

Custodial Options and Requirements

Chapter 1

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Custodial Options and Requirements

Overview

A Seller/Servicer selling Mortgages to Freddie Mac must ensure that the Notes, assignments, and related documents are delivered to you according to the Freddie Mac Single-Family Seller/Servicer Guide (Guide). This chapter describes Custodian options available to Seller/Servicers for certifying and safeguarding our Notes.

Custodian Options

Seller/Servicers must select either Freddie Mac's Document Custodial Operations (DCO), or a Freddie Mac approved Document Custodian, for the Mortgages sold and/or serviced for each Seller/Servicer number. See Guide Section 18.1.

The following chart identifies the general requirements for each Custodian option.

Custodian	Contract Requirements	Document Requirements	Fees
Third-Party Custodian	Requires approval from Freddie Mac and an executed Form 1035 Tri-Party Custodial Agreement	Seller sends Notes, supplemental documents and assignments to the Third-Party Custodian.	Servicer and Custodian negotiate fee structure
Self-Custodian	Requires approval from Freddie Mac and an executed Form 1035 Tri-Party Custodial Agreement	Seller sends Notes, supplemental documents and assignments to its trust department, which has trust powers granted by its primary regulator.	Servicer and Custodian negotiate fee structure
DCO	None	Seller sends Notes and supplemental documents to DCO. Seller sends assignments to the Servicer to retain in a fire resistant storage area.	See Guide Section 18.8

Compensation for custodial services is the sole responsibility of the Servicer. See Guide Section 18.1. Seller/Servicer and Custodian should enter into a written agreement regarding Custodian's charges and fees for certifying, holding, releasing, copying, etc. Notes, however, the agreement may not contain terms that conflict with the Guide or this Handbook, such as Freddie Mac's ability to gain access to the Notes without the Seller/Servicer's consent. A Document Custodian may not act in a manner that might adversely affect Freddie Mac or its interests, or fail to perform its custodial duties because it has not been paid by a Seller/Servicer.

A Custodian location will be assigned only one Custodian number, regardless of the number of Seller/Servicers for which it holds Notes for Freddie Mac. Each relationship

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between a Seller/Servicer number and a Third-Party or Self-Custodian requires a separate Custodial Agreement. Mortgages sold under a particular Seller/Servicer number will automatically be associated with DCO or with the Custodian assigned to that number unless custody is transferred or terminated in accordance with the Guide. A Seller/Servicer must have a separate Seller/Servicer number for each custodial relationship. See Guide Sections 18.1(a) and 18.3.



Custodians with more than one vault location will need a separate Custodian number from Freddie Mac for each location.

The agreement that governs the certification and safeguarding of Notes sold to Freddie Mac is the Tri-Party Custodial Agreement (Form 1035), which is a tri-party agreement between Freddie Mac, the Seller/Servicer, and the Custodian. By executing the Form 1035, the Seller/Servicer and the Custodian represent and warrant to each other and to Freddie Mac that the Custodian satisfies our document custody eligibility requirements, found in Form 1035, this handbook and the Guide, as they may be amended from time to time. See Form 1035 and Guide Section 18.3 for more information. If a Custodian fails to maintain or comply with the eligibility requirements (see Guide Section 18.4), the Seller/Servicer must contact Freddie Mac's Counterparty Credit Risk Management department (CCRM) immediately at:

Attn: Counterparty Credit Risk Management
Freddie Mac
1551 Park Run Drive, MS D3A
McLean, VA 22102-3110
Phone: (571) 382-3434 opt. 2
Fax: (866) 743-0087

Eligibility

Basic Document Custodian eligibility requirements appear in Section 18.2 of the Guide. A Document Custodian must meet the requirements found within Section 18.2 in order to qualify to become a Freddie Mac approved Document Custodian including, but not limited to, being a financial institution that is supervised and regulated; meeting Freddie Mac's minimum net worth requirement; and performing the document custody function in a trust department that is established and operated under trust powers granted by the Document Custodian's primary regulator. For additional information on Document Custodian eligibility requirements, please refer to Guide Section 18.2.

Application and Approval Process

A Seller/Servicer electing to use a Custodian must contact CCRM to apply for approval.

The document custodial applicant must contact CCRM for information on the application process and the required documentation. When the necessary documentation is received, CCRM will review it to determine whether to grant approval, and notify both the Seller/Servicer and applicant of its decision. See Guide Sections 18.2 and 18.3 for eligibility criteria and further information.

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Freddie Mac must receive an original, fully executed Form 1035 before the

- Seller/Servicer delivers any documents to a Custodian pursuant to Guide Section 16.8, or
- Custodian accepts any documents from a Seller/Servicer.

We will send a copy of the fully executed Form 1035 to both the Seller/Servicer and Custodian, for their records. See Guide Section 18.3.

Annual Reporting

By March 31st of each year, each Custodian must complete the Annual Document Custodian Eligibility Certification Report and submit it to CCRM. Custodians must also submit any other information that Freddie Mac may request in conjunction with the Annual Report or otherwise. See Form 1035.

Concurrent with submission of its Form 16SF, Annual Eligibility Certification Report, to CCRM, Seller/Servicer certifies its Custodian, or Custodians, if applicable, continues to meet all the document custodian eligibility requirements stated in the Guide. Seller/Serviceers must also submit any other information that Freddie Mac may request. See Form 1035 and Guide Section 4.9 for more information.

Terminating the Custodial Relationship

Any party to a Form 1035 may terminate it upon proper notice to the other parties. Upon such notice, all Freddie Mac Notes must be transferred to a new approved Custodian or DCO within 30 days as described in Chapter 5 of this handbook and Chapter 18.7 of the Guide. The Custodian being terminated must fulfill the custodial duties until all Notes have been transferred to and recertified by the Transferee Custodian.

Freddie Mac may terminate any Custodial Agreement between Freddie Mac, a Seller/Serviceer and a Custodian in our sole discretion upon 30 days written notice.

Freddie Mac may terminate a Form 1035 immediately if we modify our requirements for custody or if a Seller/Serviceer:

- is suspended or disqualified, or
- is unable to comply with our eligibility standards, or
- performs unsatisfactorily

or if a Custodian:

- does not meet the eligibility requirements or criteria for custody, or
- performs unsatisfactorily, or
- if any circumstance occurs or exists that might adversely affect the Custodian or our Notes or assignments or the interests of Freddie Mac.

See Guide Sections 18.1 and 18.7 and Section 6 of Form 1035 for more information.

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A **Custodian** may terminate the Form 1035 upon at least 30 days written notice to the Seller/Service and to CCRM.

A **Seller/Service** may terminate a Form 1035 upon 30 days written notice to the Custodian and CCRM. The Seller/Service must then select either DCO or a new Custodian.