

Bulletin

NUMBER: 2002-7

TO: All Freddie Mac Sellers and Servicers

November 7, 2002

The Freddie Mac logo consists of the words "Freddie" and "Mac" stacked vertically. To the left of the text is a thick horizontal bar, and below the text are four thin horizontal lines.

SUBJECTS

Requirements amended in this Bulletin:

- Selling

Freddie Mac is:

- Revising requirements and conditions for purchasing Mortgages secured by Mortgaged Premises located in the State of Georgia
- Revising our Seller/Servicer insurance requirements
- Updating our requirements for underwriting Borrower credit reputation
- Modifying Exhibit 27, Gold Cash Xtra® Agreement, and Exhibit 28, Loan Servicing Purchase and Sale Agreement

EFFECTIVE DATES

All of these changes are effective immediately except:

- **November 1, 2002** – As announced in our October 1 Industry Letter, our new requirements for the purchase of Mortgages originated in the State of Georgia are effective for deliveries on or after this date
- **February 7, 2003** – New underwriting requirements regarding Borrower credit reputation are effective for Mortgages delivered on or after this date
- **March 31, 2003** – All Seller/Servicers must be in compliance with the new insurance requirements no later than this date

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

Selling Changes

Mortgaged Premises located in the State of Georgia

As announced in our October 1 Industry Letter, with the recent enactment of the Georgia Fair Lending Act (GAFLA), which is intended to curb abusive lending practices, we are revising our requirements for the purchase of Mortgages secured by Mortgaged Premises located in the State of Georgia. Effective for deliveries on or after November 1, 2002:

- Any Mortgage secured by a 1-4 unit Primary Residence located in the State of Georgia is ineligible for purchase by Freddie Mac if it has a Note Date on or after October 1, 2002, and the terms of the Mortgage equal or exceed either the Annual Percentage Rate (APR) or the points and fees threshold for “high-cost home loans,” as defined in GAFLA.
- We will purchase Mortgages defined as “home loans” under the GAFLA, that comply with GAFLA and otherwise meet our purchase requirements and “covered home loans” under the GAFLA so long as they are not “high-cost home loans,” comply with GAFLA, and otherwise meet our purchase requirements.

We have added a new section to Chapter 22 and revised Chapter 52 to reflect these changes. At this time, there is no change to our delivery requirements. However, post-purchase, Freddie Mac may conduct additional reviews of Mortgages secured by Georgia property. Mortgages determined to be “high-cost home loans” as defined in GAFLA or to be in violation of any law or regulation, including GAFLA, will be subject to immediate repurchase in addition to any other remedies as provided in the Guide.

Freddie Mac supports legislation that protects Borrowers from predatory lending practices, and is also reminding Sellers that, in accordance with provisions of Section 6.2(a) of the *Single-Family Seller/Servicer Guide* (Guide), they must ensure that they comply with all applicable State and federal laws, regulations and orders.

Seller/Servicer Insurance Requirements

Two years ago, Freddie Mac revised the Guide requirements regarding coverage and deductible limits for a Seller/Servicer’s Fidelity and E&O insurance. At that time, our intention was to provide more flexibility by allowing Seller/Servicers to determine the appropriate levels of coverage based on their institutional profiles.

Since we announced those changes, we have seen increased claims activity and a diminished quality of coverage. Therefore, in recognition of the benefit these policies provide to a lender's overall safety and soundness, and to provide better protection for Seller/Serviceers and Freddie Mac, we are reinstating:

- specific policy coverage and deductible limits
- requirements for submission of proof of insurance
- requirements for notification of material events related to insurance policies and coverage

We are also enhancing certain provisions regarding Freddie Mac's right to file claims directly with the insurer for losses we incur in connection with acts covered by insurance.

We believe that these changes will improve the ability of both Freddie Mac and a Seller/Serviceer to manage risk. We've updated Chapter 4 to reflect these changes.

All Seller/Serviceers must be in compliance with the new insurance requirements no later than March 31, 2003.

Underwriting Borrower Credit Reputation

We are updating our requirements for underwriting Borrower credit reputation to align with industry best practices. Effective February 7, 2003, we are removing the provision in the Guide that allows a Seller to disregard a Borrower's credit reputation when that Borrower provides no additional income, assets or liabilities. All individuals signing the Note must be qualified.

We have updated Chapter 37 to reflect this change.

Changes to GCX Agreement and Loan Servicing Purchase and Sale Agreement

We are modifying Exhibit 27, Gold Cash Xtra Agreement, to further articulate our requirements for Mortgages purchased through GCX.

We are also revising Exhibit 28, Loan Servicing Purchase and Sale Agreement, to specify types of funds that Sellers should remit to buyers of Servicing Rights. Pursuant to this change, Serviceers must receive unapplied buydown funds received prior to the Sale Date and other Serviceer charges such as loan set-up fees, tax contract fees, and interest adjustment funds, as set forth on the Wire Reconciliation Form in the Serviceer Transfer Instructions.

In addition, we are revising Exhibit A to Exhibit 28 to reflect changes in the schedule for rebate amounts to be paid when a Servicer requires Seller to repurchase the Servicing Rights for a Loan that Servicer has been required by Freddie Mac to repurchase. This same schedule revision applies to the amount a Seller must pay if it or its affiliates solicits the mortgagor of such a Loan for refinancing, prepayment or modification.

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 4, 17, 22, 32, 37 and 52
- Exhibits 5, 27 and 28
- Forms 11 and 13SF
- 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 2002-7 incorporates changes to the following Chapters, Exhibits, Forms, Glossary and Directory of the *Single-Family Seller/Servicer Guide* (Guide).

- **Chapter 4 – Seller/Servicer Institutional Eligibility** – Revises language regarding Seller/Servicer insurance requirements.
- **Chapter 22 – General Mortgage Eligibility** – Adds language regarding the purchase of Mortgages secured by Mortgaged Premises located in the State of Georgia.
- **Chapter 37 – Special Eligibility Requirements for the Purchase of Seasoned Mortgages** – Updates language regarding underwriting Borrower credit reputation.
- **Chapter 52 – Mortgage File Retention** – Revises language regarding the Mortgage file and Mortgages secured by Mortgaged Premises located in the State of Georgia.

Exhibits

We have revised the following Exhibits:

- **Exhibit 5 - Authorized Changes to Notes, Riders and Security Instruments**
- **Exhibit 27 – Gold Cash Xtra Agreement**
- **Exhibit 28 – Loan Servicing and Purchase Sale Agreement**

Forms

We have revised the following Forms:

- **Form 11– Mortgage Submission Schedule**
- **Form 13SF – Mortgage Submission Voucher**

Directory

We have revised the following:

- **Directory 1**

