

# Bulletin

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NUMBER: 2006-4

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TO: All Freddie Mac Sellers and Servicers

October 6, 2006

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## SUBJECTS

Both Selling and Servicing requirements are amended in this Bulletin.

With this *Single-Family Seller/Servicer Guide (Guide)* Bulletin, we are:

- Adding enhancements to our Home Possible<sup>SM</sup> Mortgage offering
- Updating property- and appraisal-related requirements
- Revising requirements for the purchase of Mortgages secured by Mortgaged Premises located in the States of Tennessee and Rhode Island in response to the passage of new antipredatory lending laws
- Adding information regarding the submission of Additional Supplements for Prepayment Penalty Mortgages sold through the Freddie Mac Selling System (Selling System)
- Revising lending practice representations and warranties to make them more consistent with Department of Housing and Urban Development (HUD) regulations
- Providing guidance for proper usage of Special Characteristics Code 185 relating to flood insurance
- Refining Seller/Servicer eligibility criteria
- Adding the Employer Identification Number as a required field on Form 16SF, Annual Eligibility Certification Report
- Updating existing insurance requirements to eliminate outdated ratings and terminology
- Updating Exhibit 52, Federal Disaster Assistance, to be consistent with currently established federal disaster relief programs and assistance options
- Updating Exhibit 57A, Approved Attorney Fees and Title Expenses, in response to new State laws and market trends concerning attorney fees and title expenses
- Updating Exhibit 75, Adjustment Codes for Form 104SF, to reflect the retirement and changing of several codes, and introduction of several new adjustment codes
- Updating contact information for reporting adjustable-rate Mortgage (ARM) conversions through the automated conversion process
- Highlighting loan modifications as an alternative to foreclosure that permits a Borrower to retain homeownership

## EFFECTIVE DATES

All of these changes are effective immediately except:

- **November 19, 2006**—Home Possible Mortgages and Home Possible Neighborhood Solution<sup>SM</sup> Mortgages with Limited Buydowns may be submitted to Loan Prospector<sup>®</sup> and sold to Freddie Mac on and after this date. The new income limit multipliers for certain counties in Pennsylvania and New Hampshire and the increased income limit multipliers for certain counties in New Jersey also become effective on this date.
- **December 31, 2006**—Our new requirements for the purchase of Mortgages secured by Mortgaged Premises located in the State of Rhode Island are effective for Mortgages with Note Dates on or after this date.
- **January 1, 2007**—Our new requirements for the purchase of Mortgages secured by Mortgaged Premises located in the State of Tennessee are effective for Mortgages with Note Dates on or after this date. Our revised representations and warranties regarding antipredatory lending practices are effective for Mortgages sold to Freddie Mac on or after this date.

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

### Selling Changes

#### Enhancements to Home Possible Mortgages

##### *Home Possible benefits for members of the United States Armed Forces*

The benefits of Home Possible Neighborhood Solution Mortgages are now available to members of the United States Armed Forces. With this enhancement, active duty and recently separated and retired military and military reservists are eligible for higher debt payment-to-income ratios and temporary mortgage payment reduction through the use of a temporary interest rate subsidy buydown plan.

##### *Limited Buydowns now available*

In response to market trends, we are expanding benefits available from temporary subsidy buydown plans to all Home Possible Mortgage Borrowers by allowing Home Possible Mortgages and Home Possible Neighborhood Solution Mortgages secured by 1-unit Primary Residences to be originated with Limited Buydowns. Sellers delivering Home Possible Mortgages and Home Possible Neighborhood Solution Mortgages with Limited Buydowns must deliver the applicable buydown Loan Feature Code and Special Characteristic Code (see Guide Section 17.20) for any such Mortgage in addition to complying with any Home Possible Mortgage delivery requirements. This enhancement becomes effective November 19, 2006.

### *Consistent high-cost area designations*

To be consistent with accepted standards in the secondary market, we are revising the Guide to designate high-cost areas by county instead of Metropolitan Statistical Area (MSA) – making it easier for you to determine the income limits for Borrowers living in high-cost areas. In addition, effective November 19, 2006, we are also adding income limit multipliers for two counties in New Hampshire and a county in Pennsylvania, and increasing the income limit multiplier for seven counties in New Jersey.

Chapters 17, 25 and A34 have been updated to reflect these changes.

### **Property- and appraisal-related requirement changes**

We are updating several chapters of the Guide to include the following changes related to property and appraisal requirements:

- We are continuing to support your need for a more streamlined condominium project review process by allowing the sale of Condominium Unit Mortgages to Freddie Mac when the Fannie Mae Condo Project Manager™ (CPM™) acceptance certificate is issued to a lender originating the Mortgage that is not the Seller. This change facilitates Sellers managing their business processes at the same time that they retain applicable representations and warranties.
- To keep pace with innovations in the industry, we are announcing the acceptability of Automated Valuation Model (AVM)-assisted appraisals when certain requirements are met
- We are providing more guidance regarding our expectations for interior and exterior inspections, and for exterior-only inspections. This change helps to differentiate between inspections performed by appraisers and those performed by licensed professionals (e.g., pest inspectors).
- In response to current trends in the housing market, we are providing more guidance regarding how appraisers should treat concessions
- To help you manage your collateral assessment process, we are providing more guidance regarding the level of collateral assessment you must obtain when your present collateral assessment is outdated
- Supporting your risk management process, we are clarifying that the underwriting of the collateral assessment reports should be independent of loan production

Chapters 42 and 44 have been modified to reflect these changes.

### **Mortgages secured by Mortgaged Premises located in Tennessee and Rhode Island**

In response to new antipredatory lending laws recently enacted in Tennessee and Rhode Island, we are revising our requirements for the purchase of Mortgages secured by Mortgaged Premises located in those States; Mortgages that meet the statutory definitions of high-cost home loan in Tennessee or Rhode Island will not be eligible for delivery to Freddie Mac.

### *Tennessee high-cost home loan statute*

Due to the enactment of the Tennessee Home Loan Protection Act of 2006, we have revised our requirements for purchase of Mortgages secured by Mortgaged Premises located in Tennessee. The new purchase requirements apply to Mortgages with Note Dates on and after January 1, 2007.

These provisions have been added to a new section in Chapter 22 of the Guide, Section 22.18.13. The provisions of Section 22.18.13 are Discretionary Provisions under Section 12.13 and Exhibit 26, Discretionary Provisions. Exhibit 26 has been updated to reflect this change. Unless otherwise notified in writing, Sellers are eligible to deliver Tennessee Mortgages.

*Rhode Island high-cost home loan statute*

The Rhode Island Home Loan Protection Act applies to Mortgages with Note Dates on and after December 31, 2006.

Additional purchase requirements for Rhode Island Mortgages have been added to a new section in Chapter 22 of the Guide, Section 22.18.14. The provisions of Section 22.18.14 are Discretionary Provisions under Section 12.13 and Exhibit 26. Exhibit 26 has been updated to reflect this change. Unless otherwise notified in writing, Sellers are eligible to deliver Rhode Island Mortgages.

*Antipredatory lending laws*

Sellers should become familiar with the requirements of antipredatory lending laws, including the penalties for noncompliance. Freddie Mac expects Sellers to review their loan origination processes, including those with third-party originators, and to put in place processes based on the requirements of the applicable antipredatory lending laws to ensure that they do not deliver high-cost home loans and other ineligible Mortgages to Freddie Mac. As always, in accordance with the provisions of Section 6.2(a) of the Guide, Sellers must ensure that they comply with all applicable State and federal laws, regulations and orders.

Freddie Mac will conduct post-purchase reviews of Tennessee Mortgages and Rhode Island Mortgages. Mortgages that do not comply with the Guide will be subject to repurchase.

As a reminder, Sections 46.19 and 46.24 of the Guide require that Sellers place the final HUD-1 form or other Mortgage closing statement and the Truth-in-Lending Statement in the Mortgage file for each Mortgage.

**Delivery of Additional Supplements for Prepayment Penalty Mortgages sold through the Selling System**

Sellers are now able to sell Prepayment Penalty Mortgages through the Selling System. In connection with the sale of certain types of these Mortgages, Sellers must prepare and distribute an Additional Supplement in the form set forth in Exhibit 22, Form of Additional Supplement—Prepayment Penalty Mortgages.

With this Bulletin, we are adding language to Chapter 11 to provide that the completed Additional Supplement must be delivered to Freddie Mac no later than the Final Delivery Date for Mortgages sold through the Selling System. We are also updating Chapters B15 and C15 to reference this additional disclosure requirement for Mortgages sold through the Selling System.

In addition, we've updated Exhibit 22 to add information regarding the appropriate submission process for this Additional Supplement to Freddie Mac.

### **Representations and warranties regarding lending practices**

We are revising the representations and warranties regarding antipredatory lending practices to make them more consistent with HUD regulations. These changes will become effective January 1, 2007.

Chapter 22 has been modified to reflect these changes.

### **Correct usage of Special Characteristics Code 185**

We are providing guidance regarding the correct usage of Special Characteristics Code (SCC) 185. This SCC must be used for Mortgages sold to Freddie Mac only if all of the following conditions are met:

- The community where the Mortgaged Premises is located participates in the National Flood Insurance Program
- The dwelling is not covered by flood insurance
- The Mortgage file contains a Federal Emergency Management Agency (FEMA) Letter of Map Amendment or Letter of Map Revision, effectively removing the dwelling from the Special Flood Hazard Area

Chapter 17 has been modified to provide this guidance.

### **Selling and Servicing Changes**

#### **Refining Seller/Servicer eligibility criteria**

We are updating the Guide to refine certain aspects of our Seller/Servicer eligibility criteria. We are including additional provisions regarding expectations of ongoing financial capacity to honor obligations to Freddie Mac, and adding a Seller's or Servicer's failure to honor certain financial obligations to Freddie Mac as a reason for suspension or termination.

Chapters 4 and 5 have been modified to reflect these changes.

#### **Enhancing Form 16SF, Annual Eligibility Certification Report**

We have added the Employer Identification Number (EIN)—or Federal Tax ID—as a required field on Form 16SF, Annual Eligibility Certification Report. Adding this required information will help us better manage our business relationships with Freddie Mac Seller/Servicers.

Please note, Form 16SF must be submitted electronically and is available online at <http://www.freddiemac.com/singlefamily/doingbusiness/acctmaintain.html>. A printable version of Form 16SF can be viewed online at <http://www.freddiemac.com/sell/forms/>.

#### **Insurance requirements**

With this Bulletin, we are updating insurance product and coverage terminology to remove obsolete language and references; update insurer ratings and policy descriptions; and add enhanced guidance regarding general insurance-related requirements.

Chapter 58 has been modified to reflect these changes.

## **Servicing Changes**

### **Updating Exhibit 52, Federal Disaster Assistance**

We are updating Exhibit 52, Federal Disaster Assistance, to match more closely the terminology and provisions of currently established government relief programs and assistance options. These changes were made in coordination with the appropriate federal agencies.

### **Updating Exhibit 57A, Approved Attorney Fees and Title Expenses**

We are revising Exhibit 57A, Approved Attorney Fees and Title Expenses, to update attorney fees and title expense limits in certain States—Connecticut, Louisiana, Nebraska, Vermont and Wisconsin—and ensure that Exhibit 57A is consistent with new State laws and current market trends.

### **Changes to Exhibit 75, Adjustment Codes for Form 104SF**

We are making several changes to Exhibit 75, Adjustment Codes for Form 104SF, to provide enhanced clarity regarding claim adjustments. As part of these changes, we are deleting several expense reimbursement adjustment codes, modifying several expense reimbursement adjustment codes and creating new adjustment codes.

### **Reporting ARM conversions**

The process you must use to report ARM conversions depends on the type of Convertible ARM being converted and the terms under which the ARM was originally sold to us. We are updating the contact information for notification that a conversion option has been exercised for conversions processed through the automated conversion process.

Chapter 80, Directory 7 and Form 4, Convertible Mortgage Conversion Confirmation, have been modified to reflect this change.

### **Alternatives to foreclosure - retention of homeownership**

We are adding language to the Guide highlighting loan modifications as one of the foreclosure alternatives enabling Borrowers who have completed a long-term or short-term forbearance to retain homeownership. We are also adding language identifying those workout options available where the Borrower retains homeownership and workout options for situations where a Borrower is unable to retain homeownership.

Chapters 65 and A65 have been updated to reflect these changes.

## **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, 6, 9, A9, B9, 10, A10, 11, B15, C15, 17, 22, 25, H33, A34, 42, 44, 58, 65, A65 and 80
- Exhibits 22, 26, 28A, 52, 57A and 75
- Forms 4, 16SF and 987
- Glossary
- Directory 7

## **CONCLUSION**

The changes included in this Bulletin support our commitment to making the mortgage finance process simpler and more efficient for you, our Seller/Serviceers. If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call (800) FREDDIE.

Sincerely



James J. Cotton  
Vice President  
Single-Family Marketing

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# Exhibit A

## Highlights of Revisions in this Package

Bulletin 2006-4 incorporates changes to the following documents of the *Single-Family Seller/Servicer Guide* (Guide):

### Chapters

- **Chapter 4**—Seller/Servicer Institutional Eligibility—Refines Seller/Servicer eligibility criteria.
- **Chapter 5**—Disqualification or Suspension of a Seller/Servicer—Adds failure to honor certain financial obligations to Freddie Mac as a reason for suspension or termination.
- **Chapter 6**—General Warranties and Responsibilities of the Seller/Servicer—Refines Seller/Servicer eligibility criteria.
- **Chapter 9**—Fixed-Rate Cash Through the Selling System—Adds language regarding postsettlement delivery fee amounts in relation to the net price option.
- **Chapter A9**—RNY Cash Through MIDANET<sup>®</sup>—Adds language regarding postsettlement delivery fee amounts in relation to monthly invoices.
- **Chapter B9**—Gold Cash<sup>®</sup> Through MIDANET<sup>®</sup>—Adds language regarding postsettlement delivery fee amounts in relation to monthly invoices.
- **Chapter 10**—WAC ARM Cash Through the Selling System—Adds language regarding postsettlement delivery fee amounts in relation to the net price option.
- **Chapter A10**—ARM Cash Through MIDANET<sup>®</sup>—Adds language regarding postsettlement delivery fee amounts in relation to monthly invoices.
- **Chapter 11**—Guarantor and MultiLender Swap Programs—Updates information regarding requirements for submission of Additional Supplements to Freddie Mac for Mortgages sold through the Freddie Mac Selling System.
- **Chapter B15**—Fixed-Rate Guarantor Program Through the Selling System—Updates language to include requirement that a Seller must prepare and distribute an Additional Supplement for all Gold PC Pools with 40-year fixed-rate Prepayment Penalty Mortgages and for any PC Pool with various fixed-rate Prepayment Penalty Mortgages.
- **Chapter C15**—WAC ARM Guarantor Program Through the Selling System—Updates language to include requirement that a Seller must prepare and distribute an Additional Supplement for all WAC ARM PC Pools and Initial Interest<sup>SM</sup> WAC ARM PC Pools with Prepayment Penalty Mortgages.
- **Chapter 17**—Mortgage Delivery and Settlement Processing—Adds language to facilitate correct usage of Special Characteristics Code 185.

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- **Chapter 22**—General Mortgage Eligibility—Adds language regarding requirements for purchase of Mortgages secured by Mortgaged Premises located in the States of Tennessee and Rhode Island. Revises language regarding antipredatory lending representations and warranties.
  - **Chapter 25**—Secondary Financing and Other Financing Agreements—Revises language to permit Home Possible<sup>SM</sup> Mortgages and Home Possible Neighborhood Solution<sup>SM</sup> Mortgages with Limited Buydowns.
  - **Chapter A34**—Home Possible<sup>SM</sup> Mortgages—Revises language to permit sale of Home Possible Mortgages and Home Possible Neighborhood Solution Mortgages with Limited Buydowns; revises the method of identification of high-cost areas and increases the income limit multiplier for certain counties in New Jersey; adds members of the United States Armed Forces to be eligible for Home Possible Neighborhood Solution Mortgages.
  - **Chapter 42**—Special Warranties for Condominiums—Revises language to permit sale of Condominium Unit Mortgages to Freddie Mac when the Fannie Mae Condo Project Manager<sup>TM</sup> (CPM<sup>TM</sup>) acceptance certificate is issued to a lender originating the Mortgage that is not the Seller, and otherwise revise requirements for Mortgages that have received CPM acceptance.
  - **Chapter 44**—Appraisal Reports, Inspection Reports and the Property Inspection Alternative (PIA)—Revises language to permit AVM-assisted appraisals, provides more guidance regarding how appraisers should treat concessions, and otherwise updates appraisal requirements.
  - **Chapter 58**—Property Insurance—Updates existing insurance requirements to eliminate outdated ratings and terminology.
  - **Chapter 65**—Loss Mitigation—Adds language to highlight loan modification as a foreclosure alternative available when a Borrower has completed a short- or long-term forbearance that allows the Borrower to retain homeownership. Adds language identifying those workout options available where a Borrower retains homeownership and those workout options where a Borrower does not retain homeownership.
  - **Chapter A65**—Reinstatements and Relief Options—Specifies that a loan modification is a foreclosure alternative available to Borrowers who have completed a short- or long-term forbearance.
  - **Chapter 80**—Special Servicing and Reporting Requirements for Adjustable-Rate Mortgages (ARMs)—Updates the contact information for notification that a conversion option has been exercised for conversions processed through the automated conversion process.

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## **Exhibits**

We've revised the following exhibits:

- **Exhibit 22**—Form of Additional Supplement—Prepayment Penalty Mortgages
- **Exhibit 26**—Discretionary Provisions
- **Exhibit 28A**—Loan Servicing Purchase and Sale Agreement for the Servicing-Released Sales Process
- **Exhibit 52**—Federal Disaster Assistance
- **Exhibit 57A**—Approved Attorney Fees and Title Expenses
- **Exhibit 75**—Adjustment Codes for Form 104SF

## **Forms**

We've revised the following Forms:

- **Form 4**—Convertible Mortgage Conversion Confirmation
- **Form 16SF**—Annual Eligibility Certification Report

## **Glossary**

We've added the following Glossary term:

- **Automated Valuation Model (AVM)**

We've revised the following Glossary terms:

- **Home Possible Neighborhood Solution<sup>SM</sup> Mortgage**
- **Mortgaged Premises**

## **Directory**

We've revised the following Directories:

- **Directory 7**

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