

# Bulletin

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NUMBER: 2003-1

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TO: All Freddie Mac Sellers and Servicers

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February 7, 2003

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## SUBJECTS

Requirements amended in this Bulletin:

■ Selling and Servicing

Freddie Mac is:

- Reminding Sellers of our updated requirements for refinance Mortgages and our revised cash-out refinance postsettlement delivery fee rates and providing the corresponding *Single-Family Seller/Servicer Guide* (Guide) replacement pages
- Requiring the delivery of a Special Characteristics Code when delivering Mortgages where construction of the Mortgaged Premises is completed after application
- Amending Forms 16SF, Annual Eligibility Certification Report, and 1107SF, Seller/Servicer Change Notification Form, to capture additional Seller/Servicer information and provide for use of the Form 1107SF to report claims and modification information for Seller/Servicer's fidelity and E&O insurance
- Revising Form 1032, One-Unit Residential Appraisal Field Review Report (formerly Residential Appraisal Field Review Report)
- Revising the Loan Prospector<sup>®</sup> Feedback Certificate to identify the Selected Credit Score, Selected Borrower and Selected Repository used for each loan evaluation
- Providing additional guidance for appraiser's Certifications and Statement of Limiting Conditions in appraisal and inspection reports
- Providing an updated Exhibit 13, Standard Flood Hazard Determination Form and Instructions
- Revising our Servicer compensation for workouts and relief options and foreclosure timeline performance
- Adding a new section regarding Servicing obligations to be performed for the Servicing compensation

## EFFECTIVE DATES

All of these changes are effective immediately except:

- **February 28, 2003**—The updated Standard Flood Hazard Determination Form must be used for all flood zone determinations made on or after this date
- **March 10, 2003**—All Seller/Servicers filing on or after this date must use the revised Form 16SF, Annual Eligibility Certification Report
- **March 31, 2003**—All Seller/Servicers must report loss or change in fidelity and E&O coverage using Form 1107SF, Seller/Servicer Change Notification
- **April 1, 2003**—
  - Beginning with settlements on this date, revised requirements for “no cash-out” refinance Mortgages apply, the special purpose cash-out refinance Mortgage is eliminated, and the LTV ratio at which the minimum Indicator Score requirement applies to Manually Underwritten cash-out refinance Mortgages is reduced to 70 percent
  - Beginning with settlements on this date, all cash-out refinance Mortgages will be subject to the revised cash-out refinance postsettlement delivery fees, including cash-out refinance Mortgages previously categorized as special purpose cash-out refinance Mortgages

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

### NEW GUIDE LAYOUT

Beginning with this Bulletin, we will be publishing the Guide in new software, enabling us to make changes to the layout of Guide pages. Some of these changes include redesigned headers and footers, and the inclusion of the effective date at the beginning of each section, rather than in the footer of each page. Another important change is that revisions will now be marked with “change bars” (vertical bars in the margins), rather than arrows. In addition to denoting new text, which will continue to be doubleunderlined, these change bars will also mark where text has been deleted. Directory references will now appear as white text in black boxes.

Over the following months, you'll notice somewhat larger Bulletins than usual. Because the new formatting affects the entire Guide, when we announce a revision to a particular chapter, exhibit, form or directory entry, we will reissue those chapters, exhibits, forms or directory information in their entirety, rather than just the specific revised pages.

## **Selling Changes**

### **Changes to requirements for refinance Mortgages**

In Bulletin 2002-8 (December 16, 2002), we announced revisions to our requirements for “no cash-out” refinance Mortgages, elimination of the special purpose cash-out refinance Mortgage and a reduction in the LTV ratio at which the minimum Indicator Score requirement of 720 applies to Manually Underwritten cash-out refinance Mortgages. In addition, we announced revisions to cash-out refinance postsettlement delivery fee rates effective for settlements on or after April 1, 2003. Replacement pages for Chapters 17, 23 and 24, updated Exhibits 19 and 25, and Forms 11 and 13SF are included with this Bulletin.

### **Delivery of Special Characteristics Code for Mortgages where construction of the Mortgaged Premises is completed after application**

We are now requiring the delivery of Special Characteristics Code (SCC) 916 for purchase and refinance Mortgages in which the Borrower applied for the Mortgage before the construction of the Mortgage Premises was completed. With delivery of SCC 916, the credit and collateral documentation used to underwrite the Mortgage may be within 180 days prior to the Note Date of the Mortgage, as specified in Sections 37.5(b), 37.10(i), 37.20(d) and 44.7(e), rather than 120 days. You should begin delivering SCC 916 immediately where appropriate. This requirement does not apply to the conversion of construction financing to permanent Mortgages.

We have updated Chapters 17, 37 and 44 and Forms 11 and 13SF to reflect this change.

### **Form 16SF, Annual Eligibility Certification Report, and Form 1107SF, Seller/Servicer Change Notification Form**

Freddie Mac is:

- Amending the Form 16SF to capture additional important information used to assess Seller/Servicer compliance with Freddie Mac eligibility requirements and to capture key information about the Seller’s production and investor relationships
- Amending the Form 1107SF to capture information about fidelity and E&O insurance claims and coverage modifications as required in Guide Section 4.8.1(c)

### **Form 1032, One-Unit Residential Appraisal Field Review Report**

We have revised and retitled Form 1032, One-Unit Residential Appraisal Field Review Report (formerly Residential Appraisal Field Review Report) to provide Sellers and appraisers with additional guidance on what Freddie Mac expects in an appraisal review report performed as part of a Seller’s quality control program.

The revised Form 1032 provides guidance on performing the appraisal review for Mortgages secured by 1-unit properties, and:

- Defines the role of the review appraiser;
- Addresses the purpose, intended use and scope of work for the appraisal field review assignment, which is a “phased assignment”;
- Provides a standardized sales comparison analysis adjustment grid that supports the review appraiser’s opinion of value (if the review appraiser concludes that the value opinion in the appraisal report is unreasonable); and
- Includes a statement of limiting conditions and the appraiser’s certifications.

Sellers may, but are not required to, use the revised Form 1032 to report results of appraisal reviews on 1-unit properties. Freddie Mac is working on an updated form for review of appraisals of 2-4 unit properties. Until changes are announced, Sellers may report reviews of appraisals on 2-4 unit properties on the Form 1032 (11/89).

We have updated Chapters 44 and 48 and Form 1032 to reflect these changes.

### **Loan Prospector Feedback Certificate**

Loan Prospector now provides a new feedback message that identifies the Selected Credit Score, Selected Borrower and Selected Repository used for each loan evaluation. This Selected Credit Score is the one that will be used to calculate the CS/LTV postsettlement delivery fees for Loan Prospector Mortgages.

The feedback message will appear in the Loan Processing information section of the Feedback Certificate and will read as follows:

**3B** Selected Credit Score is the Loan Prospector selected credit score from Selected Repository for Selected Borrower

We have revised language throughout Exhibit 19 to reference the new location on the Feedback Certificate to find the Selected Credit Score used for fee assessment purposes.

### **Requirements for Appraiser Certification and Statement of Limiting Conditions**

We are revising language regarding the Statement of Limiting Conditions and Appraiser Certification that is incorporated into appraisal and inspection reports to provide that:

- An appraiser may not alter or delete any of the appraiser certifications, although additional certifications can be added on a separate page. Acceptable additional certifications could include those related to the appraiser’s membership in an appraisal organization or related to the appraiser’s continuing education, those related to compliance with privacy laws or certifications required by State law
- An appraiser must not alter, add to, or delete limiting conditions on the appraisal or inspection report

We have updated Chapter 44 to reflect this change.

**Exhibit 13, Standard Flood Hazard Determination Form and Instructions**

The Office of Management and Budget (OMB) has approved a revised Standard Flood Hazard Determination Form (FEMA Form 81-93). The only changes made to the form were minor revisions to the instructions. A copy of this revised form is included as Guide Exhibit 13. Seller/Servicers must use the revised form for all flood zone determinations made on or after February 28, 2003, but may start using the revised form immediately.

**Servicing Changes****Servicer Compensation**

Our goal is the alignment of performance categories and incentives with superior performance. Our Servicer Performance Profiles, developed with industry participants such as Freddie Mac's Servicer Advisory Board, have established an accepted standard of measurement for a Servicer's overall performance.

From time to time we revise the Servicer performance standards and related compensation. We are updating our default management incentive compensation for 2003 to increase compensation amounts in some categories, and to introduce a new category.

We continue to encourage and reward Servicers for excellent results in helping cooperative Borrowers retain homeownership, when possible, or liquidating the property. When this isn't possible, we reward timely and effective foreclosure management.

We have updated Chapters 65, A65, B65 and 66 to reflect these changes.

**Servicing Obligations to be performed for the Servicing compensation**

The Guide defines the responsibilities that a Servicer must undertake that are covered by the Servicing Spread, without any additional cost or charge to Freddie Mac. We are revising the Guide with respect to the specific responsibilities carried out by Servicers and paid from the Servicing Spread on Freddie Mac Mortgages. The new Guide provisions reiterate our long-standing requirement that foreclosure and bankruptcy management activities are the responsibility of the Servicer.

We have updated Chapters 54, A65, 66, 67 and 71 to incorporate these provisions.

**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, 9, 17, 22, 23, 24, C33, 37, 44, 48, 65, A65, B65, 66, 67 and 71
- Exhibits 4, 5, 10, 13, 19, 25 and 27
- Forms 11, 13SF, 16SF, 1032 and 1107SF
- Glossary

At the end of this Bulletin, you'll find replacement pages for the Guide.

## 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,

A handwritten signature in cursive script that reads "Paul T. Peterson".

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

# Exhibit A

## Highlights of Revisions in this Package

Bulletin 2003-1 incorporates changes to the following chapters of the *Single-Family Seller/Servicer Guide* (Guide).

- **Chapter 4**—Seller/Servicer Institutional Eligibility—Revises language regarding reporting fidelity and E&O claims information and annual eligibility certification.
- **Chapter 9**—Immediate Delivery Home Mortgage Purchase Program—Removes language regarding the availability of Gold Cash Xtra indication pricing.
- **Chapter 17**—Special Delivery Instructions—Removes language regarding special purpose cash-out refinance Mortgages. Adds language regarding the delivery of Mortgages where construction of the Mortgaged Premises is completed after application.
- **Chapter 23**—Maximum Loan Amounts and LTV, TLTV and HLTIV Ratios—Removes language regarding special purpose cash-out refinance Mortgages.
- **Chapter 24**—Refinance Mortgages—Removes language regarding special purpose cash-out refinance Mortgages and revises our requirements for “no cash-out” and cash-out refinance Mortgages.
- **Chapter 37**—Underwriting the Borrower—Updates language regarding the delivery of Mortgages where construction of the Mortgaged Premises is completed after application.
- **Chapter 44**—Appraisal Reports, Inspection Reports and No-appraisal MAF—Adds language regarding appraiser certification. Updates language regarding the delivery of Mortgages where construction of the Mortgaged Premises is completed after application. Revises language regarding Form 1032, One-Unit Residential Appraisal Field Review Report.
- **Chapter 48**—Seller’s In-House Quality Control Program—Revises language regarding Form 1032, One-Unit Residential Appraisal Field Review Report.
- **Chapter 54**—Servicing Compensation—Adds a new section regarding Servicing obligations to be performed for the Servicing compensation.
- **Chapter 65**—Loss Mitigation—Revises language regarding compensation programs.
- **Chapter A65**—Reinstatements and Relief Options—Revises language regarding general requirements for reinstatements and relief options.
- **Chapter B65**—Workout Options—Revises language regarding compensation for settled workouts and repayment plans.
- **Chapter 66**—Foreclosure—Adds language regarding technology compensation for Tier 1 or Tier 2 performance in the category “Foreclosure Timelines Including Delays, unadjusted,” in the Default Management section of the Performance Profile.

- **Chapter 67**—Adverse Matters—Revises language regarding the provision of timely information, documentation and payoff and reinstatement figures necessary for bankruptcy counsel to meet the time limits set by the bankruptcy court.
- **Chapter 71**—Reimbursement of Expenses—Revises language regarding expenses we will not reimburse.

### **Exhibits**

We've revised the following Exhibits:

- **Exhibit 4**—Currently Acceptable Single-Family Mortgage Documents
- **Exhibit 5**—Authorized Changes to Notes, Riders and Security Instruments
- **Exhibit 10**—Freddie Mac-approved Mortgage Insurers
- **Exhibit 13**—Standard Flood Hazard Determination Form
- **Exhibit 19**—Postsettlement Delivery Fees
- **Exhibit 25**—Mortgage Products with Risk Class and/or Minimum Indicator Score Requirements
- **Exhibit 27**—Gold Cash Xtra Agreement

### **Forms**

We've revised the following Forms:

- **Form 11**—Mortgage Submission Schedule
- **Form 13SF**—Mortgage Submission Voucher
- **Form 16SF**—Annual Eligibility Certification Report
- **Form 1032**—One-Unit Residential Appraisal Field Review Report
- **Form 1107SF**—Seller/Service Change Notification Form

### **Glossary**

We've revised the following terms:

- Principal
- Purchase Documents