

# Bulletin

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NUMBER: 2002-6

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TO: All Freddie Mac Sellers and Servicers

October 7, 2002

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The Freddie Mac logo consists of the words "Freddie" and "Mac" stacked vertically. Above the text is a thick black horizontal bar. Below the text are four thin, parallel horizontal lines.

## SUBJECTS

Requirements amended in this Bulletin:

- Selling and Servicing

Freddie Mac is:

- Providing requirements for Mortgages held in portfolio and modified prior to sale to Freddie Mac (Seller-Owned Modified Mortgages)
- Updating requirements for Converted Mortgages
- Revising requirements for construction to permanent Mortgages
- Providing guidance to Servicers processing resets of Balloon/Reset Mortgages

## EFFECTIVE DATES

The changes to the *Single-Family Seller/Servicer Guide* (Guide) are effective as follows:

- **October 7, 2002**
  - Changes related to processing resets of Balloon/Reset Mortgages
- **January 2, 2003**
  - Beginning with settlements on or after this date, Mortgages held in portfolio and modified prior to sale to Freddie Mac must meet the requirements for Seller-Owned Modified Mortgages
  - Beginning with settlements on or after this date, Converted Mortgages must meet the new requirements
  - Beginning with settlements on or after this date, construction to permanent Mortgages must meet the new requirements

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

### **Selling Changes**

#### **Seller-Owned Modified Mortgages**

Freddie Mac is providing its requirements for Mortgages that Sellers have held in portfolio and modified before delivery. Beginning with settlements on and after January 2, 2003, all such modified Mortgages must meet these requirements to be eligible for sale to Freddie Mac as Seller-Owned Modified Mortgages.

A Seller-Owned Modified Mortgage may be secured by a 1-4 unit Primary Residence or 1-unit second home, but not by an Investment Property. A minimum Indicator Score of 680 is required for the Mortgage to be eligible for sale to Freddie Mac. Seller-Owned Modified Mortgages are not eligible to be submitted to Loan Prospector®.

Determination of seasoning for Seller-Owned Modified Mortgages will be based on the modification date rather than the original Note Date. Seller-Owned Modified Mortgages with Note Dates more than 12 months prior to their Delivery Date but modification dates less than 12 months prior to their Delivery Date will not be subject to the requirements of Chapter 36 or the Seasoned Mortgage postsettlement delivery fee in Exhibit 19. A Seller-Owned Modified Mortgage delivered more than 12 months after its modification date will be subject to the requirements of Chapter 36 and the Seasoned Mortgage delivery fee.

You must complete the following additional fields on Form 11 or Form 13SF, as applicable, whenever you deliver a Seller-Owned Modified Mortgage to Freddie Mac:

- “Ref Code” field and
- “Mod/Conv Date” field

Delivery of these fields will ensure that we determine seasoning accurately and beginning January 2, 2003, that we assess postsettlement delivery fees only when appropriate.

In addition, because a minimum Indicator Score is required for a Seller-Owned Modified Mortgage to be eligible for sale to Freddie Mac and these Mortgages are Non-Loan Prospector Mortgages, you must complete the Credit Score Value (“CSV”) and Credit Score Type (“CST”) fields on the Form 11 or Form 13SF, as applicable, when delivering the Mortgages to Freddie Mac. As announced in July and described in our September 9 Bulletin, Freddie Mac will also use the “CSV” and “CST” fields you deliver to assess the Credit Score/Loan to Value (CS/LTV) postsettlement delivery fee where appropriate.

We have updated Chapters 17, 22, 32 and 36, Forms 11, 13SF, 1034 and 1034A, and Exhibit 25 to reflect these changes. We have also added Seller-Owned Modified Mortgages as a defined term in the Glossary.

Seller-Owned Modified Mortgages meeting the requirements of Chapter 32 of the Guide may be delivered to Freddie Mac as early as December 2, 2002.

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## Revisions to Converted Mortgages

Freddie Mac is revising requirements for Converted Mortgages to be more consistent with the Seller-Owned Modified Mortgage requirements.

Effective for settlements on or after January 2, 2003, in order for a Converted Mortgage to be eligible for sale to Freddie Mac, the original Mortgage must be a convertible ARM and the Converted Mortgage must be a fixed-rate, fully amortizing, level payment Mortgage. In addition, a minimum Indicator Score of 680 will be required for a Converted Mortgage secured by a 1-4 unit Primary Residence or 1-unit second home and a minimum Indicator Score of 720 will be required for a Converted Mortgage secured by a 1-4 unit Investment Property. Converted Mortgages are not eligible to be submitted to Loan Prospector.

The Guide requires that Sellers use Uniform Instruments to document all Mortgages sold to Freddie Mac and Freddie Mac strongly suggests that Uniform Instruments be used, whenever appropriate, even for Mortgages that are not being sold into the secondary market. However, Converted Mortgages originated using nonstandard documents will be eligible for sale provided that the Seller represents and warrants that the provisions in the Mortgage documents are comparable to the provisions in the Uniform Instruments.

Also, as announced in our September 9 Bulletin, beginning with settlements on January 2, 2003, seasoning for Converted Mortgages will be determined based on the Conversion Date and not on the original Note Date. Converted Mortgages with Note Dates more than 12 months prior to the Delivery Date but Conversion Dates less than 12 months prior to the Delivery Date will not be subject to the requirements of Chapter 36 or the Seasoned Mortgage delivery fee in Exhibit 19.

Beginning with settlements on January 2, 2003, Converted Mortgages delivered more than 12 months after the Conversion Date will be subject to the requirements of Chapter 36 and the Seasoned Mortgage delivery fee.

Changes to delivery requirements for Converted Mortgages are necessary to ensure that we determine seasoning accurately and assess postsettlement delivery fees only when appropriate. For settlements beginning January 2, 2003, you must complete the following additional fields on the Form 11 when delivering a Converted Mortgage to Freddie Mac:

- “Ref Code” field and
- “Mod/Conv Date” field

You may begin delivering the “Ref Code” and “Mod/Conv Date” fields for Converted Mortgages as early as December 2, 2002.

In addition, because a minimum Indicator Score is required for a Converted Mortgage to be eligible for sale to Freddie Mac and these Mortgages are Non-Loan Prospector Mortgages, you must complete the “CSV” and “CST” fields on the Form 11 when delivering these Mortgages to Freddie Mac. As announced in July and described in our September 9 Bulletin, Freddie Mac will also use the “CSV” and “CST” fields you deliver to assess the CS/LTV postsettlement delivery fee where appropriate.

We have updated Chapters 17, 22, 32, and 36, Forms 11, 1034 and 1034A, and Exhibit 25 to reflect these changes. We have also added Converted Mortgage as a defined term in the Glossary.

### **Construction to permanent Mortgages**

Effective for settlements on or after January 2, 2003, we are updating our requirements for construction to permanent Mortgages to:

- Require all construction to permanent Mortgages be treated as purchase Mortgages
- Revise eligibility requirements for these Mortgages as follows:
  - The lender providing the permanent financing must be the construction lender
  - The same Borrower is required for both the construction financing and the permanent Mortgage - a Borrower may not be added or removed
  - Prior to the start of construction, the Borrower must own the land in fee simple or have a leasehold estate meeting the requirements of Chapter 41 of the Guide
  - A single disbursement of funds to a builder or contractor is not considered to be a conversion of construction to permanent financing
  - Construction to permanent loans can be used to finance new dwellings but cannot be used to finance the repair or rehabilitation of an existing dwelling
- Permit conversion without re-underwriting as long as the permanent Mortgage terms have not changed
- Permit re-underwriting with existing documentation when the permanent Mortgage terms have changed

Construction to permanent Mortgages may be delivered more than 12 months after the Note Date; provided, however, that if the Mortgage is delivered more than 12 months after:

- the due date of the first monthly installment of principal and interest on the permanent Mortgage, for a one closing construction to permanent Mortgage, or
- the Note Date of the new permanent Mortgage or modification agreement date, for a two closing construction to permanent Mortgage, then

the Mortgage must meet the requirements of Chapter 36 of the Guide. In addition, beginning with settlements on January 2, 2003, the Mortgage will be subject to the

Seasoned Mortgage postsettlement delivery fee in Exhibit 19. Construction to permanent Mortgages delivered less than 12 months after the applicable dates will not be subject to the requirements of Chapter 36 or the Seasoned Mortgage delivery fee.

As with Converted Mortgages, changes to delivery requirements for construction to permanent Mortgages are necessary to ensure that we determine seasoning accurately and assess postsettlement delivery fees only when appropriate. For settlements beginning January 2, 2003, you must complete the following additional fields on Forms 11 and Form 13SF, as applicable, when delivering a one closing construction to permanent Mortgage to Freddie Mac:

- “Ref Code” field and
- “Mod/Conv Date” field

You may begin completing the “Ref Code” and “Mod/Conv Date” fields for one closing construction to permanent Mortgages you deliver as early as December 2, 2002.

You are not required to complete these fields for a two closing construction to permanent Mortgage. However, delivery of a Special Characteristics Code (SCC) for a two closing conversion construction to permanent Mortgage will be required. You may begin delivering the new SCC as early as December 2, 2002.

As we announced in our September 9 Bulletin, Sellers are required to deliver an Indicator Score for any Non-Loan Prospector Mortgage delivered to Freddie Mac for settlement beginning January 2, 2003. For construction to permanent Mortgages not submitted to Loan Prospector, you must complete the “CSV” and “CST” fields on Form 11 and Form 13SF, as applicable, when delivering the Mortgage to Freddie Mac for settlement on or after that date. Freddie Mac will also use the “CSV” and “CST” fields you deliver to assess the CS/LTV postsettlement delivery fee where appropriate.

For construction to permanent Mortgages submitted to Loan Prospector, Sellers must deliver the Loan Prospector Key Number. Freddie Mac will use this information to determine the Credit Score and fee assessment.

We have updated Chapters 17, 22 and 23, and Forms 11 and 13SF to reflect these changes.

### **Servicing Changes**

#### **Balloon/Reset Mortgages**

As part of the expansion of the Guide announced in March 2000, Freddie Mac permitted Sellers to originate Balloon/Reset Mortgages secured by Investment Property or to have secondary financing meeting certain requirements at the time of origination. Consequently, the Reset Conditions in the Balloon Note Addendum and Balloon Rider may be modified at origination to delete the occupancy requirement as a Reset Condition or to permit secondary financing meeting the Seller’s requirements. We are now updating

the Guide to provide instructions to Servicers when processing resets of Balloon/Reset Mortgages where the Reset Conditions in the Mortgage documents may have been modified at origination.

In addition, in October 1997, we revised the Guide to require Sellers originating Balloon/Reset Mortgages on Fannie Mae documents to insert language in those documents instructing Borrowers to notify the Note holder of the Borrower's election to reset no earlier than 60 calendar days before the Balloon/Maturity Date. As these Balloon/Reset Mortgages approach their maturity date, we are providing guidance to Servicers processing resets of Balloon/Reset Mortgages originated on Fannie Mae documents that contain this added language.

In addition, we have moved all of the late fees and penalties associated with Balloon/Reset Mortgages into Section 78.51.

We have revised Chapters 78 and 83 and the Directory 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:

- Chapters 9, 17, 22, 23, 29, 32, 36, 78, 80 and 83
- Exhibits 10, 19 and 25
- Forms 11, 13SF, 16SF, 1034 and 1034A
- 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.

If you currently do not receive a paper Guide and would like to order one or if you need to purchase additional paper copies of the Guide, please contact our print vendor Balmar directly at 877-874-9796 to purchase a subscription.

### **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

# Exhibit A

## Highlights of the Revisions in this Package

Bulletin 2002-6 incorporates changes to the following Chapters, Exhibits, Forms, Glossary and Directory of the *Single-Family Seller/Servicer Guide* (Guide).

- **Chapter 9 – Immediate Delivery Home Mortgage Purchase Program** – Adds language regarding the eligibility of Mortgages for sale into the three highest posted coupon ranges for Gold Cash or Gold Cash Xtra.
- **Chapter 17 – Special Delivery Instructions** – Adds language regarding special delivery requirements for Converted Mortgages, Seller-Owned Modified Mortgages, and construction to permanent Mortgages. Revises language regarding the eligibility of Mortgages for sale into the three highest posted coupon ranges for Gold Cash or Gold Cash Xtra.
- **Chapter 22 – General Mortgage Eligibility** – Adds language covering eligibility of Mortgages with Note Dates more than 12 months prior to the Delivery Date.
- **Chapter 23 – Maximum Loan Amounts and LTV, TLTV and HTLTV Ratios** – Revises language regarding one closing and two closing construction to permanent Mortgages.
- **Chapter 32 – Special Eligibility Requirements for Converted and Seller-Owned Modified Mortgages** – Adds Seller-Owned Modified Mortgages and revises requirements for Converted Mortgages.
- **Chapter 36 – Special Eligibility Requirements for the Purchase of Seasoned Mortgages** – Removes the restriction on Mortgages modified since the Note Date, making them eligible for sale as Seasoned Mortgages if they comply with the requirements of Chapter 32.
- **Chapter 78 – Reporting and Remitting Requirements** – Revises language regarding the assessment of late fees in connection with Balloon/Reset Mortgages.
- **Chapter 83 – Additional Servicing Requirements for Maturing Balloon/Reset Mortgages** – Revises instruction for resets of Balloon/Reset Mortgages where the Reset Conditions in the Mortgage documents may have been modified at origination.

**Exhibits**

We have revised the following Exhibits:

- **Exhibit 10 – Freddie Mac-Approved Mortgage Insurers**
- **Exhibit 19 - Postsettlement Delivery Fees**
- **Exhibit 25 – Mortgage Products with Risk Class and/or Minimum Indicator Score Requirements**

**Forms**

We have revised the following Forms:

- **Form 11– Mortgage Submission Schedule**
- **Form 13SF – Mortgage Submission Voucher**
- **Form 16SF – Annual Eligibility Certification Report**
- **Form 1034 - Fixed Rate Custodial Certification Schedule**
- **Form 1034A - ARM Custodial Certification Schedule**

**Glossary**

We have added the following terms:

- **Converted Mortgage**
- **Seller-Owned Modified Mortgage**

We have revised the following term:

- **Conversion Date**

**Directory**

We have revised the following:

- **Directory 9**
- **Directory 20**