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September 1, 2005

Subject: Unacceptable Refinance Practices

To: All Freddie Mac Sellers and Servicers

Freddie Mac has recently become aware of refinance practices that increase the likelihood that certain refinance Mortgages sold to Freddie Mac will prepay faster than comparable Mortgages originated without such practices. We have determined that some Mortgage Brokers and originators have entered into arrangements with Borrowers that provide financial incentives for the Borrowers to refinance their Mortgages quickly. Freddie Mac is committed to promoting responsible lending practices that help our Sellers serve Borrowers and the communities in which they live and considers these refinance practices to be unacceptable.

We are reminding Sellers that *Single-Family Seller/Servicer Guide* (Guide) Sections 8.10 and 22.9 prohibit the sale of a Mortgage to Freddie Mac if any of the following occurs:

- The Seller has knowledge or reason to believe that a Borrower has entered into, or has agreed to enter into, a refinancing arrangement, even if the agreement is not in writing
- The Mortgage was obtained from a Mortgage Broker or Correspondent and the Seller has knowledge or reason to believe that the Mortgage Broker or Correspondent has received an application to refinance or has agreed to refinance the Mortgage, even if the agreement is not in writing
- The Seller has not provided Freddie Mac with full and accurate disclosure of all material information about the Mortgage. Any information related to refinancing or proclivity for refinancing is considered material information to Freddie Mac.
- The Seller, or any prior holder of the Mortgage, advanced funds to the Borrower for the payment of the Borrower's monthly Mortgage payment

Mortgages that are subject to inappropriate refinancing arrangements often have high interest rates, low loan-to-value (LTV) ratios and high Credit Scores. They may be refinanced multiple times within an unusually short period of time at the same or a higher interest rate. In addition, the Borrower may receive a cash payment as part of the refinancing.

We expect Seller/Servicers to monitor the prepayment levels of the Mortgages they have sold to Freddie Mac, and to immediately notify their Freddie Mac account manager if they become aware of circumstances likely to result in unusually high prepayment rates on these Mortgages.

Any Seller that engages in unacceptable refinance practices will be subject to the remedies specified in the Guide, which include disqualification, suspension, repurchasing the Mortgages subject to the unacceptable refinancing practices, and/or making Freddie Mac whole for losses and claims arising from the unacceptable refinance practices.

Conclusion

We know that Freddie Mac Sellers share our goal of promoting responsible lending practices. If you have questions about Freddie Mac's requirements, please call (800) FREDDIE.

Sincerely,

A handwritten signature in black ink, appearing to read "James J. Cotton". The signature is fluid and cursive, with a prominent loop at the end.

James J. Cotton
Vice President
Single-Family Marketing