixed-rate Cash, Guarantor and MultiLender Swap programs through the Selling System. Adds language to indicate that 40-year fixed-rate Mortgages are available for sale under the fixed-rate Cash and Guarantor programs through the Selling System. Updates language to indicate that ARMs that are Prepayment Penalty Mortgages are eligible for sale under the WAC ARM Guarantor program through the Selling System and provides delivery requirements for selling fixed-rate and adjustable-rate Prepayment Penalty Mortgages to Freddie Mac.
- **Chapter 18**—Document Custody—Revises the A.M. Best Company minimum rating for insurance related to document custody. Revises retention requirements for Custodial Certification Schedules and Summaries and the Request for Release of Documents form. Removes the requirement that the Custodian call Freddie Mac to ensure the opinion of Seller's counsel exists when Notes are endorsed by a facsimile signature stamp.

- **Chapter 22**—General Mortgage Eligibility—Adds language regarding terms for 40-year fixed-rate Mortgages. Adds 40-year fixed-rate Mortgages and 7/6-month and 10/6-month ARMs as eligible loan products for Mortgages secured by Investment Properties when the Borrower owns more than one financed Investment Property. Deletes representations and warranties related to Prepayment Penalty Mortgages; these have been moved to Chapter B33. Adds language to permit the purchase of certain Mortgages secured by Mortgaged Premises subject to deed restrictions or inclusionary zoning (“restricted units”).
- **Chapter 23**—Maximum Loan Amounts and LTV, TLTV and HLTIV Ratios—Adds another LTV/TLTV/HLTIV ratio requirements chart for 40-year fixed-rate Mortgages (both submitted to Loan Prospector[®] and manually underwritten).
- **Chapter 25**—Secondary Financing and Other Financing Agreements—Revises language to reflect the expansion of Home Possible Mortgages and the retirement of Affordable Gold Mortgages as announced in our June 26, 2006, Bulletin. Adds references to the eligibility status of 6-month ARMs with 3-, 5-, 7- and 10-year Initial Periods for temporary subsidy buydown plans.
- **Chapter 26**—Equity and Cash—Revises language to reflect the expansion of Home Possible Mortgages and the retirement of Affordable Gold Mortgages as announced in our June 26, 2006 Bulletin. Adds provisions previously in Chapter 34 related to the use of cash on hand as Borrower Personal Funds.
- **Chapter 27**—Mortgage Insurance and Late Charges—Adds language to explicitly state that lender-paid Mortgage insurance may be used with Initial InterestSM Mortgages. Adds language to state that flexible mortgage insurance options may not be used for 40-year fixed-rate Mortgages.
- **Chapter 30**—Special Eligibility Requirements for ARMs—Adds additional eligible ARM products with related requirements. Adds provisions permitting ARMs with prepayment penalties to be sold under the WAC ARM Guarantor program through the Selling System. Describes loan instrument requirements for ARMs with different assumability features. Adds language and new charts for ARMs and Convertible ARMs indicating the Uniform Instruments on which they must be originated given the characteristics of the ARM product. Adds language and a chart regarding ARM underwriting requirements for additional ARM products.
- **Chapter 32**—Special Eligibility Requirements for Seller-Owned Converted and Seller-Owned Modified Mortgages—Revises language to reflect the retirement of Affordable Gold Mortgages as announced in our June 26, 2006, Bulletin.
- **Chapter B33**—Prepayment Penalty Mortgages—Revises the eligibility, origination, delivery and Servicing requirements for fixed-rate Mortgages and ARMs with prepayment penalties. Adds representations and warranties related to Prepayment Penalty Mortgages that have been moved from Chapter 22.
- **Chapter D33**—Alt 97[®] Mortgages—Revises language to reflect the retirement of Affordable Gold Mortgages as announced in our June 26, 2006, Bulletin. Adds language describing how to calculate Borrower income.
- **Chapter F33**—Financed Permanent Buydown Mortgages—Adds 6-month ARMs with 5-, 7- and 10-year Initial Periods to the list of eligible ARMs with Financed Permanent Buydowns.

- **Chapter G33**—Freddie Mac 100 Mortgages—Revises language to reflect the retirement of Affordable Gold Mortgages as announced in our June 26, 2006, Bulletin. Adds language describing how to calculate Borrower income.
- **Chapter H33**—Manufactured Homes—Revises language to reflect the retirement of Affordable Gold Mortgages as announced in our June 26, 2006, Bulletin.
- **Chapter I33**—Mortgages With Capitalized Balances—Adds requirements for 40-year fixed-rate Mortgages.
- **Chapter J33**—Initial InterestSM Mortgages—Revises language to reflect the retirement of Affordable Gold Mortgages as announced in our June 26, 2006, Bulletin. Adds an additional ARM product as eligible to be used with Initial Interest Mortgages. Revises language and the chart describing Uniform Instruments for Initial Interest Mortgages.
- **Chapter 34**—Special Eligibility Requirements for Affordable Gold[®] Mortgages—Chapter deleted to reflect the retirement of Affordable Gold Mortgages and the expansion of Home Possible Mortgages as announced in our June 26, 2006, Bulletin. Provisions related to income limitations, Mortgage Credit Certificates (MCCs) and rental income from a 1-unit Primary Residence have been moved to Chapter A34; provisions related to cash on hand have been moved to Chapter 26.
- **Chapter A34**—Home PossibleSM Mortgages—Revises language to reflect the expansion of Home Possible Mortgages and the retirement of Affordable Gold Mortgages as announced in our June 26, 2006, Bulletin. Adds language related to eligibility of 40-year fixed-rate Mortgages. Adds language describing how to calculate Borrower income.
- **Chapter 35**—Eligibility Requirements for Special Housing Initiatives—Revises language to reflect the expansion of Home Possible Mortgages and the retirement of Affordable Gold Mortgages as announced in our June 26, 2006, Bulletin. Allows RHS Leveraged Seconds with Home Possible Mortgages.
- **Chapter 37**—Underwriting the Borrower—Revises language to reflect the retirement of Affordable Gold Mortgages as announced in our June 26, 2006, Bulletin. Revises requirements related to electronic and fax copies of Form 65, Uniform Residential Loan Application. Adds Home Possible Mortgages to the list of offerings that are ineligible to be Alternative Stated Income Mortgages.
- **Chapter 44**—Appraisal Reports, Inspection Reports and the Property Inspection Alternative (PIA)—Revises language to indicate exhibits required for each appraisal or inspection (evaluation) report instead of exhibits not required. Updates requirements related to faxing and other electronic transmission of appraisal and inspection reports.
- **Chapter 51**—General Freddie Mac Policies—Revises language to reflect the change in terms used for Prepayment Penalty Mortgages and prepayment penalties.
- **Chapter 56**—Transfers of Servicing—Revises retention requirements for Custodial Certification Schedules and Summaries.
- **Chapter 58**—Property Insurance—Revises language to reflect the higher deductibles we will accept for property insurance policies maintained by Borrowers and common-interest communities, and the change in flood insurance deductible for condominiums with policies maintained by condominium owners association announced in our May 30, 2006, Bulletin. Deletes a section and adds a cross-reference to reflect the addition of Chapter 68, which contains requirements for Servicing Mortgages affected by a disaster.

- **Chapter 64**—Delinquencies—Adds an e-mail address for questions related to Electronic Default Reporting (EDR).
- **Chapter 65**—Loss Mitigation—Adds a cross-reference to new Chapter 68 for requirements for Servicing Mortgages affected by a disaster.
- **Chapter A65**—Reinstatements and Relief Options—Adds a cross-reference to new Chapter 68 for requirements for Servicing Mortgages affected by a disaster.
- **Chapter 66**—Foreclosure—Updates redemption process requirements for third-party and Real Estate Owned (REO) sales. Adds a cross-reference to new Chapter 68 for requirements for Servicing Mortgages affected by a disaster.
- **Chapter 67**—Adverse Matters—Adds language to assist Servicers with handling cases where a Borrower has filed two or more bankruptcies. Explicitly states that, for bankruptcy conversions, Freddie Mac will reimburse Servicers for the allowable bankruptcy fee for both chapters filed. Revises language to reflect new Chapter 68, which contains requirements for Servicing Mortgages affected by a disaster.
- **Chapter 68**—Servicing Mortgages Impacted by a Disaster—New chapter that consolidates Freddie Mac’s requirements for Servicing Mortgages affected by a disaster.
- **Chapter 71**—Reimbursement of Expenses—Adds language to assist Servicers with handling cases where a Borrower has filed two or more bankruptcies. Explicitly states that, for bankruptcy conversions, Freddie Mac will reimburse Servicers for the allowable bankruptcy fee for each chapter filed.
- **Chapter 83**—Additional Servicing Requirements for Maturing Balloon/Reset Mortgages—Revises language to reflect new imaging and document retention requirements.

Exhibits

We’ve revised the following exhibits:

- **Exhibit 4**—Single-Family Uniform Instruments
- **Exhibit 13**—Standard Flood Hazard Determination Form, FEMA Form 81–93
- **Exhibit 17**—Offer Product and Offer Program Numbers
- **Exhibit 17S**—Mortgage Products Available Through the Selling System
- **Exhibit 19**—Postsettlement Delivery Fees
- **Exhibit 22**—Form of Additional Supplement—Fixed-Rate Prepayment Penalty Mortgages
- **Exhibit 23**—Monthly Budget and Residual Analysis Form
- **Exhibit 25**—Mortgage Products with Risk Class and/or Minimum Indicator Score Requirements
- **Exhibit 26**—Discretionary Provisions
- **Exhibit 30**—Standard ARM Index Descriptions
- **Exhibit 57A**—Approved Attorney Fees and Title Expenses
- **Exhibit 82**—Electronic Default Reporting Transmission Code List

Forms

We've revised the following Forms:

- **Form 11**—Mortgage Submission Schedule
- **Form 13SF**—Mortgage Submission Voucher
- **Form 16SF**—Annual Eligibility Certification Report
- **Form 987**—Wire Transfer Authorization For a Cash Warehouse Delivery
- **Form 996**—Warehouse Lender Release of Security Interest

Glossary

We've deleted the following Glossary terms:

- **Affordable Gold Mortgage**
- **Affordable Gold 3/2 Mortgage**
- **Affordable Gold 5 Mortgage**
- **MSA**

We've added the following Glossary terms:

- **Allonge**
- **Alternative Stated Income**

We've revised the following Glossary terms:

- **Affordable Gold 97 Mortgage**
- **Agency**
- **Home Possible Mortgage**
- **Home Possible Neighborhood Solution Mortgage**
- **Lookback Period**
- **Prepayment Penalty Mortgage**

Directory

We've revised the following Directories:

- **Directory 1**
- **Directory 3**
- **Directory 4**
- **Directory 5**
- **Directory 6**
- **Directory 8**