

Bulletin

NUMBER: 99-5

TO: All Freddie Mac Sellers and Servicers

June 25, 1999

The Freddie Mac logo consists of the words "Freddie" and "Mac" stacked vertically. To the left of the text is a graphic element consisting of a solid black horizontal bar above four parallel horizontal lines of varying lengths, creating a stylized staircase or ladder effect.

SUBJECTS

We are announcing

- Another opportunity for you to perform Year 2000 Readiness testing with recently enhanced versions of Loan Prospector® and MIDANET® for the PC
- Our requirements for significant system changes you make after successfully completing the Mortgage Bankers Association Year 2000 Readiness Test (MBA readiness test) or after you have already confirmed your Year 2000 Readiness to us

In addition to these Year 2000 Readiness updates, we are revising *Single-Family Seller/Servicer Guide* (Guide) definitions related to wholesale originations to make them consistent with terms currently used in our industry. We are also

- Incorporating details about the calculation, payment and billing of delivery fees into our Guide that we've previously included in negotiated contracts
- Adding delivery requirements for loans with secondary financing
- Updating Exhibit 4, Currently Acceptable Single-Family Mortgage Documents, and Exhibit 5, Authorized Changes to Notes, Riders and Security Instruments
- Changing Exhibit 13 to incorporate the current version of the Federal Emergency Management Agency's (FEMA's) Standard Flood Hazard Determination form
- Revising the maximum original principal balance of a VA Mortgage that is eligible for sale to us

EFFECTIVE DATES

All of the changes are effective immediately with the following exception:

- September 1, 1999: New delivery requirements for loans with secondary financing

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

Year 2000 Readiness Testing

We recently updated Loan Prospector and MIDANET for the PC to provide you with important, new business functionality and other enhancements. Because we released these new versions after the MBA readiness test, we're providing you with an opportunity in August or September to test our software changes by executing any of the MBA readiness test transactions that involve Freddie Mac:

- n Default reporting
- n Investor reporting
- n Commitment
- n Loan delivery
- n Underwriting
- n Funding

This August-September testing window isn't an extension for those who haven't successfully tested the required Servicing transactions. You may participate in this additional test window if you want to validate

- n Changes to our systems and software
- n Significant changes to your systems or supporting infrastructure that you made after the MBA readiness test

You must already be registered with the MBA to participate in this new round of tests. Please retain your *MBA Year 2000 Readiness Test* binder and the Freddie Mac Year 2000 software and materials you used for testing. You'll find our updated test materials and the schedule for the test transactions on our website at www.freddiemac.com/y2k. We encourage you to download the latest version of MIDANET for testing the next time you sign on.

Significant System Changes

If you have made or will make significant systems changes, and already have submitted an affirmative Year 2000 Readiness Confirmation form, you must notify us in writing of these changes. You must also attest your continued Year 2000 Readiness after the changes by resubmitting Freddie Mac's Year 2000 Readiness Confirmation form within seven business days of your systems' change implementation date, but no later than August 31, 1999.

Additionally, if you were required to successfully test investor reporting and default reporting transactions as part of the MBA readiness test, then you must notify us in writing of any significant system changes that occur to your Servicing-related applications or infrastructure after you've successfully tested those transactions. You may be required to perform those test transactions again, after your changes are implemented, during the August-September test window. Significant changes include any of the following:

- Conversions to new software or service-provider applications
- Date-logic changes in applications that were used for the MBA readiness test transactions
- Changes to infrastructure components that supported the applications used for the MBA readiness test

Send correspondence detailing significant changes to

Freddie Mac
8609 Westwood Center Drive
Vienna, VA 22183
Attn: Y2K Test Team - MS C40
Re: System Changes

Please include details on the impact of your changes, the Year 2000 testing you have conducted since the changes, vendor certification if applicable, and key implementation dates. We should receive your correspondence no later than July 15, 1999, for changes that will be implemented by August 15, 1999. For changes after August 15, we must receive your notification as soon as you have identified the need for the changes, and no later than seven business days prior to implementation.

We'll contact you to discuss your system changes and evaluate what impact, if any, they have on your Year 2000 Readiness. We may request copies of your change plans, testing plans or other documentation that can help us evaluate your systems readiness. In some cases, we will require you to test again, using the MBA test transactions for investor reporting and default reporting available during August or September.

We'll evaluate significant system changes made after August on a case-by-case basis, working directly with you to validate that these changes haven't affected your Year 2000 Readiness, or assisting you with alternatives.

Guide Definitions: Wholesale Originations

In 1993, we introduced Third-Party Originator (TPO) and other related terms with the intention of simplifying terminology and helping you understand our requirements. Since then, the wholesale originations market has continued to evolve and grow significantly. In recognition of this and of feedback from Seller/Service providers, we are revising our definitions to refer to wholesale originations in terms that you and the rest of the mortgage finance industry already use.

New Guide Defined Terms	Deleted Guide Defined Terms
Mortgage Broker	TPO
	Fourth-Party Originator
Correspondent	TPO
Wholesale Home Mortgage	TPO Home Mortgage
Mortgage Service Provider	Non-Originating Third Party (NOTP)
	Subordinate Entity

Please refer to the Glossary replacement pages included with this bulletin for the definitions of these new Guide terms. We've also revised the definition for Affiliate to show that we're no longer treating a loan transferred, assigned or sold to a Seller by an Affiliate as a Wholesale Home Mortgage unless the Affiliate uses the services of a Mortgage Broker or Correspondent. Finally, we've deleted Exhibit 12, Applying Third-Party Originator (TPO) Definitions.

We're pleased to announce that we're also updating *Discover Gold Through Quality* with these new wholesale origination terms. *Discover Gold Through Quality* includes best practices for wholesale lending, quality control and fraud prevention based on what we've learned from you, other industry partners and more than 25 years of purchasing loans. The newly updated version of *Discover Gold Through Quality* addresses how advancements in technology such as Loan Prospector and other automated tools affect wholesale originations, quality control and fraud prevention. *Discover Gold Through Quality* is a valuable resource to help you

- Mitigate risk and ensure quality originations
- Fulfill our requirements for Wholesale Home Mortgages
- Fulfill our requirements for your in-house quality control programs

To make *Discover Gold Through Quality* more accessible to you and enable us to update its best practices more frequently, the updated version is now available online via the Internet in portable document format (PDF) files that you can view and print using Adobe®'s Acrobat® Reader. If you don't already have Acrobat Reader, you can easily download this free "plug-in" software to your PC from Adobe's website, which we've linked to our site.

You can download *Discover Gold Through Quality* in its entirety, select one of its three sections—Quality Control Best Practices, Wholesale Originations Best Practices and Fraud Prevention Best Practices—or choose only specific chapters. Once you download the PDF files you want, you can print them, make copies and share them with other employees in your company who will benefit from these best practices and our additional guidance.

You'll find our updated version at <http://www.freddiemac.com/dgtq>. If you don't have online access, you can call (800) FREDDIE to request a paper copy of *Discover Gold Through Quality*. We'll no longer be fulfilling requests for multiple copies of *Discover Gold Through Quality* now that it's available online.

Delivery Fees

Many customers have provisions in their negotiated contracts regarding the calculation, billing and payment of postpurchase delivery fees. We are simply incorporating those provisions into new Guide Section 12.12.

Delivery Requirements for Loans with Secondary Financing

We've added two new codes to the existing MIDANET fields for "Secondary Financing Sources" on Form 11, Mortgage Submission Schedule, and Form 13, Mortgage Submission Voucher, to help us better identify data on loans with secondary financing. If you deliver a loan with secondary financing to Freddie Mac, including non-affordable housing initiative (Non-AHI) mortgages, you must input one of the following source codes:

- n** 20 - Home Equity Line of Credit (Non-AHI)
- n** 30 - Other Secondary Financing (Non-AHI)

Revised Uniform Instruments, Notes and Riders

As a result of our May 26 Industry Letter, we're updating Guide Exhibit 4 to reflect an extension of the effective date for mandatory use of the revised editions (3/99) of the single-family Fannie Mae/Freddie Mac Uniform Instruments and Freddie Mac Notes and riders. The revised documents and the Servicing-related changes announced in connection with these revisions are effective for all loans originated (closed) on or after July 1, 2000. However, you may begin using the revised documents and the modified Servicing requirements announced in Guide Bulletin 99-3 anytime before then, provided that you don't use the revised documents in combination with any earlier versions currently in use.

We've also made some additional changes to Exhibit 5 as a result of our recent revisions to the Security Instruments, Notes and riders.

Standard Flood Hazard Determination Form

FEMA introduced an updated Standard Flood Hazard Determination form last fall—this updated form recently became effective. You and your flood-zone determination vendor must use FEMA's updated form. We've included an example in Exhibit 13.

Copies of the actual form are available from the FEMA fax-on-demand line by calling (202) 646-FEMA and requesting Form 23103. Please note that FEMA won't fulfill requests for large quantities of the form. The updated form and additional information about its use are also available on FEMA's website at <http://www.fema.gov>.

VA Mortgages

We're amending the Guide to reflect the current \$203,000 maximum original principal balance of a VA Mortgage that Freddie Mac will purchase.

REVISIONS TO THE SINGLE-FAMILY SELLER/SERVICER GUIDE

We've revised Guide Sections 8.10, 17.1, 22.15, 23.4, 25.1, 25.2, 29.9 and 48.1; Exhibits 4, 5, 13, 15 and 16; Forms 11, 13SF, 16SF and 1077A; and the Guide Glossary to incorporate the changes announced in this bulletin. We've also added Guide Sections 12.12 and 17.14. At the end of the bulletin, you'll find replacement pages for Volume 1 and Volume 2 of our Guide. We've highlighted the changes on these pages by placing an arrow in the margin and double underscoring the revised text. Please follow the instructions on the pages before the replacement pages so that you can update your Guide

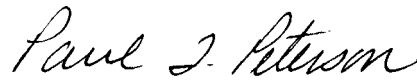
CONCLUSION

As we get closer to the century rollover, our resolve to help you prepare and take appropriate precautions for the Year 2000 remains as strong as it was when we first began supporting and participating in this massive, industrywide initiative. If you have any questions about our Year 2000 Readiness requirements, revisions to our wholesale origination terminology or other changes and clarifications in this bulletin, please call (800) FREDDIE.

Sincerely,



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



Paul T. Peterson
Senior Vice President
Servicer Division

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REPLACEMENT PAGES - VOLUME 1

Replacement pages, incorporating revisions to Guide Chapters 8, 17, 22, 23, 25, 29 and 48; Exhibits 4, 5, 13, 15 and 16; Forms 11, 13SF and 1077A; and the Glossary, immediately follow this page. Please insert the attached replacement pages into Volume 1 of your Guide and remove the existing, outdated pages.

Below you will find filing instructions that list the new Guide pages to insert and the outdated pages to remove.

FILING INSTRUCTIONS - VOLUME 1	
REMOVE	INSERT
Pages 8-7 – 8-10, dated 3/4/96	Pages 8-7 – 8-10, dated 9/25/99
Pages 12-11 – 12-12, dated 12/15/98	Pages 12-11 – 12-12, dated 9/1/99
Pages 17-1 – 17-2, dated 7/31/94 Pages 17-15 – 17-16, dated 3/31/97	Pages 17-1 – 17-2, dated 9/1/99 Pages 17-15 – 17-16, dated 9/1/99
Pages 22-15 – 22-16, dated 4/1/98 Pages 22-17 – 22-18, dated 12/15/98 Pages 22-19 – 22-20, dated 4/1/98 Pages 22-21 – 22-22, dated 8/31/98 Pages 22-23 – 22-24, dated 4/1/98	Pages 22-15 – 22-24, dated 6/25/99
Pages 23-3 – 23-4, dated 5/7/99*	Pages 23-3 – 23-4, dated 6/25/99
Pages 25-1 – 25-4, dated 7/31/94 Pages 25-5 – 25-6, dated 9/15/95 Pages 25-7 – 25-8, dated 8/31/98 Pages 25-9 – 25-10, dated 9/15/95	Pages 25-1 – 25-10, dated 9/1/99
Pages 29-15 – 29-16, dated 9/15/95	Pages 29-15 – 29-16, dated 6/25/99
Pages 48-1 – 48-2, dated 8/15/94 Pages 48-3 – 48-8, dated 9/15/95	Pages 48-1 – 48-8, dated 6/25/99
Pages E4-1 – E4-8, dated 9/1/99	Pages E4-1 – E4-8, dated 7/1/00
Pages E5-1 – E5-20, dated 9/1/99	Pages E5-1 – E5-18, dated 7/1/00
Pages E13-1 – E13-4, dated 3/31/97	Pages E13-1 – E13-4, dated 6/25/99
Pages E15-1 – E15-6, dated 8/31/98	Pages E15-1 – E15-8, dated 6/25/99
Pages E16-7 – E16-10, dated 8/31/98	Pages E16-7 – E16-10, dated 6/25/99
Pages F11-1 – F11-2, dated 12/15/98 Pages F11-3 – F11-4, dated 1/1/98 Pages F11-5 – F11-6, dated 12/15/98 Pages F11-7 – F11-8, dated 10/31/97 Pages F11-9 – F11-10, dated 12/15/98	Pages F11-1 – F11-10, dated 9/1/99

FILING INSTRUCTIONS - VOLUME 1	
REMOVE	INSERT
Pages F13SF-1 – F13SF-2, dated 12/15/98 Pages F13SF-3 – F13SF-4, dated 1/1/98 Pages F13SF-5 – F13SF-6, dated 12/15/98 Pages F13SF-7 – F13SF-8, dated 10/31/97 Pages F13SF-9 – F13SF-10, dated 12/15/98	Pages F13SF-1 – F13SF-10, dated 9/1/99
Pages F1077-5 – F1077-6, dated 10/31/97	Pages F1077-5 – F1077-6, dated 6/25/99
Pages G-1 – G-14, dated 12/15/98 Pages G-23 – G-26, dated 12/15/98 Pages G-39 – G-46, dated 12/15/98	Pages G-1 – G-14, dated 6/25/99 Pages G-23 – G-26, dated 6/25/99 Pages G-39 – G-46, dated 6/25/99

*Corrects a publication error.

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REPLACEMENT PAGES - VOLUME 2

Replacement pages, incorporating revisions to the Glossary immediately follow this page. Please insert the attached replacement pages into Volume 2 of your Guide.

Below you will find filing instructions that list the new Guide pages to insert.

FILING INSTRUCTIONS - VOLUME 2	
REMOVE	INSERT
Pages F11-1 – F11-2, dated 12/15/98	Pages F11-1 – F11-2, dated 9/1/99
Pages F13SF-1 – F13SF-2, dated 12/15/98	Pages F13SF-1 – F13SF-2, dated 9/1/99
Pages G-1 – G-14, dated 12/15/98 Pages G-23 – G-26, dated 12/15/98 Pages G-39 – G-46, dated 12/15/98	Pages G-1 – G-14, dated 6/25/99 Pages G-23 – G-26, dated 6/25/99 Pages G-39 – G-46, dated 6/25/99

