

Bulletin

NUMBER: 2002-4

TO: All Freddie Mac Sellers and Servicers

June 7, 2002

Freddie
Mac

SUBJECTS

Requirements amended in this Bulletin:

- Selling and Servicing

Freddie Mac is:

- Updating our guidelines for underwriting Borrower credit reputation
- Revising our requirements for Investment Property Mortgages
- Revising delivery requirements for Mortgages sold under Gold Cash Xtra[®] servicing-released
- Revising our foreclosure timeline compensation criteria
- Introducing designated counsel/trustee in the State of Washington

EFFECTIVE DATES

All of these changes are effective immediately with the following exceptions:

- **June 28, 2002** – Mortgages with due dates other than the first of the month are ineligible for sale to Freddie Mac under GCX servicing-released on and after this date
- **July 1, 2002** – use of designated counsel/trustee in the State of Washington for referrals to foreclosure and for bankruptcies on and after this date in accordance with *Single-Family Seller/Servicer Guide* (Guide) requirements
- **September 7, 2002** – Mortgages delivered on and after this date must comply with the revised Investment Property Mortgage requirements
- **January 2, 2003** – the revised foreclosure timeline compensation program is effective for foreclosures completed on and after this date

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

Selling Changes

Underwriting Borrower Credit Reputation

At Freddie Mac, we continually evaluate the performance of the Mortgages we purchase. Based on recent analysis, we have determined that housing payment histories should receive more weight than non-housing payments when underwriting Borrower credit reputation.

We have added language to Section 37.7 to indicate that a Seller must consider derogatory credit information significant if:

- The Borrower has more than one 30-day late housing payment in the last 12 months or
- Two 30-day late payments or one 60-day late housing payment in the last 24 months.

In addition, we are changing Section 37.6 to state that regardless of the FICO score, a cautious review is required for all Mortgages with recent late housing payments and for Caution Mortgages with one or more *Credit Risk Comments* in the Feedback Certificate related to Borrower credit reputation.

Investment Property Mortgages

We are revising our underwriting requirements for Investment Property Mortgages to require Borrowers to have reserves equal to 6 months of PITI even if rental income is not used.

We are also adding requirements for Borrowers who own more than one financed Investment Property. Freddie Mac will purchase Investment Property Mortgages made to these Borrowers provided that in addition to our other Investment Property Mortgage requirements, the following requirements are met:

- The Borrower has individual and/or joint ownership of no more than ten 1- to 4-unit properties that are financed including the subject property
- The subject Investment Property Mortgage is:
 - o a fixed-rate, level-payment, 15-, 20- or 30-year Mortgage
 - o a 7/1 or 10/1 ARM
- The Borrower has rent loss insurance coverage on all Investment Properties

The ability to deliver Investment Property Mortgages to Freddie Mac when the Borrower owns more than one financed Investment Property is a Discretionary Provision.

We have updated Chapter 22 and Exhibit 26 to reflect these changes.

Gold Cash Xtra (GCX) Changes

Mortgages with due dates other than the first of the month are ineligible for sale to Freddie Mac under GCX servicing-released on and after June 28, 2002.

As announced in our *Gold Cash Xtra Update* (dated April 12, 2002), if a Seller selling Mortgages under GCX servicing-released requests a Funding Date that is more than nine days after the “interest paid to” date, and the “interest paid to” date and Funding Date are in the same month, the Seller will receive an error message in MIDANET. If the Seller must request a Funding Date that is more than nine days after the “interest paid to” date when the “interest paid to” date and Funding Date are in the same month, the Seller must:

- Enter the next scheduled payment date as the “interest paid to” date in MIDANET
- Reduce the unpaid principal balance (UPB) by the amount of the principal portion of the next scheduled payment and
- Make arrangements to accept the next scheduled payment from the Borrower. The interest portion of the Borrower’s payment must be passed through to the Servicer.

We have revised Chapters 9 and 17, Exhibit 8 and Form 11 to reflect these changes.

Changes to Form 11 and 13SF

We have added additional language to the instructions for Forms 11 and 13SF. These changes include adding/modifying the Valid Value codes “98” and “99” for the Borrower Age and Co-Borrower Age fields. The new “98” code is to be used when the Borrower does not provide their age on the application, and “99” should be used when the Borrower is 99 or older.

Servicing Changes

Foreclosure Timeline Compensation

Effective with foreclosures completed on or after January 2, 2003, at the end of a calendar year Freddie Mac will pay foreclosure timeline compensation to any Servicer that

- Earns Tier 1 or high Tier 2 points for the 4th quarter of that year on its Servicer Performance Profile in the default management category and
- Achieves an average of less than 40 days past standard (unadjusted) on all eligible foreclosures completed during the calendar year in the default management category on the Performance Profile “Foreclosure timelines including delays”

Compensation will be paid for every eligible foreclosure completed during the calendar year. Foreclosures pertaining to Mortgages referenced below are not eligible for compensation:

- Mortgages with full recourse or indemnification
- FHA insured or VA guaranteed Mortgages
- Second Mortgages
- Section 502 GRH Mortgages

Compensation is based on the Servicer's overall Performance Profile-default management tier performance.

We have revised Chapter 66 to reflect this change.

Designated Counsel for Washington State

Our designated counsel/trustee program continues to be successful for Servicers and Freddie Mac. Due to this success and based on statistical data, we have retained designated counsel/trustees in the entire state of Washington effective with foreclosures and bankruptcies initiated on or after July 1, 2002. Refer to Sections 66.15, 67.15 and Exhibits 57 and 79 for more information about this change.

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:

- Chapters 9, 17, 22, 24, C33, 36, 37, 65, 66 and 67
- Exhibits 5, 8, 26, 57 and 79
- Forms 11, 13SF and 465S

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.

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 2002-4 incorporates changes to the following Chapters, Exhibits and Forms of the *Single-Family Seller/Servicer Guide* (Guide).

- **Chapter 9 – Immediate Delivery Home Mortgage Purchase Program** – Adds language to exclude the sale of Mortgages sold under Gold Cash Xtra servicing-released with due dates other than the first of the month.
- **Chapter 17 – Special Delivery Instructions** – Revises delivery requirements for Mortgages sold under Gold Cash Xtra servicing-released.
- **Chapter 22 – General Mortgage Eligibility** – Revises language regarding eligibility requirements for Investment Property Mortgages and adds language regarding requirements for sale of Investment Property Mortgages where the Borrower owns more than one financed Investment Property.
- **Chapter 37 – Underwriting the Borrower** – Revises language regarding evaluating Borrower credit reputation and consideration of housing payment histories.
- **Chapter 66 – Foreclosure** – Adds language regarding foreclosure timeline compensation and designated counsel in the State of Washington.
- **Chapter 67 – Adverse Matters** – Adds language regarding designated counsel in the State of Washington.

Exhibits

We have revised the following exhibits:

- **Exhibit 5 – Authorized Changes to Notes, Riders and Security Instruments**
- **Exhibit 8 – Delivery Balance Examples**
- **Exhibit 26 – Discretionary Provisions**
- **Exhibit 57 – 1-4 Unit Property Approved Expense Amounts**
- **Exhibit 79 – Designated Litigation Counsel/Trustee**

Forms

We have revised the following forms:

- **Form 11– Mortgage Submission Schedule**
- **Form 13SF – Mortgage Submission Voucher**
- **Form 465S – Earthquake Insurance Analysis Addendum**

