

Bulletin

NUMBER: 2002-5

TO: All Freddie Mac Sellers and Servicers

September 9, 2002

**Freddie
Mac**

SUBJECTS

Requirements amended in this Bulletin:

- Selling and Servicing

Freddie Mac is:

- Updating our requirements for A-minus Mortgages, other Caution Mortgages and Non-Loan Prospector[®] Mortgages
- Revising postsettlement delivery fee rates for cash-out refinance Mortgages and Investment Property Mortgages
- Introducing postsettlement delivery fees for Seasoned Mortgages and certain Mortgages secured by 3-4 unit properties
- Revising our eligibility requirements for certain cash-out refinance Mortgages and Mortgages secured by Investment Properties
- Revising our requirements for direct housing payment verification for Manually Underwritten Mortgages
- Requiring the delivery of a Special Characteristics Code when delivering Mortgages originated using the Loan Prospector Condition and Marketability Report, Form 2070 (or, where allowable as a substitute, Fannie Mae Form 2075)
- Changing our MultiLender Swap requirements to prohibit delivery of Seasoned Mortgages
- Revising default management and investor accounting Servicer Performance Profile criteria
- Updating the 1-4 Unit Property Inspection Report, Form 1013

EFFECTIVE DATES

All of these changes are effective immediately except:

■ December 1, 2002

- Seasoned Mortgages with Settlement Dates on or after this date are ineligible for sale under MultiLender Swap.

■ December 9, 2002

- Loan Prospector Mortgages originated using the Form 2070 and delivered to Freddie Mac on or after this date must be delivered with the applicable Special Characteristics Code.
- The revised direct housing payment verification requirements apply to Manually Underwritten Mortgages delivered to Freddie Mac on or after this date.

■ January 2, 2003

- Beginning with settlements on this date, all Mortgages that are identified as A-minus eligible by Loan Prospector and that meet the requirements in the *Single-Family Seller/Service Guide* (Guide) Chapter C33 will be considered A-minus Mortgages by Freddie Mac, and will be subject to a Credit Score/Loan-to-Value (CS/LTV) postsettlement delivery fee.
- Beginning with settlements on this date, Caution Mortgages that do not receive A-minus eligible evaluation results and higher-risk Non-Loan Prospector Mortgages will be subject to a CS/LTV postsettlement delivery fee.
- Beginning with settlements on this date, cash-out refinance Mortgages that are either Non-Loan Prospector Mortgages that have certain Credit Score and LTV ratio combinations or that are Caution Mortgages will be subject to revised postsettlement delivery fee rates.
- Beginning with settlements on this date, Investment Property Mortgages that are either Non-Loan Prospector Mortgages that have certain Credit Score and LTV ratio combinations or that are Caution Mortgages will be subject to revised postsettlement delivery fee rates.
- The Indicator Score and Credit Score Type (CST) must be delivered for all Non-Loan Prospector Mortgages delivered on or after this date.
- Beginning with settlements on this date, certain cash-out refinance Mortgages and Mortgages secured by Investment Properties will be subject to revised eligibility requirements.
- Seasoned Mortgages with a Settlement Date on or after this date will be subject to a postsettlement delivery fee.
- Certain Mortgages secured by 3-4 unit properties with Settlement Dates on or after this date will be subject to a postsettlement delivery fee.

■ January 2, 2003 (continued)

- The investor accounting and remitting Servicer Performance Profile changes become effective.
- The new Tier 1 and Tier 2 Servicer Performance Profile default management points become effective.
- Beginning with property inspections occurring on or after this date, the revised Form 1013, 1-4 Unit Property Inspection Report, must be used.

- **January 2, 2004** – The new foreclosure timeline Servicer Performance Profile calculation becomes effective.

WHY WE'RE MAKING THESE CHANGES AND HOW THEY AFFECT YOU**Selling Changes****A-minus Mortgages, other Caution Mortgages and Non-Loan Prospector Mortgages**

On July 5, we informed Seller/Servicers that we are changing our requirements for A-minus Mortgages, other Caution Mortgages and Non-Loan Prospector Mortgages. These changes reflect our confidence in Loan Prospector's superior ability to assess credit risk and ensure that our credit and pricing terms remain the most competitive mortgage financing option for credit-challenged Borrowers. In this Guide Bulletin, we are providing more details regarding those changes to enable Sellers to adjust their business processes in order to continue selling these Mortgages to us in 2003. Our new requirements will enable us to continue our commitment to provide lower-cost financing to a broader Borrower base.

A-minus Mortgages

Effective for deliveries with Settlement Dates on or after January 2, 2003, or after the Required Delivery Date of the Seller's Master Commitment in effect as of July 5, 2002, whichever is later, all Mortgages that are identified as A-minus eligible by Loan Prospector and that meet the requirements in Guide Chapter C33 will be considered A-minus Mortgages by Freddie Mac, and will be subject to a CS/LTV postsettlement delivery fee. The current A-minus postsettlement delivery fee will be discontinued after December 31, 2002. Sellers will continue to receive the Borrower creditworthiness representation and warranty relief currently available for A-minus Mortgages.

Note that even if a Mortgage is identified as A-minus eligible by Loan Prospector, it must comply with the requirements in Guide Chapter C33 to be eligible for the A-minus offering. A Caution Mortgage that receives evaluation results of A-minus eligible and does not meet the requirements of Chapter C33 or Chapter E33 is not eligible for sale to Freddie Mac. Regardless of whether a Caution Mortgage meets the requirements of Chapter C33 or E33, if it is identified by Loan Prospector as A-minus eligible, the Seller can not manually underwrite the Mortgage and deliver it to Freddie Mac as a Manually Underwritten Mortgage.

Other Caution Mortgages

Other Caution Mortgages (Caution Mortgages that do not receive evaluation results of A-minus eligible) are eligible for sale to Freddie Mac as Manually Underwritten Mortgages if they are underwritten in accordance with the requirements of the Seller's Purchase Documents and otherwise meet Guide requirements. Due to the risk associated with these Mortgages, they will also be subject to the same CS/LTV postsettlement delivery fee as A-minus Mortgages. This fee will be effective for deliveries with Settlement Dates on or after January 2, 2003, or after the Required Delivery Date of the Seller's Master Commitment in effect as of July 5, 2002, whichever is later. We will continue to require that Sellers represent and warrant that other Caution Mortgages are underwritten in accordance with the terms and conditions in the Purchase Documents then in effect.

Non-Loan Prospector Mortgages

While Loan Prospector is the most effective way to evaluate Borrower creditworthiness and loan eligibility, we will continue to purchase Non-Loan Prospector Mortgages as Manually Underwritten Mortgages if they are underwritten in accordance with the requirements of the Seller's Purchase Documents, including the Guide. Effective for deliveries with Settlement Dates on or after January 2, 2003, or after the Required Delivery Date of the Seller's Master Commitment in effect as of July 5, 2002, whichever is later, higher-risk Non-Loan Prospector Mortgages will also be assessed the CS/LTV postsettlement delivery fee. We will continue to require that Sellers represent and warrant that these Mortgages are underwritten according to the terms and conditions in the Purchase Documents then in effect.

Delivering Loan Prospector and Non-Loan Prospector Mortgages

Delivering Loan Prospector Mortgages

Beginning on January 2, 2003, or after the Required Delivery Date of the Seller's Master Commitment in effect as of July 5, 2002, whichever is later, Sellers will no longer deliver Offering Code 100 to identify A-minus Mortgages. Instead, Freddie Mac will use the Loan Prospector Key Number that Sellers deliver to us to determine the Mortgage Risk Classification, its A-minus eligibility and its Credit Score. The Credit Score we will use is the one found in the Selected Score Information section of the last Loan Prospector Feedback Certificate dated on or before the Note Date of the Mortgage. The postsettlement delivery fee for both A-minus and other Caution Mortgages will be based on this Credit Score and on the data that Sellers deliver to us on Form 11, Mortgage Submission Schedule, or Form 13SF, Mortgage Submission Voucher. Sellers may continue to use the Loan Prospector resubmission tolerances in Section 2.2.1 of the Guide without affecting the postsettlement delivery fee.

A Caution Mortgage that receives evaluation results of eligible for A-minus will not be assessed a CS/LTV postsettlement delivery fee if it meets the requirements of Chapter E33 and is delivered as an Affordable Merit RateSM Mortgage.

As a reminder, Sellers are currently required to deliver the Loan Prospector Key Number for all Mortgages evaluated through Loan Prospector, including A-minus and other Caution Mortgages. If the Loan Prospector Key Number is not delivered, as required, and an Indicator Score is delivered instead, Freddie Mac will treat the Mortgage as a Non-Loan Prospector Mortgage for pricing purposes.

Please note that the minimum Indicator Score requirements for Mortgage eligibility found in Exhibit 25 of the Guide still apply.

Delivering Non-Loan Prospector Mortgages

Sellers are currently required to deliver Indicator Scores for Mortgages with higher-risk characteristics noted in Exhibit 25 of the Guide. Effective January 2, 2003, Sellers will also be required to deliver the Indicator Score for all Non-Loan Prospector Mortgages. Sellers may begin delivering the Indicator Score on December 1, 2002, for all Non-Loan Prospector Mortgages for which an Indicator Score is not required in Exhibit 25. We strongly recommend delivery of the Indicator Score for any Non-Loan Prospector Mortgage that may settle on January 2, 2003, or later. Non-Loan Prospector Mortgages that are delivered without an Indicator Score and settle on January 2 or later will be subject to a CS/LTV delivery fee. See Exhibit 19 for more details.

The Indicator Score must be determined by one of the three methods permitted in Section 37.5 of the Guide. Freddie Mac prefers that Sellers use one method for all their loans, and recommends the use of the middle/lower then lowest method to identify an Indicator Score because it is the most predictive of the overall credit reputation of the Mortgage. Additionally, the CS/LTV postsettlement delivery fee rates in Exhibit 19 assume that the middle/lower then lowest method has been used. If another permitted method is used, there will be an adjustment to the CS/LTV postsettlement delivery fee rate. Freddie Mac also reserves the right to adjust the CS/LTV postsettlement delivery fee rates for a particular Seller or Sellers if we determine that the particular Seller or Sellers inconsistently use the permitted methods to identify Indicator Scores for Mortgages delivered to Freddie Mac. See Exhibit 19 and Section 37.5(e) for details.

When delivering a Non-Loan Prospector Mortgage, the Seller must insert the numeric value of the Indicator Score in the field titled "Credit Score Value" (CSV) on the Form 11 or Form 13SF, as applicable. In addition, also effective for deliveries on or after January 2, 2003, the Seller must provide the method used to select the Indicator Score in the field titled "Credit Score Type" (CST) on the Form 11 or 13SF. Valid CST codes are listed in the Form 11 and Form 13SF instructions; more detailed information regarding Indicator Score selection methods can be found in Section 37.5 of the Guide. If no Borrower has a usable Credit Score, there can be no Indicator Score for the Mortgage. In that case, the Seller must follow the Form 11 or Form 13SF instructions and deliver the appropriate CST code. If there is no Indicator Score and a minimum Indicator Score is required, then the Mortgage is ineligible for sale to Freddie Mac.

For Non-Loan Prospector Mortgages subject to a CS/LTV postsettlement delivery fee, we will calculate the delivery fee using the Indicator Score, CST, LTV ratio, loan purpose and property type that are delivered to us on Form 11 or Form 13SF. The minimum Indicator Score requirements for eligibility are found in Exhibit 25 of the Guide. The Indicator Score will be used both to determine the eligibility of the Mortgage for delivery under our higher-risk Mortgage offerings and for fee assessment purposes.

To reflect these changes, we have updated the instructions for the “Credit Score Type” and “Credit Score Value” fields on Forms 11 and 13SF. We have also revised Chapter 17 to update delivery requirements related to specialized Mortgage offerings.

Chapters 2, 22, 24, C33, E33, 37, 46 and 48 and Exhibits 25 and 26 have also been revised to reflect these changes. Exhibit 19 has been updated to indicate that the A-minus postsettlement delivery fee is only in effect for settlements on and before December 31; for settlements after that date, all A-minus Mortgages, other Caution Mortgages and applicable Non-Loan Prospector Mortgages will be subject to the new CS/LTV postsettlement delivery fee.

Revised Postsettlement Delivery Fees

Freddie Mac is revising the postsettlement delivery fee rates for cash-out refinance Mortgages and Investment Property Mortgages that are either:

- Non-Loan Prospector Mortgages that have certain Credit Score and LTV ratio combinations or
- Caution Mortgages

The revised delivery fee structure for these Mortgages ensures that the postsettlement delivery fees are aligned with the associated risk, without affecting Mortgages that do not fit the designated criteria.

The revised postsettlement delivery fees will be assessed in addition to any other applicable fees, including the CS/LTV fee for all applicable Mortgages.

Current postsettlement delivery fee rates remain the same for:

- Cash-out refinance Mortgages and Investment Property Mortgages that are Accept Mortgages
- Cash-out refinance Mortgages that are not Accept Mortgages with Indicator Scores that are greater than or equal to 620
- Investment Property Mortgages that are Non-Loan Prospector Mortgages with Indicator Scores that are greater than or equal to 720

These changes are reflected in Exhibit 19 and are effective for cash-out refinance Mortgages and Investment Property Mortgages with Settlement Dates on or after January 2, 2003.

New Postsettlement Delivery Fees

Freddie Mac is also introducing new postsettlement delivery fees for certain Mortgages secured by 3-4 unit properties and Seasoned Mortgages.

Mortgages with LTV ratios greater than 70% that are secured by 3-4 unit properties will now be subject to a Number of Units postsettlement delivery fee.

Seasoned Mortgages will now be subject to a Seasoned Mortgage postsettlement delivery fee. The fee rate will vary based on the length of seasoning.

Both the Seasoned Mortgage delivery fee and the Number of Units delivery fee for Mortgages secured by 3-4 unit properties will be effective for settlements as of January 2, 2003, or the expiration date of the Seller's Master Commitment in effect as of September 9, 2002, whichever is later.

In conjunction with the implementation of the Seasoned Mortgage postsettlement delivery fee, we will be revising our converted Mortgage requirements to provide that, effective January 2, 2003, seasoning will be based on the date the Mortgage converts to a fixed rate of interest and not on the Mortgage closing date. This change will be added to the Guide at a later date.

We have updated Exhibit 19 and Chapters 23 and 36 to reflect these changes.

Exhibit 19 Available Online

In addition to availability in the paper Guide and electronically through AllRegs, you can now access Exhibit 19, Postsettlement Delivery Fees, on our website:

<http://www.freddiemac.com/singlefamily/pdf/ex19.pdf>

Credit Changes to Freddie Mac Mortgage Products

Cash-Out Refinance Mortgages

Effective January 2, 2003, a Manually Underwritten Mortgage that is a cash-out refinance Mortgage with an LTV ratio greater than 75% must have a minimum Indicator Score of 720. We have updated Chapter 24 and Exhibit 25 to reflect this change.

Investment Property Mortgages

Effective January 2, 2003, a Manually Underwritten Mortgage that is secured by an Investment Property with an LTV ratio of greater than 75% must have a minimum Indicator Score of 720. We have updated Chapter 22 and Exhibit 25 to reflect this change.

MultiLender Execution Changes

Seasoned Mortgages with settlements on and after December 1, 2002, will not be eligible for sale under MultiLender Swap. Chapters 17, 29 and 36 have been revised to reflect this change.

Direct Housing Payment Verification for Manually Underwritten Mortgages

We are updating our requirements for direct housing payment verification for Manually Underwritten Mortgages to:

- Revise requirements for verification of rental housing payments
- Reiterate standards for direct written Mortgages and/or rental references
- Require that direct written rental verification and rental payment history be from a professional management company
- Allow copies of receipts to be submitted as acceptable documentation for verification of rental payments
- Allow depository statements showing an automatic debit by the Servicer for the Mortgage payment as acceptable documentation

We have updated Chapter 37 to reflect these changes.

Delivery of Special Characteristics Code with Use of Form 2070

We are now requiring that Loan Prospector Mortgages delivered to Freddie Mac that were originated using the Freddie Mac Form 2070, Loan Prospector Condition and Marketability Report (or, where allowable as a substitute by Freddie Mac, the Fannie Mae Form 2075) be delivered with a Special Characteristics Code.

The delivery of the applicable code is mandatory as of December 9, 2002, but you may begin delivering these codes immediately. We have updated Chapters 17 and 44 and Forms 11 and 13SF to reflect this change.

Additional Change to Forms 11 and 13SF

We have revised the definition of Down Payment Source Code "07" to "Other Borrower cash or other Equity."

Servicing Changes**Default Management and Investor Accounting Servicer Performance Profile Changes****Default Management Changes**

To encourage Servicers to take ownership of their responsibilities when they use a designated counsel to process foreclosures and to ensure that Servicers achieve high performance in all of the default management criteria of the Servicer Performance Profile, we are making the following changes:

Tier 1 and Tier 2 Criteria

To achieve a Tier 1 or Tier 2 rating in 2003, a Servicer must meet the following default management thresholds:

- 67 points for Tier 1 rating
- 48 points for Tier 2 rating

Foreclosure Timeline Criteria

Effective January 2, 2003, the foreclosure timeline criteria will be weighted as follows:

- Average days, including delays—25 points
- Average days, excluding delays—5 points
- Inventory past standard severity—5 points

Beginning January 2004, the points earned in the category “Average days, including delays” will be determined by comparing the Servicer’s actual performance on average to the performance that has been capped for the “designated counsel credit.” The points earned in the category “Average days, including delays” on the Servicer Performance Profile will reflect a deduction of no more than an aggregate of 10 days on average if there is a difference between the actual and adjusted average days.

The points earned in the category “Average days, excluding delays” will be determined by comparing the Servicer’s actual performance on average to the performance that has been capped for the “designated counsel credit.” The points in the adjusted category on the Servicer Performance Profile will reflect a reduction of no more than an aggregate of five days on average if there is a difference between the actual and adjusted average days.

Because the points are calculated on a rolling 12 months, foreclosure sales completed from February 1, 2003, through January 2004 will be included in the new calculation.

Investor Accounting and Remitting Changes

In order to better measure criteria that are important to our Servicers and Freddie Mac and to align our measurements with factors that are within a Servicer's control, we are introducing a new metric, "Average Number of Days to Report Payoffs," to the Servicer Performance Profile. This metric calculates the average number of days in which a Servicer reports all of the payoffs per accounting cycle. This change will be effective January 2, 2003.

In addition, to better evaluate a Servicer's performance and to reflect the new metric, we have adjusted the investor accounting criteria as follows:

- Cash Management—Shortage Percentage=30%, Custodial Account Review=15%
- Data Integrity—Percent of Aged Applied Transactions in Error=15%
- Operational Management—Percent Applied Transactions in Error=25%, Average Number of Days to Report Payoffs=15%

Further information regarding the criteria and requirements for determining a Servicer's Tier ratings is available via MIDANET for the PC or Goldworks. These criteria and requirements, and changes thereto by Freddie Mac, are incorporated into the Guide by reference.

Revisions to the 1-4 Unit Property Inspection Report, Form 1013

We have added several data elements to Form 1013 to help you identify:

- Property type
- Environmental or property problems

We believe that having this information in the property inspection report will help you manage your default Servicing more effectively. You may begin using the revised Form 1013 immediately; however you must begin using it for property inspections occurring on or after January 2, 2003.

Designated Counsel for Ohio

One of the Designated Counsels in the State of Ohio has changed. We have revised Exhibit 79 to reflect the new firm's information.

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 2, 17, 22, 23, 24, 26, 29, C33, E33, 36, 37, 42, 44, 46, 48, 66 and 70
- Exhibits 5, 17, 19, 25, 26 and 79
- Forms 11, 13SF and 1013
- Glossary
- Directory

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 2002-5 incorporates changes to the following Chapters, Exhibits and Forms of the *Single-Family Seller/Servicer Guide* (Guide).

- **Chapter 2 – General Freddie Mac Policies** – Revises language regarding the Loan Prospector Key Number and Caution Mortgages.
- **Chapter 17 – Special Delivery Instructions** – Revises language regarding implementation of delivery fees and adjustment of delivery fee rates. Revises language regarding Seasoned Mortgages and A-minus Mortgages. Adds language regarding Loan Prospector Mortgages originated using the Form 2070.
- **Chapter 22 – General Mortgage Eligibility** – Revises language regarding the requirements for eligibility of Investment Property Mortgages.
- **Chapter 23 – Maximum Loan Amounts and LTV, TLTV and HTLTV Ratios** – Adds language regarding the CS/LTV postsettlement delivery fee and revises language regarding postsettlement delivery fees for 2-4 unit properties.
- **Chapter 24 – Refinance Mortgages** – Revises language regarding the requirements for eligibility of Manually Underwritten cash-out refinance Mortgages.
- **Chapter 26 – Equity and Cash** – Revises language regarding the source of a gift.
- **Chapter 29 – Special Eligibility Requirements for Guarantor/MultiLender Swap Loans** – Revises language to prohibit the sale of Seasoned Mortgages under the MultiLender Swap program.
- **Chapter C33 – A-minus Mortgages** – Revises eligibility and underwriting requirements for A-minus Mortgages.
- **Chapter E33 – Affordable Merit Rate Mortgages** – Revises eligibility and underwriting requirements for Affordable Merit Rate Mortgages.
- **Chapter 36 – Special Eligibility Requirements for the Purchase of Seasoned Mortgages** – Revises language to prohibit the sale of Seasoned Mortgages under the MultiLender Swap program. Adds language regarding seasoning of Refinance Mortgages documented using the New York Consolidation, Extension and Modification Agreement (NYCEMA) based on NYCEMA date and not original Note Date.

- **Chapter 37 – Underwriting the Borrower** – Revises language regarding underwriting A-minus, Caution and Non-Loan Prospector Mortgages. Updates language regarding requirements for direct housing payment verification for Manually Underwritten Mortgages. Revises language regarding the Borrower’s funds.
- **Chapter 44 – Appraisal Reports, Inspection Reports and No-appraisal MAF** – Revises language to require the delivery of a Special Characteristics Code when delivering Loan Prospector Mortgages originated using the Form 2070.
- **Chapter 48 – Seller’s In-house Quality Control Program** – Revises language regarding a Seller’s review of credit reports provided by Loan Prospector.
- **Chapter 66 – Foreclosure** – Updates language regarding default management Servicer Performance Profile criteria.
- **Chapter 70 – REO** – Revises language regarding the REO timeline and the cancellation of property insurance.

Exhibits

We have revised the following Exhibits:

- **Exhibit 5 – Authorized Changes to Notes, Riders and Security Instruments**
- **Exhibit 17 – Offer Product Number Listing**
- **Exhibit 19 – Postsettlement Delivery Fees**
- **Exhibit 25 – Mortgage Products with Risk Class and/or Minimum Indicator Score Requirements**
- **Exhibit 26 – Discretionary Provisions**
- **Exhibit 79 – Designated Counsel**

Forms

We have revised the following Forms:

- **Form 11– Mortgage Submission Schedule**
- **Form 13SF – Mortgage Submission Voucher**
- **Form 1013 – 1-4 Unit Property Inspection Report**

Glossary

We have revised the following terms:

- **A-minus Mortgage**
- **Caution Mortgage**
- **Loan Prospector Mortgage**
- **Manually Underwritten Mortgage**

Directory

We have revised the following Directories:

- **Directory 17**
- **Directory 18**