

Bulletin

NUMBER: 2002-1

TO: All Freddie Mac Sellers and Servicers

January 8, 2002

The Freddie Mac logo consists of the words "Freddie" and "Mac" stacked vertically. To the left of the text is a thick horizontal black bar. Below the text are five thin horizontal lines of varying lengths, creating a stylized graphic element.

SUBJECTS

Requirements amended in this Bulletin:

- Selling

We're pleased to announce that Freddie Mac is:

- Amending our resubmission requirements for Loan Prospector® Mortgages
- Updating our underwriting guidelines for Manually Underwritten Mortgages

EFFECTIVE DATES

All of the changes in this Bulletin are effective:

- April 8, 2002

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

We're responding to your request for greater flexibility on Loan Prospector resubmissions and on our resubmission requirements. We have added new tolerances for income, reserves and the loan amount and we have amended our requirements regarding debt tolerance. These changes should streamline your process by reducing the number of times you have to resubmit a transaction to Loan Prospector.

While these changes provide you with more flexibility, they do not represent a change in our requirements for data integrity. Mortgage data provided on Form 11, Mortgage Submission Schedule, and Form 13SF, Mortgage Submission Voucher, must reflect the true, complete and accurate Mortgage data regardless of the values used to evaluate the Loan Prospector transaction.

All of the new tolerances must be implemented at the same time and you may begin implementing these changes immediately. We encourage you to start using them as soon as possible, because the new tolerances must be in place for all Loan Prospector Mortgages delivered to Freddie Mac on or after April 8, 2002.

We have revised Chapter 2 to reflect these changes.

Updates to underwriting guidelines

At Freddie Mac, we continually evaluate the performance of the Mortgages we purchase, and adjust our underwriting requirements and models accordingly. By analyzing data on millions of loans evaluated through Loan Prospector, we endeavor to meet the broadest array of homebuyer needs while managing our risk.

As a result of our most recent findings, we are:

- Changing Loan Prospector to identify more lower-risk Caution Mortgages and to classify them as Accept Mortgages, thus increasing the Accept rate
- Providing more underwriting guidance for originating Manually Underwritten Mortgages

The affected Guide sections include those pertaining to Borrower credit reputation and capacity and layering of risk. In the new guidelines, we are:

- Amending the definition of an acceptable credit reputation in Section 37.4 to include the Borrower's ability to manage obligations. The Borrower's ability to manage obligations, or credit, is a very important component of Borrower credit reputation and must be established along with the Borrower's willingness to repay obligations.
- Expanding the Guide section for Borrower capacity to include more guidance on risk factors that contribute to capacity risk. In addition, a new ratio, the debt-to-housing gap ratio ("gap ratio"), is being introduced in revised Section 37.12 and new Section 37.16.1. The gap ratio is the difference between the Borrower's monthly debt-to-income ratio and the monthly housing expense-to-income ratio.
- Addressing layering of risk within the three components of underwriting and providing more direction. We have identified more factors that add a layer of risk to the Mortgage and added a chart in Section 37.1 that provides examples of loan characteristics that increase risk in a Mortgage.

Because Loan Prospector is now classifying lower-risk Caution Mortgages as Accept Mortgages, Mortgages that do receive a Caution Risk Class will be higher-risk Mortgages. Consequently, for Caution Mortgages not delivered as A-minus Mortgages, there is a strong indication that the layering of risk is excessive and that acceptability and compliance with Freddie Mac requirements is unlikely. As a reminder, Mortgages that

receive a Caution Risk Class but are identified by Loan Prospector as eligible for delivery as A-minus Mortgages will continue to be acceptable if delivered as A-minus Mortgages.

For Manually Underwritten Mortgages, the Seller must analyze all risk factors present in the Mortgage file and document in the Mortgage file offsetting factors to ensure that the Mortgage is acceptable for sale to Freddie Mac. The conclusion that a Mortgage is acceptable must be based on a determination that the Borrower is creditworthy and the Mortgaged Premises is adequate for the transaction. The new requirements will allow you to evaluate Manually Underwritten Mortgages with more certainty.

We've updated Chapter 37 to reflect these changes.

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

Descriptions of all new or revised Guide chapters are located in Exhibit A of this Bulletin. The revisions include:

- Chapter 2
- Chapter 37

At the end of this Bulletin, you'll find replacement pages for the 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 page before the replacement pages so that you can update your Guide correctly.

CHANGE OF ADDRESS

We want to ensure that our Guide Bulletins and Industry Letters are being received by those who need them and that you are receiving the correct amount of copies. If there has been a change in your address, Guide point of contact, or in the number of copies you need, please visit our website at: <http://www.freddiemac.com/sell/single/getguide.htm> or call (800) FREDDIE.

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,



Paul T. Peterson
Executive Vice President, Single-Family Group

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Exhibit A

Highlights of the Revisions in this Package

Bulletin 2002-1 incorporates changes to the following Chapters of the *Single-Family Seller/Service Guide* (Guide).

- **Chapter 2 – General Freddie Mac Policies** – Revises language regarding Loan Prospector resubmissions.
- **Chapter 37 – Underwriting the Borrower** – Revises underwriting guidelines regarding credit reputation, capacity and layering of risk.