

Bulletin

TO: All Freddie Mac Sellers and Servicers

September 30, 2005

SUBJECT: Selling Requirements for Mortgages Affected by Hurricane Katrina and Hurricane Rita

Within a span of a few weeks, the Gulf Coast region of the United States has experienced an unparalleled amount of devastation from Hurricane Katrina and Hurricane Rita. As the effects of these two hurricanes continue to unfold, Freddie Mac is working with Sellers and Servicers to develop relief measures to assist Borrowers whose lives have been devastated by these disasters. This Bulletin covers Freddie Mac's requirements for selling Mortgages affected by Hurricane Katrina and Hurricane Rita. These requirements are temporary and replacement pages to the Freddie Mac *Single-Family Seller/Servicer Guide* (Guide) will not be issued to include these requirements. Sellers should retain a copy of this Bulletin to ensure compliance with these requirements.

For purposes of this Bulletin, "an eligible Disaster Area" is an area comprised of counties or municipalities, including parishes, that have been 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. These areas are published by the Federal Emergency Management Agency (FEMA) on its web site. This Bulletin details temporary measures to help Borrowers who will continue to live in, are relocating from, or have employers located within, an eligible Disaster Area.

With this Bulletin we are:

- Providing temporary relief and flexibility to Sellers in underwriting Borrower credit reputation and capacity for new purchase and refinance Mortgage applications.
- Revising our collateral underwriting requirements for new Mortgages secured by properties located in an eligible Disaster Area.

Our temporary requirements are for Mortgages with:

- Note Dates on or after August 30, 2005, through October 3, 2006, for Mortgages affected by Hurricane Katrina, and
- Note Dates on or after September 25, 2005, through October 3, 2006, for Mortgages affected by Hurricane Rita.

These temporary requirements are designed to promote prudent underwriting and responsible lending practices that provide additional flexibility and ease the burden on Borrowers from these areas. However, given the uncertainty of values on properties located in the eligible Disaster Areas, the maximum LTV/TLTV/HTLTV ratio limits have been adjusted.

We are also following up our September 26, 2005 announcement of temporary relief to Sellers who have been holding Mortgages originated before Hurricane Katrina because they can no longer make the representations and warranties required for sale to us.

1. Borrower and Mortgaged Premises eligibility requirements—Mortgages with Note Dates on or after August 30 (Hurricane Katrina) or September 25 (Hurricane Rita)

The requirements described in this Bulletin apply to Mortgages with the above Note Dates in any of the following circumstances:

- The Mortgaged Premises is located within an eligible Disaster Area
- The Borrower resided within an eligible Disaster Area prior to Hurricane Katrina or Hurricane Rita, but has since relocated
- The Borrower's employer is located within an eligible Disaster Area and the employer's records have been damaged, destroyed or are inaccessible

(a) Employment and income requirements—Qualifying Borrowers with temporary income for Mortgages secured by a 1- to 4-unit Primary Residence

If a Borrower's regular income (including self-employment income) has been curtailed by damage in an eligible Disaster Area, the income used to qualify the Borrower may be temporarily supported in whole or in part by severance paid by the employer, temporary employer assistance, unemployment compensation, disaster assistance grants, or other forms of public or private assistance. When selling Mortgages under this exception to Freddie Mac, the Seller must verify, assess and document the temporary income in the Mortgage file. The Seller must also represent and warrant that:

- The Borrower had regular income that was curtailed due to the impact of Hurricane Katrina or Hurricane Rita
- The likelihood of the Borrower restoring their regular income to a level that would enable the Borrower to meet the long-term obligations of the Mortgage has been thoroughly assessed and documented in the Mortgage file

The Borrower must be currently receiving all income used for qualification purposes. For example, if the Borrower is self-employed and their business is not currently operating, the Seller must exclude the self-employed income from the qualifying income amount.

For Mortgages made to a Borrower who is relocating outside of an eligible Disaster Area and who is not currently employed, but is receiving temporary income:

- The Borrower must meet the qualifying income requirements as stated in this Bulletin
- The Borrower must provide a written statement of intent to work in the new location and describe the occupation for which they intend to seek employment and the Seller must retain this statement in the Mortgage file
- The Seller must review the job market in the new area and reasonably determine that the Borrower's employment opportunities and earning potential are comparable to the Borrower's prior employment

(b) Documentation requirements for employment and income for Mortgages secured by 1- to 4-unit Primary Residences

When the documentation of a Borrower's income and employment required in a Seller's Purchase Documents is not available, such as when the Borrower's or employer's employment records have been lost or destroyed, the Seller may verify the Borrower's current and previous employment and income using third-party alternative documentation.

If a Seller accepts third-party alternative documentation in approving a Mortgage application, the Seller must be able to demonstrate that such documentation provided sufficient and reliable information to prudently assess the Borrower's ability to meet the long-term obligations of the Mortgage.

All documentation of employment and income (including third-party alternative documentation) must be maintained in the Mortgage file.

(c) Special credit reputation requirements for Mortgages secured by 1- to 4-unit Primary Residences, second homes and 1- to 4-unit Investment Properties

For Mortgages that do not receive a Loan Prospector[®] Accept Risk Class, the following requirements apply:

1. A-minus Mortgages

For each A-minus Mortgage with a payment history verified outside Loan Prospector, the Seller must represent and warrant that during the 12 months prior to the Note Date the Borrower was not 30 days or more delinquent more than twice and was never 60 days or more delinquent, unless the Seller can document that the delinquencies were a result of the Borrower living or working in an eligible Disaster Area. If the Seller cannot satisfy this condition, the Mortgage may not be sold as an A-minus Mortgage.

2. Manually Underwritten Mortgages

For Manually Underwritten Mortgages, a Seller must underwrite the Borrower's credit reputation in accordance with its Purchase Documents, as amended by the requirements below.

If a Borrower's credit history includes a bankruptcy, foreclosure or deed-in-lieu of foreclosure within the most recent two years, even if such event was caused by Hurricane Katrina or Hurricane Rita, the Borrower's credit reputation cannot be considered acceptable.

Otherwise, if there is other adverse or derogatory information in the Borrower's credit history and the Seller determines that information is significant, the Seller may consider the Borrower's credit reputation to be acceptable only if all of the following conditions are met:

- The adverse or derogatory information in the Borrower's credit history is a result of the effects of Hurricane Katrina or Hurricane Rita, as applicable
- Seller obtains and retains in the Mortgage file a written statement from the Borrower attributing the cause of the financial difficulties to outside factors beyond the Borrower's control that are not ongoing and are unlikely to recur
- There is no evidence that the Borrower had an unacceptable credit reputation prior to Hurricane Katrina or Hurricane Rita, as applicable
- The credit report and other credit documentation indicates that all of the Borrower's credit is current
- The Borrower's credit history in the most recent 24 months shows all of the following:
 - No bankruptcy, foreclosure or deed-in-lieu of foreclosure
 - No housing payments past due that were not related to Hurricane Katrina or Hurricane Rita, as applicable
- If the Borrower's housing (rental or Mortgage) payment history was not reported to the credit repositories, the Mortgage file must contain documentation of the Borrower's housing payment history for the most recent 12 months that meets the requirements of Sections 37.11 and 37.20 of the Guide
- The Mortgage file must contain a written analysis on Form 1077, Uniform Underwriting and Transmittal Summary, or on a separate document, explaining the Borrower's adverse or derogatory credit was related to the impacts of Hurricane Katrina or Hurricane Rita, as applicable

(d) Other Purchase Document requirements

Except as set forth in this Bulletin, all requirements in a Seller's Purchase Documents (including the Guide), such as credit-related requirements for a Minimum Indicator Score, must be met for a Mortgage to be eligible for sale to Freddie Mac.

(e) Special requirements for calculating qualifying ratios for Mortgages secured by 1- to 4-unit Primary Residences

To further assist Borrowers with existing Mortgage obligations on properties in the eligible Disaster Areas, the following requirements for calculating the monthly housing expense-to-income and debt payment-to-income ratios apply:

1. Monthly housing expense-to-income ratio

A Borrower's Mortgage obligations on a property located in an eligible Disaster Area and previously considered to be the Borrower's Primary Residence (whether or not damaged or destroyed) where the Borrower has not been released from the debt obligation and is no longer occupying that property as their Primary Residence can be excluded from the Borrower's monthly housing expense-to-income ratio but must be included in the monthly debt-to-income ratio.

2. Monthly debt payment-to-income ratio

A Seller must calculate the Borrower's monthly debt payment-to-income ratio in accordance with Section 37.16 of the Guide and the requirements stated in this Bulletin.

In instances where the Borrower is reasonably expected to pay off the Mortgage on a property located in an eligible Disaster Area previously considered to be the Borrower's Primary Residence, but has not yet done so:

- The Borrower's previous Mortgage payment must be included in the monthly debt payment-to-income ratio, and
- The total monthly debt ratio may not be greater than 50%, and
- The Seller is not required to justify the higher qualifying ratio with compensating factors. However, the Mortgage file must contain documentation such as insurance claims, the sales contract, etc., that support the Borrower's intent and ability to pay off the Mortgage debt.

3. Debt-to-housing gap ratio

The Seller is not required to calculate or evaluate the Borrower's debt-to-housing gap ratio when evaluating the Borrower's capacity to meet monthly obligations.

(f) Special requirements for assets for all Mortgages (including Mortgages secured by second homes and Investment Properties)

The Seller is required to meet the requirements of the Purchase Documents with regard to verifying and documenting a Borrower's assets.

For purchase transactions for all eligible Mortgages, the insurance proceeds received by a Borrower in connection with a prior residence located in the eligible Disaster Areas can be used toward a property purchase or Mortgage financing **only** when:

- The Borrower has excess insurance proceeds after paying off the unpaid principal balance of the Mortgage, or
- The insurance proceeds are from a property the Borrower owns free and clear.

(g) Maximum LTV/TLTV/HTLTV ratios

The LTV/TLTV/HTLTV ratio requirements listed in the chart below apply to Mortgages secured by properties located within an eligible Disaster Area. The Seller must use the lower of these ratio limits or the ratio limits stated in the Seller’s Purchase Documents, including the Guide. If the LTV/TLTV/HTLTV ratios for Mortgage products and property types found in other chapters of the Guide exceed the requirements in the chart below, the Seller must use the LTV/TLTV/HTLTV ratio in the chart.

PURCHASE AND "NO CASH-OUT" REFINANCE MORTGAGES (Fixed-Rate, ARMs, and 5- or 7-Year Balloon/Reset Mortgages)				
Property Type	Max. LTV w/o Sec. Fin.	Max. LTV w/Sec. Fin.	Max. TLTV w/Sec. Fin.	Max. HTLTV w/Sec. Fin.
1-2 unit Primary Residence or second home	95%	90%	95%	95%
1-2 unit Investment Property	90%	85%	90%	95%
3-4 unit Primary Residence	80%	75%	80%	85%
3-4 unit Investment Property	75%	70%	75%	80%
CASH-OUT REFINANCE MORTGAGES (Fixed-Rate, ARMs, and 5- or 7-Year Balloon/Reset Mortgages)				
Property Type	Max. LTV w/o Sec. Fin.	Max. LTV w/Sec. Fin.	Max. TLTV w/Sec. Fin.	Max. HTLTV w/Sec. Fin.
1-2 unit Primary Residence or second home	75%	70%	75%	75%
1-2 unit Investment Property	75%	70%	75%	75%
3-4 unit Primary Residence	75%	70%	75%	75%
3-4 unit Investment Property	70%	65%	70%	75%
STREAMLINED REFINANCE MORTGAGES (Fixed-Rate, ARMs, and 5- or 7-Year Balloon/Reset Mortgages)				
Property Type	Max. LTV w/o Sec. Fin.	Max. LTV w/Sec. Fin.	Max. TLTV w/Sec. Fin.	Max. HTLTV w/Sec. Fin.
1-2 unit Primary Residence or second home	95%	90%	95%	95%

(h) Owner of Record

In addition to meeting the requirements of Guide Section 44.3(g), if the property seller for a purchase transaction or the Borrower for a refinance transaction is not the Owner of Record, the Seller must investigate the circumstances of the transaction to ensure that the transaction is legitimate. The Seller must retain documentation evidencing the legitimacy of the transaction in the Mortgage file.

(i) Special collateral requirements

The following special collateral requirements apply if the Mortgaged Premises is located in an eligible Disaster Area. In the event of a conflict between these requirements and the requirements of a Seller's Purchase Documents, the more restrictive requirements shall apply:

1. The Seller must obtain an appraisal report with an interior and exterior inspection of the Mortgaged Premises.
2. For properties damaged by Hurricane Katrina, the appraisal must have an effective date after August 29, 2005.
3. For properties damaged by Hurricane Rita, the appraisal must have an effective date after September 25, 2005.
4. The person who performs the appraisal must be qualified to perform appraisals without oversight or supervision by a "supervisory" or "review" appraiser.
5. If the Mortgaged Premises is damaged:
 - The property must be appraised on the basis that the repairs or alterations will be completed
 - The appraisal report must include an estimate of the cost of repairs or the Seller/Servicer must ensure that professional estimates of the repair costs are obtained
 - The Seller/Servicer or appraiser must inspect the Mortgaged Premises and the Seller/Servicer must place documentation in the Mortgage file that evidences completion of the repairs
 - Repairs may be made up to 180 days after the Funding/Settlement Date if the following requirements are met:
 - The Mortgage is secured by a Primary Residence
 - The cost of repairs not completed does not exceed 10% of the value of the completed Mortgaged Premises
 - The repairs not completed cannot adversely affect the habitability of the Mortgaged Premises
 - The Seller/Servicer establishes an adequate cash escrow for the uncompleted repairs
 - The Seller/Servicer represents and warrants that the mortgage insurance and title insurance are not impaired or adversely affected during the escrow period
6. For purchase and cash-out refinance transactions, the Seller must represent and warrant, as of the Funding/Settlement Date, that there are no outstanding insurance claims on the Mortgaged Premises, including flood insurance claims, as applicable.

(j) Flood insurance

If the insurable improvements were damaged by floodwater, the Mortgage is not eligible for sale to Freddie Mac without flood insurance.

(k) Special selling requirements

When selling Mortgages affected by Hurricane Katrina and Hurricane Rita under the requirements in this Bulletin, Sellers must submit the special characteristics code (SCC) "821" on the Form 11, Mortgage Submission Schedule, and Form 13SF, Mortgage Submission Voucher, as applicable. This SCC is not necessary for selling the closed Mortgages described below.

2. Assistance for Sellers holding closed Mortgages secured by properties located in Hurricane Katrina eligible Disaster Areas—Note Dates on or after June 1, 2005, through August 29, 2005

Freddie Mac recognizes that along with critical Borrower relief efforts, many of our Sellers who are conducting business in the eligible Disaster Areas need assistance with their impacted Mortgage business. On September 26, 2005, Freddie Mac announced that Sellers with closed Mortgages secured by properties in the Hurricane Katrina eligible Disaster Area with Note Dates between June 1 and August 29, 2005, may sell those Mortgages to Freddie Mac pursuant to the terms and conditions described below. **The provisions of this section of the Bulletin do not apply to Mortgages secured by properties located in Hurricane Rita eligible Disaster Areas.**

(a) Mortgages for which Seller can make required representations and warranties

Freddie Mac will purchase Mortgages secured by property located in a Katrina eligible Disaster Area with Note Dates between June 1 and August 29, 2005, and Funding/Settlement Dates on or before October 31, 2005, if a Seller is able to make the following representations and warranties:

- The Mortgages were originated in accordance with the requirements of the Seller's Purchase Documents
- The Seller has verified that property insurance coverages comply with the requirements of Chapter 58, General Property Insurance Requirements of the Guide
- The Borrower's income as of the Note Date was sufficient to meet the long-term obligations of the Mortgage
- All Investment Property Mortgages must have rent loss insurance for at least six months of gross monthly rent if rental income was used for qualification purposes
- Any Mortgage delinquency prior to the Funding Date was related solely to Hurricane Katrina
- The representations and warranties regarding the value, condition and marketability of the Mortgaged Premises
- Flood insurance was not required on the Mortgaged Premises and there is no uninsured flood damage to the Mortgaged Premises
- The LTV ratio as of the Funding Date is not greater than the LTV ratio as of the Note Date

(b) Mortgages that must be sold with recourse

If a Seller is able to make the representation and warranties in (a) above with the exception of the following representations and warranties:

- the representations and warranties regarding the value, condition and marketability of the Mortgaged Premises,
- that flood insurance was not required on the Mortgaged Premises and there is no uninsured flood damage to the Mortgaged Premises or
- that the LTV ratio as of the Funding Date is not greater than the LTV ratio as of the Note Date,

then Mortgages secured by properties located in an eligible Katrina Disaster Area with Note Dates between June 1st and August 29, 2005, are only eligible for sale with recourse. These Mortgages are only eligible for sale through mandatory, cash servicing-retained contracts in the Freddie Mac Selling System (Selling System) and must have Funding Dates on or before October 31, 2005. In order to sell these Mortgages to Freddie Mac, Sellers must contact their Account Manager or (800) FREDDIE and ask for a separate, special Master Commitment.

The Seller must sell these Mortgages with recourse, but may remove the recourse within three years of the Funding Date if the Mortgage is current and the Seller makes the

required representations and warranties regarding value, condition and marketability, no uninsured flood damage, and the LTV ratio described above. To request removal the recourse, Sellers must contact their Freddie Mac Account Manager, Credit Manager or (800) FREDDIE representative. Otherwise the recourse will remain in place for the life of the loan.

Sellers who sell Mortgages under these terms should review our delivery requirements for Mortgages sold with recourse in Guide Sections 11.10 (a) and 16.4.

The provisions of this Bulletin are Discretionary Provisions as defined in Section 12.13 of the Guide, and Exhibit 26, Discretionary Provisions.

Servicing Requirements

Freddie Mac has issued separate requirements to our Servicers with respect to special relief for Borrowers with existing Mortgages in eligible Disaster Areas. These requirements include suspension of Borrower payments, forbearance, release of insurance proceeds and advancement of interest. These requirements can be found at

www.FreddieMac.com/corporate/about/how_we_help/katrina.html. The Servicing requirements will be consolidated in a subsequent Bulletin.

CONCLUSION

Until we notify you otherwise, you must retain this Bulletin for Freddie Mac's selling requirements for Mortgages affected by Hurricane Katrina and Hurricane Rita. We believe the temporary relief offered under this Bulletin will help Freddie Mac Sellers meet the needs of Borrowers in the aftermath of these unprecedented natural disasters. We request that Sellers extend the highest level of understanding to Borrowers coping with Hurricane Katrina- and Hurricane Rita-related hardships. The entire Mortgage industry, by working together, can help the people affected by the hurricanes to rebuild their lives and homes as quickly as possible.

For answers to questions about the requirements contained in this Bulletin, Sellers should call their Freddie Mac Account Manager or (800) FREDDIE. To request the Master Commitment necessary to sell closed Mortgages with Note Dates on or after June 1 through August 29, 2005, secured by properties located in a Hurricane Katrina eligible Disaster Area, contact your Account Manager or (800) FREDDIE.

Sincerely,



James J. Cotton
Vice President
Single-Family Marketing