

Bulletin

NUMBER: 99-4

TO: All Freddie Mac Sellers and Servicers

May 7, 1999

Freddie
Mac

SUBJECTS

This bulletin announces new requirements relating to the cancellation of Borrower-paid mortgage insurance that reflect the passage of the Homeowners Protection Act of 1998 (HPA). The HPA establishes specific mortgage insurance cancellation rights for all Mortgages secured by 1-unit Primary Residences and originated on or after July 29, 1999. The HPA also prescribes borrower disclosure requirements relating to all Borrower-paid mortgage insurance.

We are also issuing updated requirements for the cancellation of Borrower-paid mortgage insurance on Mortgages not covered by the HPA. Additionally, we have made some changes to our requirements for cancellation of Borrower-paid mortgage insurance on Mortgages secured by 2-4 unit Primary Residences or 1-4 unit investment properties.

EFFECTIVE DATES

- | | |
|-----------------|---|
| May 7, 1999 | <ul style="list-style-type: none">■ Revised requirements for Borrower-requested cancellation of mortgage insurance apply to all Mortgages secured by 1-unit Primary Residences or second homes with Origination Dates prior to July 29, 1999■ Revised requirements for Borrower-requested cancellation of mortgage insurance apply to all Mortgages secured by 2-4 unit Primary Residences or 1-4 unit investment properties, regardless of Origination Date |
| July 29, 1999 | <ul style="list-style-type: none">■ Requirements of the HPA apply to all Mortgages secured by 1-unit Primary Residences or second homes with Origination Dates on or after July 29, 1999 |
| January 2, 2001 | <ul style="list-style-type: none">■ Requirements for mandatory automatic cancellation of mortgage insurance at midpoint of the amortization period for Mortgages secured by 1-unit Primary Residences or second homes with Origination Dates before July 29, 1999■ Requirements to report to us the cancellation of mortgage insurance on Mortgages you service for us |

RELATED MATTERS

"High risk" Mortgages

The HPA authorizes, but does not require, us to establish and define categories of Mortgages as "high risk" Mortgages that are subject to different cancellation and Borrower disclosure requirements under the HPA. We have elected not to exercise this authority **at this time**. Accordingly, this bulletin does not contain any high risk Mortgage definition.

Implementation Guide Published by MBA and ACB

The Mortgage Bankers Association of America (MBA) and America's Community Bankers (ACB) are planning to publish this month a book entitled "Implementation Guide to PMI Cancellation: Understanding the Homeowners Protection Act of 1998" (Implementation Guide). The Implementation Guide contains substantial information about the HPA's requirements and how you may implement them. Seller/Serviceicers may find the information set forth in the Implementation Guide to be useful in planning and carrying out their programs for complying with the HPA. You should also seek the services of competent professionals if you require legal advice or other expert assistance to comply with the HPA.

Seller/Serviceicers that wish to purchase copies of the Implementation Guide should contact the MBA or ACB, as follows:

Mortgage Bankers Association of America
1125 15th Street, NW, 7th Floor
Washington, DC 20005
(800) 793-MBAA

America's Community Bankers
900 19th Street, NW, Suite 400
Washington, DC 20006
(202) 857-3119

WHY WE'RE MAKING THESE CHANGES

The passage of the HPA necessitated that we revise the *Single-Family Seller/Serviceicer Guide* (Guide) to indicate to you how to apply HPA requirements to Mortgages you service for us. The enactment of the law also afforded us an opportunity to review our existing policies regarding the cancellation of mortgage insurance and revise them consistent with the interests of Borrowers, Seller/Serviceicers and Freddie Mac.

HOW THESE CHANGES AFFECT YOU

Borrower-requested cancellation

In addition to making Guide changes that implement the requirements of the HPA, we have:

- Applied the HPA's policy to Mortgages on second homes (as defined in Section 22.22 of the Guide) originated on or after July 29, 1999
- Applied some of the HPA's criteria to Mortgages on 1-unit Primary Residences or second homes originated prior to July 29, 1999
- Aligned our requirements with respect to Mortgages originated prior to July 29, 1999, regarding methods of establishing the value of Mortgaged Premises and of applying a Borrower's payment history with those provided under the HPA, in order to eliminate duplicative standards whenever possible
- Made other changes that are intended to simplify and streamline the mortgage insurance cancellation process

Automatic cancellation (without Borrower request)

For Mortgages secured by 1-unit Primary Residences or second home Mortgages originated on or after July 29, 1999, you must comply with the HPA's automatic cancellation requirements.

Effective January 2, 2001, we will require automatic cancellation at the midpoint of the amortization period for all 1-unit Primary Residence or second home Mortgages, with Origination Dates before July 29, 1999. You may, however, at your option, apply this requirement before January 2, 2001.

Mortgages secured by 2-4 unit Primary Residences or 1-4 unit investment properties, regardless of their Origination Dates, are not subject to automatic cancellation, either under the HPA or our policies.

Reporting mortgage insurance cancellation to us

We will require you to report to us the cancellation of Borrower-paid mortgage insurance on Mortgages you service for us. We have adopted January 2, 2001, as the implementation date. We are delaying the implementation of this new reporting requirement to allow for the completion of initiatives related to the Year 2000. We will notify you of the specific requirements well in advance of January 2, 2001.

REVISIONS TO THE SINGLE-FAMILY SELLER/SERVICER GUIDE

We are including the following new or updated pages of the Guide:

- Revisions to Chapters 23, 27, 61 and 65
- Exhibit 89

We have highlighted the changes on each Guide page (except for pages covering Sections 61.1-61.5) by placing arrows in the margin and double underlining the revised text. Sections 61.2-61.5 are completely new language, despite the fact that they are not double-underlined to indicate this fact. Please follow the instructions on the page preceding the replacement pages to update your Guide.

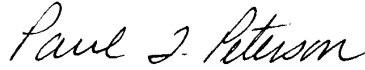
CONCLUSION

We feel that the changes in our existing policies regarding mortgage insurance cancellation will benefit not only you, but Borrowers as well, by reducing costs and saving time. If you have any questions about the changes contained in this bulletin, please call (800) FREDDIE.

Cordially,



John D. Fisk
Executive Vice President
Single-Family Securitization Group



Paul T. Peterson
Senior Vice President
Servicer Division