

Bulletin

NUMBER: 2004-3



TO: All Freddie Mac Sellers and Servicers

August 11, 2004

SUBJECTS

Requirements amended in this Bulletin:

■ Selling and Servicing

We're pleased to announce that Freddie Mac is:

- Introducing Weighted Average Coupon (WAC) ARM Cash, available only through the Freddie Mac Selling System
- Enhancing the information in and access to our Pool Supplements in support of the additional disclosure elements for all PC Pools and Giant PC Pools available July 1, 2004
- Revising our requirements for a Mortgage secured by a Manufactured Home to:
 - Allow delivery when the transaction involves conversion of interim construction financing to permanent financing under certain conditions
 - Require an insured closing protection letter unless prohibited under State law or regulations
- Adding a "Documentation Level" field to the top of the Feedback Certificate returned by LoanProspector.com to assist Sellers in determining the minimum level of documentation required for Loan Prospector[®] Mortgages
- Allowing Sellers to indicate on the Form 65, Uniform Residential Loan Application, whether a residential loan application is for joint or individual credit, in accordance with recent direction from the Federal Reserve Board
- Reminding Sellers that we are retiring the Gold Cash Xtra[®] software and replacing it with the Freddie Mac Selling System
- Revising our Servicer compensation pertaining to alternatives to foreclosure
- Revising default management Servicer Performance Profile criteria
- Revising Exhibit 57, 1-4 Unit Property Approved Expense Amounts, and Exhibit 74, Expense and Income Codes for Form 104SF, to adjust allowable expense amounts based on fair market costs

EFFECTIVE DATES:

All of these changes are effective immediately except:

■ January 2, 2005

- On this date, the revised Servicer compensation pertaining to alternatives to foreclosure becomes effective.
- On this date, the default management Servicer Performance Profile changes become effective.

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

Selling Changes

WAC ARM Cash through the Freddie Mac Selling System

We continue to expand the functionality of the Freddie Mac Selling System, which integrates selling functions, from pricing to delivery and certification, onto a single technology platform.

Freddie Mac is pleased to introduce Weighted Average Coupon (WAC) ARM Cash, available only through the Freddie Mac Selling System. Under WAC ARM Cash, eligible ARMs in a single contract may be delivered with Note Rates, Margins, Life Caps, Servicing Spreads and number of months to the next Interest Change Date ("Loan Attributes") that vary within a specified range. Note that the Life Cap for ARMs delivered under WAC ARM Cash must be either 5% or 6%, as applicable, similar to the requirement for ARMs delivered under ARM Cash.

A Seller must receive specific and express approval from Freddie Mac to sell ARMs under WAC ARM Cash using the Freddie Mac Selling System. Any nonconvertible ARM eligible for purchase under ARM Cash is eligible under WAC ARM Cash.

We have added a new Chapter A15, which contains information and additional requirements of WAC ARM Cash. We have also revised Chapters 10, 11, 12, 15, 17, 30 and 78, as well as Exhibits 6 and 17, to reflect this new information.

Disclosure for PCs and Giant PCs

As announced in the June issue of *Single-Family News*, we have enhanced the information available in our Pool Supplements in support of the additional disclosure elements for all PC Pools and Giant PC Pools that became available July 1, 2004. With these enhancements, we've made the Pool Supplements available on our website at http://www.FreddieMac.com/mbs/html/sd_pc_lookup.html, offering you an easier way to access this information, while developing an automated process for generating Pool Supplements for all new PCs to promote more consistent, standardized and comprehensive disclosure.

We have revised Chapters 11, 13 and A13; Exhibits 22 and 22A; Form 15/A/C; and the Glossary to reflect these changes.

Manufactured Homes

Freddie Mac is pleased to announce that we will allow delivery of a Mortgage secured by a Manufactured Home that involves conversion of interim construction financing to permanent financing under certain conditions, including when:

- The Mortgage meets the requirements of, and is delivered as, a purchase or "no cash-out" refinance transaction, as applicable, and
- The installation of the Manufactured Home is 100% complete, including permanent utility connections and construction of any site-built improvements such as garages, decks or porches, as of the Note Date as evidenced by a satisfactory completion certificate, and
- The interim construction financing is paid off with the proceeds from a new permanent Mortgage.

We are also revising our requirements for Mortgages secured by Manufactured Homes to require an insured closing protection letter unless prohibited under State law or regulations.

We have revised Chapter H33 to reflect these changes.

Changes related to LoanProspector.com

We continue to enhance LoanProspector.com to provide you with more information and additional direction to help you complete your Loan Prospector submissions. To make the feedback returned by LoanProspector.com easier to use and integrate in your business operations, we are adding a "Documentation Level" field to the top of the LoanProspector.com Feedback Certificate.

The new Documentation Level field incorporates content previously found in the Documentation Class field, as well as the messages previously found under the Documentation Guidelines section of the Feedback Certificate. This enables a Seller to determine a loan's full documentation requirements more quickly and easily.

The LP Classic Feedback Certificate will continue to use the term "Documentation Class."

We have revised Chapter 37 and the Glossary to reflect this change.

Form 65, Uniform Residential Loan Application, to indicate joint or individual credit

On March 18, 2003, in the official commentary to Regulation B, *Commentary to Reg. B, Section 202(7)(d)(1)-3* from *Section 68* of the *Federal Register*, the Federal Reserve Board set forth certain guidance to lenders intended to promote fairness in lending. The Federal Reserve Board Commentary, effective April 15, 2004, has been clarified to direct that loan applications should indicate whether a residential loan application is for joint or individual credit. Intent to apply jointly for credit must be evidenced at the time of application and documented in some fashion.

Given the guidance set forth in Regulation B, Freddie Mac is *not* revising the Form 65, Uniform Residential Loan Application, to provide space for this information. However, in response to inquiries from Seller/Service providers about the recent change in the Commentary to Regulation B, Freddie Mac will permit lenders to document the applicants' intent to apply jointly for credit on page four of the form.

There are other approaches that are acceptable for documenting the applicants' intent to apply jointly for credit, such as including the applicants' intent to apply jointly on a separate document, provided the requirements of applicable law are met. Sellers should have qualified legal counsel review the manner in which the applicants' intent to apply jointly for credit is documented to ensure compliance with applicable law.

We have revised Chapter 37 to permit Sellers to include the applicants' intent to apply jointly for credit on the Form 65 in accordance with the above information.

Reminder about replacement of Gold Cash Xtra (GCX) software with the Freddie Mac Selling System

As announced in previous *Single-Family Seller/Servicer Guide (Guide)* Bulletins, because the Freddie Mac Selling System now offers functionality comparable to that of the GCX software system, the GCX software is being retired. Sellers are no longer able to enter into new GCX commitments, but those Sellers with existing GCX commitments still have access to GCX to fulfill those commitments. We will update the Guide in a future Guide Bulletin to reflect the retirement of the GCX software system.

As a reminder, Sellers who need access to detailed data found on the GCX software system for accounting or other purposes are strongly encouraged to secure it (by copying or printing the applicable screens) while they have access to GCX. In particular, we recommend that Sellers retain lock confirmations and pipeline exports. While Freddie Mac can provide Sellers with details from their billing statements about fulfilled GCX contracts, information on detailed GCX transactions will not be available after 2004.

For further assistance with GCX software retirement issues, Sellers may contact the Cash Desk at (800) 366-2353.

Servicing Changes

Servicer compensation

Freddie Mac's goal is the alignment of performance categories and incentives with superior performance. To better achieve this goal, from time to time we revise our default management performance standards and the related compensation.

Effective January 2, 2005, we are revising our Servicer compensation pertaining to alternatives to foreclosure so that a Servicer will receive \$400 for a repayment plan that begins on or after the 90th day of Delinquency and results in full reinstatement or payoff of the Mortgage.

We have revised Chapters 65 and B65 to reflect these changes.

Default management Servicer Performance Profile changes

The following changes to the Servicer Performance Profiles are effective January 2, 2005:

- Data Integrity, a new category that consists of three measurements (Initial Electronic Default Report [EDR] Edits, 6th Business Day Edits and Accurate Due Date of Last Paid Installments [DDLPI] Reporting) will be added. This new category is worth five points.
- The points attributed to the Early Collections Measure will be reduced by five points (from 20 to 15 points)
- Repayment plans commenced on or after the 90th day of Delinquency that result in complete reinstatement or payoff of the Mortgage will be counted in the Workout to REO Ratio

We have revised Chapter 65 to reflect the new category.

Adjustment of allowable expense amounts based on fair market costs

We are revising Exhibit 57, 1-4 Unit Property Approved Expense Amounts, and Exhibit 74, Expense and Income Codes for Form 104SF, to adjust allowable expense amounts based on fair market costs for the applicable services. We are also eliminating an expense code that is no longer applicable. We expect these changes to reduce the number of manual approvals required.

REVISIONS TO THE *SINGLE-FAMILY SELLER/SERVICER GUIDE*

Descriptions of revised Guide text are located in Exhibit A of this Bulletin. The revisions include:

- Chapters 2, 9, 10, 11, 12, 13, A13, 15, 17, 30, H33, 37, 64, 65, B65, 66 and 78
- New Chapter A15
- Exhibits 5, 6, 17, 22, 22A, 57 and 74
- Form 15/A/C
- 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 black ink, appearing to read "Michael C. May". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Michael C. May
Senior Vice President
Mortgage Sourcing, Operations & Funding

Exhibit A

Highlights of Revisions in this Package

Bulletin 2004-3 incorporates changes to the following chapters of the *Single-Family Seller/Servicer Guide* (Guide):

- **Chapter 2**—General Freddie Mac Policies—Revises language to reflect the addition of the “Documentation Level” field to the top of the Feedback Certificate returned by LoanProspector.com.
- **Chapter 9**—Cash Program for Fixed-Rate (Including Balloon/Reset) Mortgages—Revises language to reflect that the Gold remittance option is the only remittance option available for Mortgages sold under Gold Cash Xtra[®] servicing-released.
- **Chapter 10**—Cash Program for Adjustable-Rate Mortgages (ARMs)—Revises the title of Exhibit 6, which now includes the remittance cycle options for Mortgages sold under Freddie Mac Cash programs through the Freddie Mac Selling System.
- **Chapter 11**—Guarantor and MultiLender Swap Programs—Adds and revises language related to Pool Supplements to support additional disclosure elements for all PC Pools and Giant PC Pools. Revises the title of Exhibit 6, which now includes the remittance cycle options for Mortgages sold under Freddie Mac Cash programs through the Freddie Mac Selling System.
- **Chapter 12**—Master Agreements and Master Commitment Contracts—Updates language to reflect that Mortgages sold under the Selling System are eligible cash deliveries under a Master Agreement or Master Commitment.
- **Chapter 13**—Pooling and Disclosure Requirements for Fixed-Rate and Balloon/Reset Mortgages Under the Guarantor or MultiLender Swap Programs—Adds and revises language related to Pool Supplements to support the additional disclosure elements for all PC Pools and Giant PC Pools.
- **Chapter A13**—Pooling and Disclosure Requirements for Adjustable-Rate Mortgages (ARMs) Under the WAC ARM Guarantor Program—Adds and revises language related to Pool Supplements to support additional disclosure elements for all WAC ARM PC Pools.
- **Chapter 15**—Special Requirements for the Use of Freddie Mac's Web-Based System for Selling Mortgages—Reorganizes sections and adds language to accommodate the addition of WAC ARM Cash requirements in new Chapter A15.
- **Chapter A15**—WAC ARM Cash—New chapter that adds requirements for WAC ARM Cash for Sellers approved to use this Selling System functionality.
- **Chapter 17**—Mortgage Delivery and Settlement Processing—Adds language with respect to Yield Maintenance fees that may be assessed or credited when Sellers sell ARMs under a WAC ARM Cash mandatory contract.

- **Chapter 30**—Special Eligibility Requirements for Adjustable-Rate Mortgages (ARMs)—Adds language to reference new Chapter A15 for WAC ARM Cash requirements.
- **Chapter H33**—Manufactured Homes—Adds language to allow delivery of a Mortgage secured by a Manufactured Home when the transaction involves conversion of interim construction financing to permanent financing under certain conditions. Also adds language to require an insured closing protection letter unless prohibited under State law or regulations.
- **Chapter 37**—Underwriting the Borrower—Adds language to allow Sellers to indicate on the Form 65, Uniform Residential Loan Application, whether a residential loan application is for joint or individual credit. Revises language to reflect the addition of the “Documentation Level” field to the top of the Feedback Certificate returned by LoanProspector.com.
- **Chapter 64**—Delinquencies—Removes references to the Default Feedback Report and adds a reference to the Default Compliance Report.
- **Chapter 65**—Loss Mitigation—Revises language to reflect changes to Servicer compensation pertaining to alternatives to foreclosure. Revises language related to the default management Servicer Performance Profile criteria.
- **Chapter B65**—Workout Options—Revises language related to the default management Servicer Performance Profile criteria.
- **Chapter 66**—Foreclosure—Removes references to the Default Feedback Report.
- **Chapter 78**—Reporting and Remitting Requirements—Revises the title of Exhibit 6, which now includes the remittance cycle options for Mortgages sold under Freddie Mac Cash programs through the Freddie Mac Selling System.

Exhibits

We’ve revised the following Exhibits:

- **Exhibit 5**—Authorized Changes to Notes, Riders and Security Instruments
- **Exhibit 6**—Matrix of Remittance Cycle Options
- **Exhibit 17**—Offer Product and Offer Program Numbers
- **Exhibit 22**—Form of Additional Supplement—Fixed-Rate Nonstandard Prepayment Protection Mortgages
- **Exhibit 22A**—Form of Additional Supplement—Convertible Adjustable-Rate Mortgages (ARMs)
- **Exhibit 57**—1-4 Unit Property Approved Expense Amounts
- **Exhibit 74**—Expense and Income Codes for Form 104SF

Forms

We’ve revised the following Form:

- **Form 15/A/C**—Loan Purchase Statement

Glossary

We've added the following terms:

- **Documentation Level**
- **Giant Offering Circular Supplement**
- **Pool Supplement**

We've revised the following term:

- **Additional Supplement**

We've removed the following term:

- **Documentation Class**

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