

Bulletin

NUMBER: 2005-4

TO: All Freddie Mac Sellers and Servicers

August 10, 2005

SUBJECTS

Both Selling and Servicing requirements are amended in this Bulletin.

We are:

- Revising our flood insurance coverage requirements for Mortgages sold to and serviced for Freddie Mac
- Announcing the eligibility of Initial InterestSM Mortgages and Limited Buydown and Extended Buydown Mortgages for sale through the Freddie Mac Selling System (Selling System)
- Revising postsettlement delivery fee (delivery fee) rates for Mortgages with secondary financing by:
 - Reducing the delivery fee rate for Mortgages that are not Initial Interest Mortgages and are not Home PossibleSM Mortgages to:
 - 25 basis points for the 75/20/5, 80/15/5 and 90/5/5 financing structures
 - 0 basis points for the 80/10/10 financing structures
 - Increasing the delivery fee rate for Initial Interest Mortgages to 25 basis points for 75/20/5 financing structures
- Making various appraisal-related changes to the organization, structure and content of Chapters 22, H33 and 44
- Providing more specific recommendations on steps Sellers can take to ascertain the condition of properties located in areas that may be impacted by a disaster
- Updating language related to Borrower qualification for Limited Buydown and Extended Buydown Mortgages
- Providing revised adjustable-rate Mortgage (ARM) Notes and new ARM Riders for use with Initial Interest ARMs
- Announcing new and revised Fannie Mae/Freddie Mac Uniform Instruments for Puerto Rico
- Revising the directions for completion of the Rate Spread field on Form 11, Mortgage Submission Schedule, and Form 13SF, Mortgage Submission Voucher, to improve data accuracy

We're also:

- Revising our requirements for remitting payment for broker price opinions (BPOs) ordered in connection with cancellation of Borrower-paid mortgage insurance
- Updating Form 1126, Borrower Financial Information, and Form 1126SP, Formulario Financiero del Prestatario, to provide additional space in certain cells and to require additional Borrower information and documentation

EFFECTIVE DATES

All of these changes are effective immediately except:

- January 1, 2005—The revised requirements for billing and remittance for BPOs ordered in connection with cancellation of Borrower-paid mortgage insurance on the Performing Loans monthly Servicer Billing Statement became effective on this date.
- September 1, 2005—The reduced secondary financing delivery fee rates for Mortgages other than Initial Interest Mortgages and Home Possible Mortgages are effective for settlements on or after this date.
- October 10, 2005—Sellers must deliver rate spread in accordance with the revised Form 11 and 13SF requirements on and after this date.
- November 1, 2005—Sellers must use the revised Initial Interest ARM Notes and new Initial Interest ARM Riders for all Initial Interest ARMs with a 10-year Interest Only Period originated on or after this date.
- December 1, 2005—The increase in the delivery fee rate for Initial Interest Mortgages with secondary financing is effective for settlements on or after this date.
- January 1, 2006
 - The appraisal form-related changes in Section H33.6 and Chapter 44 (with the exception of Sections 44.2 and 44.11) are effective for Mortgages sold to Freddie Mac with appraisal reports that have effective dates on or after this date.
 - The revised Puerto Rico Uniform Instruments must be used for Mortgages originated on or after this date.

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

Selling Changes

Flood insurance requirements

We have revised our flood insurance coverage requirements for Mortgages sold to Freddie Mac to match the amount required by the National Flood Insurance Reform Act of 1994 (NFIRA). This revision is the result of many Seller/Servicers' requests for consistency between our requirements and those that federally regulated institutions are required by the NFIRA to follow. The revisions to Freddie Mac-required flood insurance coverage will streamline processes for Seller/Servicers, while promoting consistent, more easily

understood information for Borrowers. However, we strongly encourage Seller/Servicers to work with Borrowers to ensure that they understand their flood insurance coverage and options, including exploring additional flood insurance coverage above the minimum required by the NFIRA.

We've revised Chapters 46 and 58 to reflect these revised requirements.

Selling System

Initial Interest and Limited Buydown and Extended Buydown Mortgages

As previously announced in Bulletins 2005-1 and 2005-2, Initial Interest Mortgages became eligible for sale through every execution path in the Selling System on July 1, 2005. In addition, Limited Buydown and Extended Buydown Mortgages, including Home Possible Neighborhood SolutionSM Mortgages that are Extended Buydown Mortgages, are now eligible for sale through the Selling System. Please note that fixed-rate Extended Buydown Mortgages are eligible for sale under fixed-rate Cash through the Selling System only. We've updated Chapters 15, A15, B15, C15, D15 and 17 to reflect these changes.

We have updated Exhibit 17S, Mortgage Products Available Through the Selling System, to reflect the current availability of Initial Interest Mortgages. In addition, Exhibit 17S has been updated to reflect the new loan instruments for use with Initial Interest ARMs.

We have also revised Exhibit 8, Delivery Balance Examples for MIDANET[®] and the Selling System, to update the examples and to include the applicable Selling System executions for each case.

References to specific Purchase Documents

Sections 1.2 and 50.2 have been revised to remove references to specific Purchase Documents and add references to the sections in Chapter 15 that cover changes to the *Single-Family Seller/Servicer Guide* (Guide) regarding terms for the sale of Mortgages through the Selling System and changes made by Freddie Mac to the Selling System itself. The definition of Purchase Documents has not changed.

Revisions to secondary financing delivery fee rates

We continually evaluate the Mortgages that we purchase and the applicable delivery fees. Based on recent data and analysis, we've revised our secondary financing delivery fee rates by lowering the rates for Mortgages with secondary financing that are not Initial Interest Mortgages or Home Possible Mortgages and raising one of the rates for Initial Interest Mortgages with secondary financing.

Effective for non-Initial Interest Mortgages and non-Home Possible Mortgages with settlements on or after September 1, we are reducing the secondary financing delivery fee rate to 0 basis points for the 80/10/10 secondary financing structure and to 25 basis points for all other secondary financing structures. For Initial Interest Mortgages, we are increasing the secondary financing delivery fee rate to 25 basis points for the 75/20/5 secondary financing structure. This delivery fee rate increase applies to settlements on or after December 1, 2005.

We've revised Exhibit 19, Postsettlement Delivery Fees, to reflect the changes described above. Sellers should continue to refer to the Industry Letter dated July 26, 2005, for information on secondary financing delivery fee rates for Home Possible Mortgages until Exhibit 19 is updated in a later Bulletin to incorporate the Home Possible changes announced in that letter.

Appraisal-related changes

Organization, structure and content

To enhance usability and understanding of our appraisal requirements and to support the new appraisal forms announced in our March 31 Industry Letter, we've made several changes to the organization, structure and content of Chapters 22, H33 and 44, as indicated below. Effective dates for these changes are also noted below.

- Chapter 22, General Mortgage Eligibility
 - Moved text of Section 22.17, Type and Condition of Structure, to Chapter 44 (effective immediately)
- Chapter H33, Manufactured Homes
 - Moved text of Section H33.6, Appraisal Requirements, to Chapter 44 (effective for Mortgages with appraisal reports that have effective dates on or after January 1, 2006)
 - Added more details with respect to how the Manufactured Home should be attached to the site (effective immediately)
- Chapter 44, Appraisal Reports, Inspection Reports and No-Appraisal MAF
 - Added the text of former Section 22.17, Type and Condition of Structure (effective immediately)
 - Added language related to the Form 70B, Manufactured Home Appraisal Report (effective for Mortgages with appraisal reports that have effective dates on or after January 1, 2006)
 - Moved and revised text of former Section H33.6, Appraisal Requirements (effective for Mortgages with appraisal reports that have effective dates on or after January 1, 2006)

Properties affected by disasters

Disasters such as hurricanes, floods and tornadoes can result in property damage or destruction and may affect the acceptability of properties as security for Mortgages that you plan to sell to Freddie Mac. We're providing more specific recommendations on steps you can take to ascertain the condition of properties located in areas that may be impacted by a disaster. We've revised Chapter 44 to reflect this change.

Limited Buydown and Extended Buydown Mortgages

In Chapter 25, we've updated language related to Limited Buydown and Extended Buydown Mortgages to state that, if reserves are required for Borrower qualification, the reserves must be calculated using the Note Rate.

Revised ARM Notes and new ARM Riders for use with Initial Interest ARMs

We are providing revised ARM Notes and new ARM Riders for use with Initial Interest ARMs. Sellers must use the revised Initial Interest ARM Notes and the new Initial Interest ARM Riders for all Initial Interest ARMs with a 10-year Interest Only Period originated on and after November 1, 2005.

We've revised Chapter J33 and Exhibits 4, 5, 17 and 17S to reflect this new information.

New and revised Puerto Rico Uniform Instruments

We're pleased to announce new and revised Fannie Mae/Freddie Mac Uniform Instruments for Puerto Rico. These instruments incorporate valuable advice provided by lenders, notaries and others in the Puerto Rico housing finance industry. For the first time we are making available Puerto Rico property type riders that may be incorporated into the First Mortgage where applicable. We have also provided Spanish translations on a paragraph-by-paragraph basis making both the English and Spanish text easier to read.

The Uniform Instruments include an Acceptance of First Mortgage (Form 3053.1) that may be used by Sellers when required by a notary to provide formal acceptance of the Mortgage in order to avoid unilateral cancellation by the mortgagor.

The new and revised Puerto Rico Uniform Instruments may be used immediately; the revised Puerto Rico Uniform Instruments must be used for Mortgages originated on or after January 1, 2006.

We've revised Exhibit 4, Single-Family Uniform Instruments, and Exhibit 5, Authorized Changes to Notes, Riders and Security Instruments, to reflect these changes.

Form 11 and Form 13SF changes

We've updated the Rate Spread field on Forms 11 and 13SF to revise the directions and improve data accuracy. A Seller should no longer deliver a rate spread to Freddie Mac unless the Seller delivers a rate spread for the Mortgage to its regulator pursuant to the Home Mortgage Disclosure Act (HMDA). For example, a Seller should not deliver a rate spread to Freddie Mac if the Seller is not subject to HMDA or if the loan is not reported under HMDA. Further, a Seller should deliver to Freddie Mac the same rate spread that it delivers under HMDA.

Sellers may deliver a rate spread in accordance with the revised requirements immediately and must deliver in accordance with the revised requirements on and after October 10, 2005.

Servicing Changes**Broker price opinions**

As communicated in your Performing Loans monthly Servicer Billing Statement, in January 2005 we revised our requirements for billing and remitting payment for broker price opinions (BPOs) ordered from our vendor network in connection with cancellation of Borrower-paid mortgage insurance.

We've revised our requirements for remitting payment for BPOs ordered in connection with cancellation of Borrower-paid mortgage insurance. Instead of mailing checks, you will be billed for the cost of the BPO on your Performing Loans monthly Servicer Billing Statement. This new automated process will be more efficient both for Servicers to pay, and Freddie Mac to account for, reimbursement for these BPOs. Payment for BPOs ordered for any other reason should continue to be made in accordance with existing *Single-Family Seller/Servicer Guide* (Guide) requirements.

We've revised Chapter 65 to reflect this change.

Forms 1126 and 1126SP

We've updated Form 1126, Borrower Financial Information, and Form 1126SP, Formulario Financiero del Prestatario, to provide additional space in certain cells and to require additional Borrower information and documentation.

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 1, 6, 15, A15, B15, C15, D15, 17, 22, 23, 25, A34, H33, J33, 44, 46, 50, 58, 60, 61, 65, 66 and 71
- Exhibits 4, 5, 8, 17, 17S, 19, 26 and 28A
- Forms 11, 13SF, 1126 and 1126SP
- 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



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