

# Understanding Custodial Accounts

## User Guide

March 2016

## **Notice**

**The information in this manual is intended to provide general guidance to Freddie Mac Servicers. The information is offered as an aid in, not a substitute for, complying with requirements set forth in the *Single-Family Seller/Servicer Guide* (the Guide). Each Freddie Mac approved Servicer must comply with all applicable provisions in the Guide, and all other purchase documents, as that term is defined in the Guide. This manual does not constitute as one of the purchase documents.**

Initial Issue: April 1995  
Last Update: March 2016  
Publication Number: 173  
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# Table of Contents

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<b>WELCOME</b>	<b>I</b>
Purpose .....	i
The Custodial Accounts Process flow .....	i
How This Manual is Organized .....	ii
Where to find Additional Information .....	iii
<b>CHAPTER 1 - ESTABLISH AND MAINTAIN CUSTODIAL ACCOUNTS</b>	<b>1-1</b>
Introduction.....	1-1
Objectives .....	1-1
Freddie Mac Overview.....	1-2
What is the secondary mortgages market? .....	1-2
What is Our role in the secondary mortgage market? .....	1-2
Flow of Mortgage Funds.....	1-3
Overview of Freddie Mac Requirements .....	1-4
What is a custodial account?.....	1-4
What are the requirements?.....	1-4
Establishing and Setting up Accounts .....	1-5
What types of accounts do I establish? .....	1-5
Where do I establish my custodial accounts?.....	1-5
Basic Eligibility Requirements.....	1-6
Additional Eligibility Requirements.....	1-6
Tier Rating Requirements .....	1-6
Tier Ratings.....	1-6
Monitoring your Depository’s Rating .....	1-6
Custodial Account Documentation Requirements.....	1-7
Ineligible Depositories .....	1-7
Setting up Custodial Accounts .....	1-7
Principal and Interest (P&I) Custodial Accounts .....	1-8
Principal and Interest Disbursement Clearing Custodial Account .....	1-8
Escrow Custodial Accounts .....	1-8
Buydown Custodial Accounts .....	1-8
Proper Designation Titling for Each Custodial Account.....	1-9
Establish an Account with GPI .....	1-10
Letter of Authorization.....	1-10
What must I communicate to Freddie Mac?.....	1-11
Maintaining and Monitoring your Custodial Accounts .....	1-12
Depositing Funds .....	1-12
When must I reconcile the accounts?.....	1-13
Funding Variances .....	1-13
Corporate Advances.....	1-13
Custodial Accounts Timeline .....	1-13
Can custodial account funds be invested?.....	1-14
Review .....	1-15

# Table of Contents

---

<b>CHAPTER 2 - RECONCILE ESCROW CUSTODIAL ACCOUNTS</b>	<b>2-1</b>
Introduction.....	2-1
Objectives .....	2-1
Overview of Reconciling Escrow Custodial Accounts.....	2-2
Set Up and Maintenance of Accounts .....	2-2
Types of escrow fund categories .....	2-2
Is it mandatory that I establish an escrow custodial account? .....	2-2
When do I reconcile the escrow custodial account? .....	2-2
What form do I use to reconcile? .....	2-3
Can I use collections from one loan to offset a deficit of another loan? .....	2-3
What type of records must I maintain for collected funds? .....	2-3
May I make one remittance for a liability that involves multiple investors? .....	2-3
What is the difference between a biweekly mortgage and a biweekly payment plan? .....	2-4
Why would a borrower select a biweekly payment plan? .....	2-4
Does a biweekly payment plan impact my investor reporting? .....	2-4
Where do I keep biweekly payment plan funds? .....	2-4
Completing the Escrow Custodial Account Reconciliation Worksheet .....	2-6
Worksheet Example .....	2-7
Completing Section 1 - Adjusted Bank Balance .....	2-8
Line 1a .....	2-8
Line 1b .....	2-8
Line 1c .....	2-8
Line 1 .....	2-8
Completing Section 2 – Total Liability .....	2-9
Line 2a .....	2-9
Line 2b .....	2-9
Example of Negative Escrow .....	2-10
Line 2c .....	2-11
Line 2d .....	2-11
Line 2e .....	2-11
Line 2 .....	2-11
Completing Section 3 - Total Variance.....	2-11
Line 3a .....	2-12
Line 3b .....	2-12
Line 3c .....	2-12
Itemize Current Cycle Variance .....	2-12
Review .....	2-13
<b>CHAPTER 3 - INVESTOR ACCOUNTING OVERVIEW</b>	<b>3-1</b>
Introduction.....	3-1
Objectives .....	3-1
Introduction to Investor Accounting .....	3-2
What is investor accounting? .....	3-2
Understanding Cash Management.....	3-4
Cash Management Reports .....	3-4
Loan History .....	3-4
Daily Collections Report.....	3-5
Bank Statement .....	3-5

# Table of Contents

---

Daily Collections Report and Cash Management Reports.....	3-6
Your Investor Reporting Responsibilities .....	3-7
Overview of Amount Due .....	3-7
Principal Due.....	3-7
Calculating Principal Amount Due .....	3-7
Interest Due .....	3-8
Calculating Interest Due.....	3-8
Monthly Interest Due .....	3-8
Exception Interest Due.....	3-9
Interest Due - Timeline Example .....	3-9
Freddie Mac's Role in the Investor Reporting Process .....	3-10
What daily reports does Freddie Mac provide to help with your process?.....	3-10
What to do with the Daily Edit Reports.....	3-10
What is a corrected transaction?.....	3-11
What monthly reports do we provide? .....	3-11
Monthly Reconciliation Report Descriptions .....	3-12
Monthly Account Statement .....	3-12
Example - Monthly Account Statement .....	3-13
What is the Seller/Servicer Remittance Analysis?.....	3-13
Example-Remittance Analysis .....	3-14
Cash Management and Investor Reporting Relationship .....	3-14
Monthly Account Statement and Bank Statement Comparison.....	3-15
Loan History vs. Amount Due .....	3-15
Review .....	3-16
<b>CHAPTER 4 - RECONCILE PRINCIPAL AND INTEREST CUSTODIAL ACCOUNTS</b>	<b>4-1</b>
Introduction.....	4-1
Objectives .....	4-1
Overview of Reconciling Principal and Interest (P&I) Custodial Accounts .....	4-2
What do I need to begin reconciling? .....	4-2
The Reconciliation Process .....	4-3
Reconciliation process - Monthly Account Statement .....	4-6
The Principal and Interest Custodial Account Reconciliation Worksheet .....	4-7
Worksheet Sections.....	4-7
Reconciliation Worksheet .....	4-8
Completing Section 1 - Adjusted Bank Balance .....	4-9
Completing Section 2 - Total Liability .....	4-10
What are delinquent interest amounts? .....	4-12
When do I remit delinquent interest? .....	4-12
What funds may I use to remit delinquent interest? .....	4-12
Is this the same as I report for delinquency reporting?.....	4-13
Example of Delinquent Interest.....	4-13
Completing Section 3 – Total Variance .....	4-15
Purpose of Current Cycle Variance .....	4-16
Timeline .....	4-16
Review .....	4-17

# Table of Contents

---

<b>CHAPTER 5 - CALCULATE CASH DISBURSEMENT VARIANCE</b>	<b>5-1</b>
Introduction.....	5-1
Objectives .....	5-1
Introduction to Reconciling Cash Disbursements .....	5-2
What is investor reporting? .....	5-2
How do cash management and investor reporting relate to one another? .....	5-2
Cumulative Cash Overage/Shortage.....	5-2
What is a cash disbursements variance?.....	5-2
How do I reconcile my cash disbursements variance? .....	5-2
What is a cash disbursement? .....	5-3
How are funds remitted? .....	5-3
When is my account debited? .....	5-3
When is my Freddie Mac receivable account updated? .....	5-3
Determining Your Cash Disbursements Variance.....	5-3
Cash Disbursements to Amount Remitted Worksheet .....	5-4
Completing Section 1 .....	5-4
Completing Section 2.....	5-7
Completing Section 3.....	5-7
Identifying and Resolving Cash Disbursements Variance.....	5-8
What do I do if I have a variance? .....	5-8
Starting a Variance Log .....	5-8
How to Identify Cash Disbursement Variances.....	5-9
Determining if a Variance is a Cash or Paper Adjustment.....	5-9
Over and Under Remittances have no Impact on your Custodial Reconciliation.....	5-9
Information on the Seller/Servicer Remittance Analysis.....	5-10
Report Comparison .....	5-11
Review .....	5-12
<b>CHAPTER 6 - CALCULATE CASH RECEIPTS VARIANCE</b>	<b>6-1</b>
Introduction.....	6-1
Objectives .....	6-1
Introduction to Reconciling Cash Receipts .....	6-2
What is a cash receipt?.....	6-2
What is a cash receipts variance?.....	6-2
What is investor reporting? .....	6-3
How do cash management and investor reporting relate to one another? .....	6-3
What causes a cash receipts variance? .....	6-3
Sources of Cash Receipts.....	6-4
Diagram - Cash Receipts Process.....	6-4
Amount Due .....	6-5
What is the total liability due Freddie Mac? .....	6-5
Calculating Loan-Level and Portfolio-Level Amount Due .....	6-5
Loan-Level Amount Due and Cash Receipts .....	6-5
Understanding Cash Receipts and Amount Due .....	6-6
Calculation for Cash Receipts.....	6-6
Calculation for Loan-Level Amount Due.....	6-6
Mortgage Status and Determining Loan-Level Amount Due .....	6-7

# Table of Contents

---

Interest Rates.....	6-7
Cash Receipts and Loan-Level Amount Due Examples.....	6-7
Example A - Mortgage is Current.....	6-8
Example B - Mortgage is Delinquent.....	6-9
Example C - Mortgage is Prepaid.....	6-10
Mortgage was Current and Remains Current.....	6-11
Mortgage was Current, Now Delinquent.....	6-11
Mortgage was Delinquent, Now Current.....	6-12
Mortgage was Current, Now Prepaid.....	6-12
Mortgage was Prepaid, Now Current.....	6-13
Formulas for Amount Due and Cash Receipts.....	6-13
The Cash Receipts Worksheet.....	6-14
Completing Section 1.....	6-15
Completing Section 2.....	6-16
Completing Section 3.....	6-19
What do I do if I have a variance?.....	6-19
Identifying and Resolving Cash Receipt Variances.....	6-19
What do I do if I have a variance?.....	6-19
Starting a Variance Log.....	6-20
How to Identify Cash Receipts Variances.....	6-20
Deposit Analysis.....	6-20
Other Billings Analysis.....	6-21
Loan Level Analysis, Method 1.....	6-21
Loan Level Analysis, Method 2.....	6-22
Determine if a variance is a cash or paper adjustment.....	6-22
Deposit Analysis.....	6-23
Deposits Other than Loan-Level Collections.....	6-23
What causes deposit errors?.....	6-23
Why would I have any non-loan-level collections?.....	6-24
Analyze Payments for Current Cycle Activity.....	6-24
Repurchases.....	6-24
Repurchase Example 1-Same Cycle.....	6-25
Repurchase Example 2- Different Cycles.....	6-25
Corporate Advances.....	6-25
Recovery of P&I Advances.....	6-26
Advances fully repaid.....	6-26
Advance Not Fully Repaid.....	6-26
Depositing Delinquent Interest for Each Loan.....	6-26
Other Billings Analysis.....	6-27
Billings on the Detailed Adjustment Report.....	6-27
Example Detailed Adjustment Report.....	6-28
Billings on the Consolidated Billing Statement.....	6-27

# Table of Contents

---

Loan-Level Analysis .....	6-29
Loan-Level Variances .....	6-29
Causes of Loan-Level Variances.....	6-29
Calculating your Total Loan-Level Cash Receipts Variances.....	6-29
Automating the Analysis for Total Loan-Level Cash Receipts Variance.....	6-30
Detailed Analysis of Principal Cash Receipts Variance and Interest Cash Receipts Variance .....	6-30
Transfers of Servicing.....	6-31
Amortization Differences.....	6-31
Example - Determining Amortization Differences.....	6-32
Amortization Differences on Curtailments.....	6-33
Amortization Difference - Amount of Interest Collected is Less than Amount Due .....	6-33
Amortization Difference - Amount of Interest Collected is Greater than Amount Due .....	6-34
Interest on Newly Funded Mortgages .....	6-34
Exercise -Newly Funded Mortgages .....	6-34
Answers to Exercise - Newly Funded Mortgages .....	6-35
Sources of Funds to Cover Variances .....	6-35
Example .....	6-36
Reporting Variances.....	6-36
Differences Within Your Records.....	6-36
Using the Loan-Level Missing Report .....	6-37
Using Sections 1 and 2 of the Loan Reconciliation Difference Report.....	6-37
Using Section 3 of the Loan Reconciliation Difference Report .....	6-37
Using Section 4 of the Loan Reconciliation Difference Report .....	6-37
Review .....	6-38

## **CHAPTER 7 - COMPLETE CURRENT CYCLE VARIANCE AND CUMULATIVE VARIANCE LOGS** **7-1**

Introduction.....	7-1
Objectives .....	7-1
Identifying and Resolving Current Cycle Variances .....	7-2
What is a cash disbursement variance?.....	7-2
Identifying a Cash Disbursement Variance .....	7-2
What is a cash receipts variance?.....	7-2
Identifying a Cash Receipts Variance .....	7-2
The Current Cycle Variance Log .....	7-3
Carrying the Adjustments.....	7-3
Identifying Positive Variances .....	7-3
Identifying Negative Variances.....	7-4
Current Cycle Variance Log .....	7-4
The Cumulative Variance Log .....	7-5
Completing the Cumulative Variance Log.....	7-5
Why is it necessary to determine if a variance is a cash or paper adjustment? .....	7-5
Cumulative Variance Log .....	7-6
Review .....	7-7

# Table of Contents

---

<b>CHAPTER 8 - CUSTODIAL ACCOUNT REVIEW</b>	<b>8-1</b>
Introduction.....	8-1
Objectives .....	8-1
Overview of the Custodial Account Review (CAR) .....	8-2
When will I receive my CAR Request?.....	8-2
How will I know what to send in?.....	8-2
What if I don't have enough time to comply with the request?.....	8-2
When will I receive the results of the review? .....	8-2
What if I am not satisfied with the results? .....	8-2
Performance Profile Weightings .....	8-3
Maximizing Your CAR Score.....	8-4
Example: Required Documentation for P/I & Escrow Custodial Account Reconciliation Checklist.....	8-4
Request letter .....	8-6
Custodial Account Review Customer Profile.....	8-7
Documentation matrix.....	8-9
Review .....	8-13
<b>CHAPTER 9 - ACCOUNTING FOR ODD DUE DATE MORTGAGES</b>	<b>9-1</b>
Introduction.....	9-1
Objectives .....	9-1
Understanding Odd Due Date Mortgages .....	9-2
Definitions: Payment Due Date and Payment-Received Date.....	9-2
Example: Due and Received Dates for a First-of-the-Month Mortgage.....	9-2
Example: Due and Received Dates for an Odd Due Date Mortgage.....	9-2
Why do Odd Due Date Mortgages Cause a Cash Flow Variance? .....	9-2
Determining Interest Due Freddie Mac.....	9-3
Determining Interest Due from the Borrower .....	9-3
Principal and Interest Adjustments .....	9-3
New Funding and Adjustments for Odd Due Date Mortgages.....	9-4
Interest Deposit Required for Odd Due Date Mortgages .....	9-4
Source of Funds for Adjustment .....	9-4
Interest Collected from Freddie Mac at Funding .....	9-5
Prepaid Interest Collected from the Borrower .....	9-5
Adjustments to the Custodial Account.....	9-6
Odd Due Date Mortgage with First Payment Due the Month of Funding.....	9-6
Adjustments for a First-of-the-Month Due Date Mortgage.....	9-6
Example: Same Month Origination and Funding for First-of-the-Month Due Date Mortgage.....	9-7
Adjustments for Odd Due Date Mortgages with the First Payment Due the Month After Funding.....	9-8
Example: Odd Due Date Mortgage with Payment Due the Month Following Funding.....	9-9
Example: Odd Due Date Mortgage with First Payment and Funding in the Same Month.....	9-10
Determining Prepaid Interest Collected .....	9-11
Prepaid Interest .....	9-11
Definitions: Settlement Date and First Payment Due Date .....	9-11
First Payment Due Date for First-of-the-Month Mortgages.....	9-11
First Payment Due Date for Odd Due Date Mortgages.....	9-12

# Table of Contents

---

Calculating the Amount of Prepaid Interest Collected from the Borrower .....	9-13
Prepaid Interest Collected for a First-of-the-Month Due Date Mortgage .....	9-13
Prepaid Interest Collected for an Odd Due Date Mortgage .....	9-13
Summary .....	9-14
Example: First-of-the Month Due Date Mortgage .....	9-14
Example: Odd Due Date Mortgage .....	9-15
Determining Monthly Interest .....	9-16
Monthly Interest Due from the Borrower.....	9-16
Time Period Covered by the Monthly Payment .....	9-16
Interest Included in the Payment .....	9-16
Interest-Paid- Through Date.....	9-16
Examples: Differences .....	9-17
Timeline Example .....	9-17
Example: Payment Due on the 10th of the Month .....	9-18
Example: Payment Due on the 20th of the Month .....	9-19
Prepaid and Delinquent Interest Adjustments .....	9-20
Overview.....	9-20
Two Methods .....	9-20
Interest Splitting Method .....	9-20
Example: Interest Splitting Method .....	9-21
Delinquent and Prepaid Adjustment .....	9-21
Example: Payment Received.....	9-21
Example: Payment not Received.....	9-22
Example: Next Reporting Cycle's Payment Received as of Cutoff .....	9-23
Field Explanations for Interest Splitting Chart.....	9-23
Interest Splitting Chart Based on DDLPI as of the Accounting Cutoff.....	9-24
Interest Assigning Method .....	9-25
Assigning Interest to a Calendar Month.....	9-25
Loans with Payments Due Between the 2 <sup>nd</sup> and 15 <sup>th</sup> .....	9-25
Example: April cycle mortgages with payments due between the 2 <sup>nd</sup> and 15 <sup>th</sup> .....	9-25
Loans with Payments Due Between the 16 <sup>th</sup> and the End of the Month.....	9-25
Example: April Cycle - Mortgages with Payments Due Between the 16th and the End of the Month.....	9-25
Custodial Account Discrepancies.....	9-26
Determining Interest Collected .....	9-27
Examples: Differences in Interest for Mortgages due the 2 <sup>nd</sup> through 15 <sup>th</sup> .....	9-28
Examples: Differences in Interest for Mortgages Due After the 15 <sup>th</sup> .....	9-29
Determining Daily Interest for Payoffs .....	9-31
Daily Interest Due from the Borrower .....	9-31
Time Period of Daily Interest Collected .....	9-31
Daily Interest Collected for Payoffs on or After their Payment Due Date .....	9-31
Examples: Interest Collected After the Payment Due Date.....	9-32
Daily Interest Collected for Mortgages with a Payoff Date Before the Payment Due Date .....	9-33
Examples: April 1 Payoffs .....	9-34
Examples: Mortgages that Payoff on April 15 <sup>th</sup> .....	9-35
Review .....	9-37

## APPENDIX

**A-1**

# Welcome

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## Purpose

The purpose of our *Understanding Custodial Accounts* manual is to familiarize you with

- Freddie Mac custodial account reconciliation requirements and expectations
- Your responsibilities for single-family mortgages

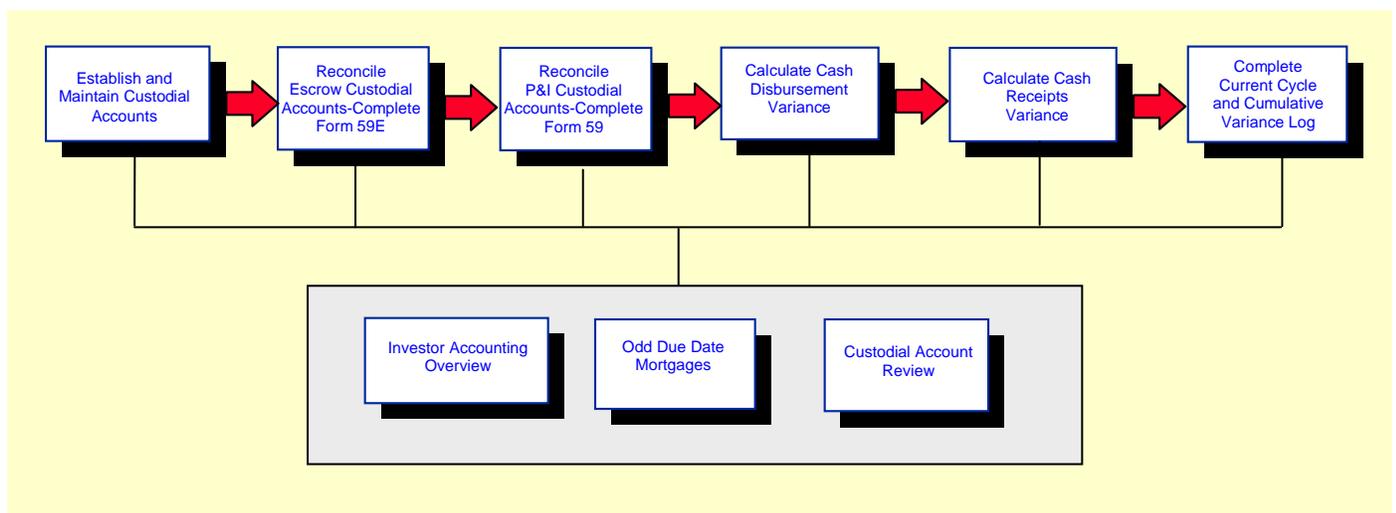
After reviewing this manual, you will be able to

- Understand a general process flow for custodial account reconciliation
- Identify our requirements and expectations
- Identify the information you will need to reconcile your accounts
- Reconcile your accounts and calculate any variances
- Follow a methodology that will enable you to identify and resolve a variance

## The Custodial Accounts Process Flow

Throughout this manual, you will see the following custodial accounts process flow. This process flow outlines the high-level activities that are associated with the custodial account reconciliation process.

The top row of the process flow diagram identifies the primary, or core activities within the custodial account reconciliation process. The bottom row identifies additional activities that are, or may be, interspersed within the activities displayed in the core process flow.



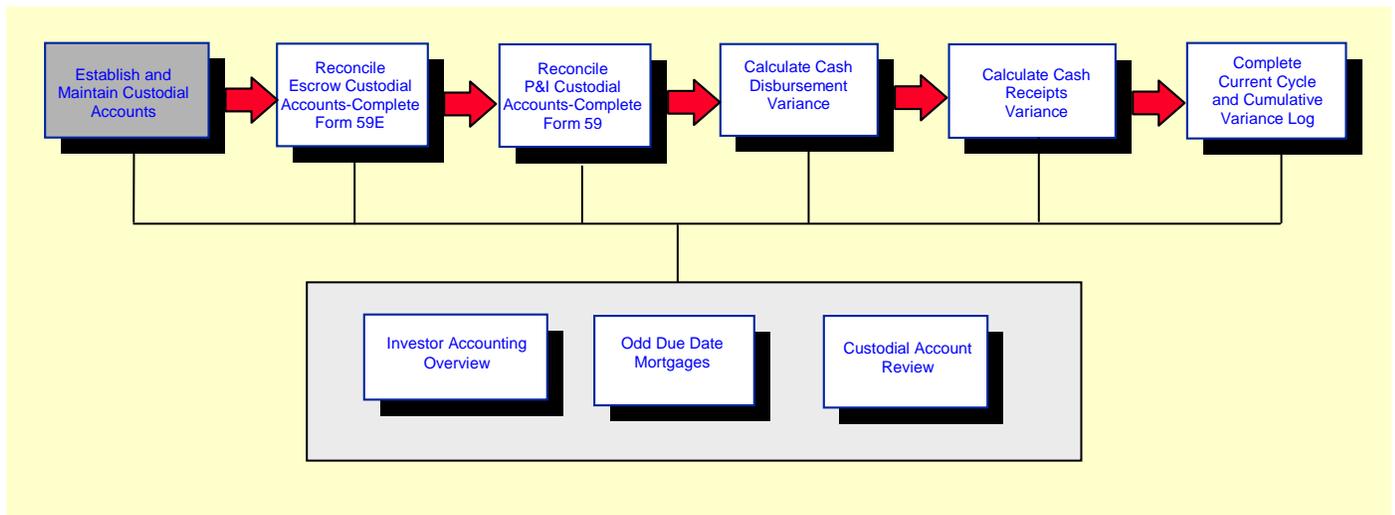
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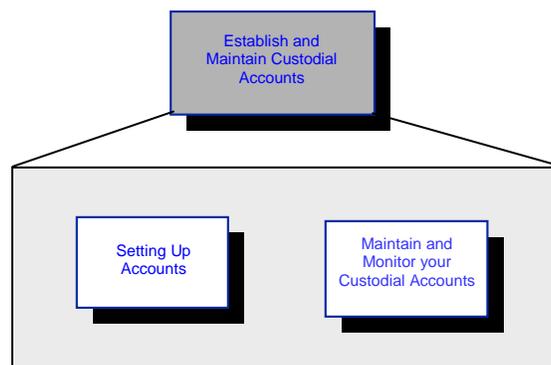
## How This Manual is Organized

*Understanding Custodial Accounts* is divided into chapters that guide you through the custodial reconciliation process flow. Each chapter corresponds to a particular high-level activity within the reconciliation process.

At any time throughout the manual, you can determine how the information you are reviewing relates to the custodial account reconciliation process by looking at the process flow displayed in the introduction of each chapter. The high-level activity that corresponds to the chapter content will be highlighted, as illustrated in the following example.



Within each chapter, there are various processes and procedures that relate to the specific high-level activity. The related processes and procedures are displayed in a diagram in the chapter overview. For example, the following diagram illustrates the processes and procedures discussed in Chapter 1 – Establish and Maintain Custodial Accounts.



We will update this manual, as needed, to support changes in our requirements.

# Welcome

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## Where to Find Additional Information

For additional information about custodial accounts, see Chapters 8301 through 8304, Exhibits 68 and 69, and various Forms in our *Single-Family Seller/Service Guide* (Guide).

For a listing of Freddie Mac's educational offerings, visit Freddie Mac's Learning Center at [www.FreddieMac.com/learn](http://www.FreddieMac.com/learn).

# Welcome

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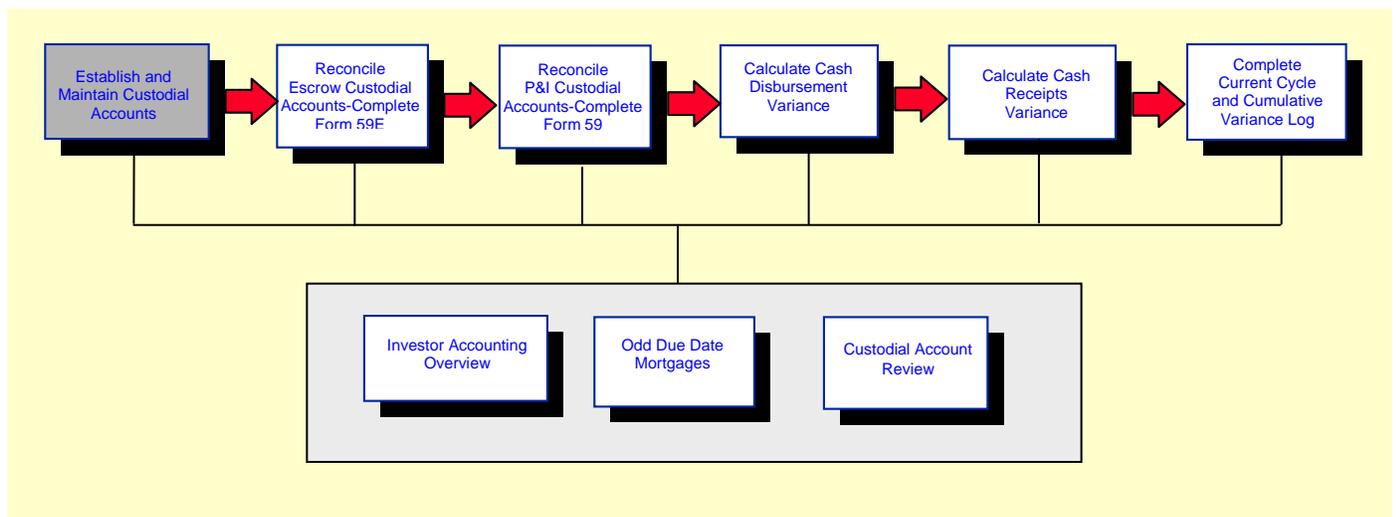
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# Establish and Maintain Custodial Accounts

# 1

## Introduction

This chapter begins with an introduction of Freddie Mac as a corporation, and then provides you with the requirements for establishing and maintaining custodial accounts. These requirements include setting up the accounts, eligibility requirements, maintaining and monitoring the accounts, and more.



## Objectives

After completing this section, you will:

- Have a general understanding of Freddie Mac's custodial account requirements
- Be able to describe the types of custodial accounts
- Understand the process of setting up custodial accounts
- Be able to maintain and monitor custodial accounts

# Establish and Maintain Custodial Accounts

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## Freddie Mac Overview

Freddie Mac is a government-sponsored enterprise (GSE) chartered by Congress to stabilize the nation's residential mortgage markets and expand opportunities for homeownership and affordable rental housing.

## What is the secondary mortgage market?

If you think of mortgage lenders as retail stores where people go to get mortgages, then the secondary mortgage market is the supplier for the lenders. Freddie Mac, one of the largest suppliers of home mortgages in the United States, is a link between mortgage lenders and investors. Lenders look to us, and other secondary market conduits, for the funds they need to meet consumer demands for home mortgages. We in turn look to our investors for the funds we need to purchase mortgages from lenders. Since we “link” mortgage lenders with security investors, we keep the supply of money for housing widely available and at a lower cost.

## What is Our Role in the Secondary Mortgage Market?

Freddie Mac increases the funds that lenders make available to homebuyers by:

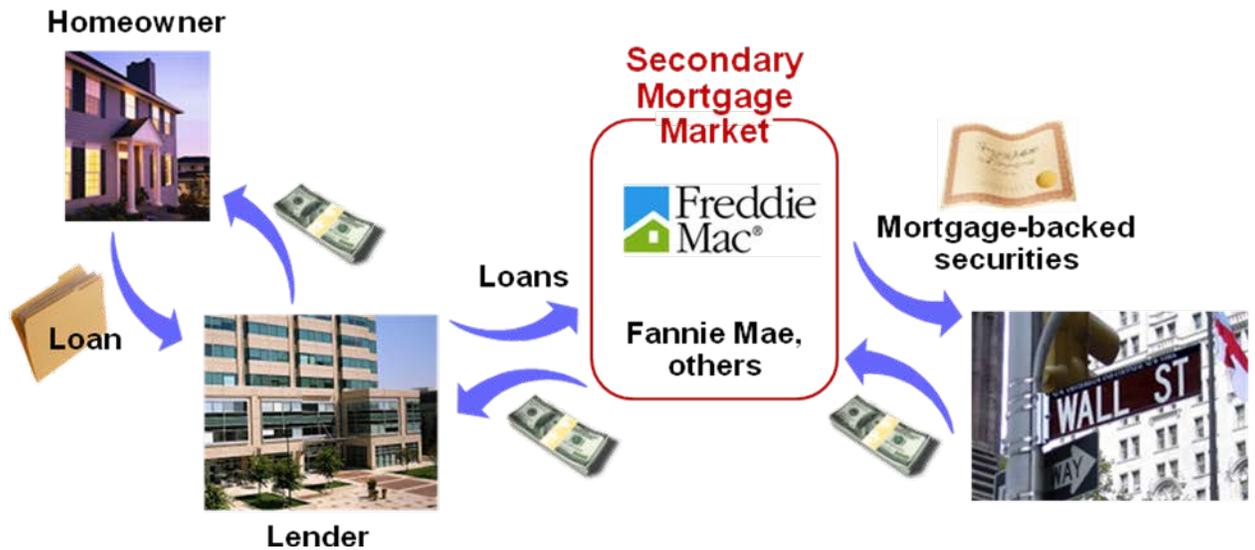
- Purchasing investment-quality mortgages from lenders such as mortgage bankers, savings institutions, and banks. This supplies mortgage lenders with the money they need to make loans to borrowers.
- Packaging mortgages with similar characteristics, such as interest rates, terms and types, into securities.
- Selling the securities to investors, such as insurance companies and pension funds, interested in safe investments. This supplies us with the money we need to purchase mortgages from the primary market, so the cycle can continue.

# Establish and Maintain Custodial Accounts

## Flow of Mortgage Funds

Freddie Mac facilitates the steady flow of low-cost mortgage funds. Seller/Service providers may receive cash for the mortgages they sell to us, or they may elect to receive securities backed by those mortgages. These securities are known as Participation Certificates (PCs). When a Seller/Service provider receives the cash proceeds from us or sells the PCs, it is able to begin the process again with the next borrower. The sale/purchase process creates a flow of mortgage funds for mortgage lending.

The following illustrates Freddie Mac's role in replenishing the flow of mortgage funds.



# Establish and Maintain Custodial Accounts

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## Overview of Freddie Mac Requirements

This section provides a broad overview of Freddie Mac requirements for establishing and maintaining custodial accounts. Refer to Guide Chapters 8301 through 8304 for details about our requirements.

### ***What is a custodial account?***

A custodial account is a demand deposit account or interest-bearing deposit account you must establish and maintain at an eligible depository into which principal and interest payments, escrow funds and other monies due to Freddie Mac, or held on behalf of Freddie Mac mortgages, are deposited. You must maintain principal and interest payments and escrow funds in separate custodial accounts until you remit them to a third party or us.

### ***What are the requirements?***

The requirements in place for custodial accounts:

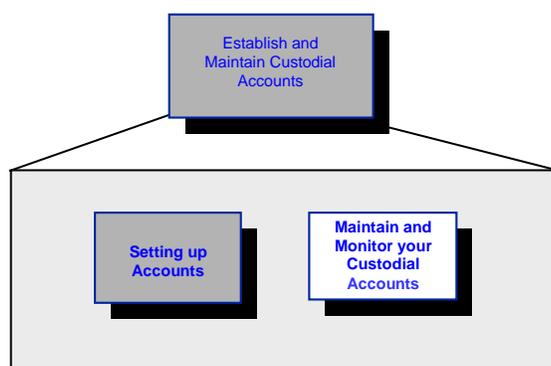
- Establish and set up custodial accounts
  - Determine what accounts you need to open
  - Title the custodial accounts according to Guide requirements
  - Choose an eligible depository to maintain the accounts
  - Open the accounts
  - Segregate funds according to Guide requirements
  - Provide account documentation to us
- Maintain and monitor custodial accounts
  - When funds must be deposited
  - Reconciling the accounts
- Invest funds

# Establish and Maintain Custodial Accounts

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## Establishing and Setting up Custodial Accounts

This section describes types of custodial accounts and how they should be established and set up.



### ***What types of custodial accounts do I establish?***

In accordance with the requirements of the Guide, you must establish and maintain the following custodial accounts:

- Principal and interest (P&I) custodial account
- Escrow custodial account

These accounts must be opened and maintained separate from a general ledger account, if you choose to maintain a general ledger account for general accounting purposes. You may record the deposit of funds in a general ledger account provided you open a separate custodial account and the general ledger account is not a substitute for the custodial account.

### ***Where do I establish my custodial accounts?***

All custodial accounts must be established in an eligible depository. We have a vested interest in the custodial account funds you maintain and therefore have specific eligibility requirements that a depository must meet to ensure that our funds are safeguarded. If your institution qualifies as an eligible depository and meets the requirements contained in the Guide, you may open and maintain custodial accounts within your own financial institution (refer to Guide Sections 8302.4 and 8302.5 for the eligibility requirements). You can choose an eligible third-party depository as long as eligibility requirements are met. You are responsible for determining the eligibility status of each depository where you maintain our custodial funds.

The custodial accounts and the funds held therein must be free and clear of any and all liens or claims of others, including security agreements. If the custodial accounts are maintained at an eligible depository that is an FDIC-insured depository or a NCUSIF-insured depository, you must maintain the custodial accounts in accordance with all applicable requirements for full federal insurance coverage for the custodial accounts.

# Establish and Maintain Custodial Accounts

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## ***Basic Eligibility Requirements***

An eligible depository for all custodial accounts must be any of the following:

- A Federal Reserve Bank
- A Federal Home Loan Bank
- An FDIC-insured depository
- An NCUSIF-insured depository

## ***Additional Eligibility Requirements***

The FDIC-insured and NCUSIF-insured depositories where P&I funds are held must also meet our acceptable tier rating requirements. Depositories for escrow and buydown custodial accounts do not require the additional tier rating requirements.

## ***Tier Rating Requirements***

We require tier ratings to provide us with analyses information on the quality of a depository institution's financial strengths. This provides additional protection for our funds.

Please refer to Guide Section 8302.5 for specific tier rating requirements.

## ***Tier Ratings***

We classify services (agencies) that rate depositories into two categories:

- Tier 1 agency
- Tier 2 agency

Tier 2 agency ratings are used only if an institution is not rated by a Tier 1 agency. To determine a depository's eligibility, you may call (800) FREDDIE, or you may subscribe to a rating agency at your own expense.

## ***Monitoring your Depository's Rating***

Eligible depositories rated by Tier 1 and Tier 2 rating agencies require monitoring on a continuous basis. Tier 1 rating agencies continuously update their ratings, while Tier 2 rating agencies update their ratings on a quarterly basis.

# Establish and Maintain Custodial Accounts

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## ***Custodial Account Documentation Requirements***

You must send Freddie Mac the following documentation when opening a custodial account at an eligible institution:

- Remittance instructions for the new principal and interest custodial account or disbursement clearing custodial account (a Letter of Authorization.)
- A voided blank check or MICR sheet
- A copy of the signature card or bank statement for each custodial account, appropriately titled
- Applicable letter of agreement, completed and executed

At our sole discretion, we may periodically require you to remove custodial accounts from specified depositories, and no longer hold time deposits of custodial accounts. We will notify you of this requirement in writing.

## ***Ineligible Depositories***

You are required to establish a new custodial account in an eligible depository within 30 days of the release of all applicable ratings, if either your depository agency or you, as your own depository agency, become ineligible. Send us the documentation listed above when opening a new custodial account.

## **Setting Up Custodial Accounts**

Your custodial accounts must be demand deposit accounts or interest-bearing deposit accounts, such as money market deposit accounts or savings accounts. Your use of an interest-bearing deposit account is conditioned upon Freddie Mac's ability to present a sight draft and your ability to remit funds when due. If you elect to use an interest-bearing deposit account, you may use this type of account as long as Freddie Mac's ability to present a sight draft is not impaired and you are able to remit funds when due. If the account limits the number of withdrawals, or requires prior notice for withdrawals, you are responsible for any payments or penalties that result from excessive withdrawals, where advance notice is insufficient. You are also responsible for any losses or damages associated with the account. Interest-bearing deposit accounts do not include money market mutual fund accounts.

You may set up a disbursement clearing custodial account to consolidate funds held in multiple Freddie Mac principal and interest custodial accounts into one account prior to remitting funds to us. This account is intended for maintaining the account from which we draft as a separate account. No more than one business day prior to the remittance due date, you must deposit funds to be remitted into this account.

# Establish and Maintain Custodial Accounts

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## ***Principal and Interest (P&I) Custodial Accounts***

When setting up principal and interest custodial accounts you must:

- Establish and maintain at least one principal and interest (P&I) custodial account for each Seller/Servicer number under which you service loans for us.
- Deposit all funds to be remitted to us through the cash remittance system (using GPI) into the P&I account. You may not commingle any funds for mortgages not owned by us in the P&I account.

You may establish and maintain more than one P&I account for each Servicer number, but all of Freddie Mac's requirements apply to each account and a consolidated reconciliation must be performed on a monthly basis.

## ***Principal and Interest Disbursement Clearing Custodial Account***

Freddie Mac will only draft one account through the GPI remittance process. You may designate your regular principal and interest account as the drafting account, or you may establish an account only for drafting purposes.

If you establish an account only for drafting purposes, it is called a principal and interest disbursement clearing account. Only Freddie Mac funds to be drafted by GPI may be in the account and funds must be deposited concurrent with, or no later than one business day prior to, the remittance due date.

## ***Escrow Custodial Accounts***

When setting up escrow accounts you must:

- Establish and maintain at least one escrow custodial account for each Seller/Servicer number under which you service loans for us.
- Deposit into the escrow custodial account all funds collected on the borrower's behalf. These funds are used to make payments for the borrower for items such as taxes and insurance.
- Deposit the entire amount collected on a borrower's behalf, even if we only own a partial interest in the mortgage.

You may establish and maintain more than one escrow account for each Seller/Servicer number, but all of our requirements apply to each account. A consolidated reconciliation must be performed on a monthly basis for each Servicer number.

## ***Buydown Custodial Accounts***

Although we allow you to hold buydown funds in your escrow custodial account, at your option you may open a separate buydown custodial account for buydown funds.

## Establish and Maintain Custodial Accounts

### *Proper Designation Titling for Each Custodial Account*

You must designate each custodial account with specific titling. Accepted titling is as follows:

<b>Type</b>	<b>Unabbreviated Titling</b>	<b>Abbreviated Titling</b>
P & I Custodial Account	<i>“(Name of Depositor/Servicer), as custodian and/or bailee for Federal Home Loan Mortgage Corporation and/or various owners of interest in mortgages and/or mortgage-related securities and/or mortgagors.”</i>	<i>“Freddie Mac P &amp; I Custodial Account.”</i>
P & I Disbursement Clearing Custodial Account	<i>“(Name of Depositor/Servicer), as Custodian and/or bailee for Federal Home Loan Mortgage Corporation and/or various owners of interest in mortgages and/or mortgage-related securities and/or various mortgagors.”</i>	<i>“Freddie Mac P &amp; I Clearing Custodial Account.”</i>
Escrow Custodial Account	<i>“(Name of Depositor/Servicer), as trustee and/or custodian for Federal Home Loan Mortgage Corporation and various mortgagors, respectively.”</i>	<i>“Freddie Mac Escrow Custodial Account.”</i>
Buydown Custodial Account	<i>“(Name of Depositor/Servicer), as trustee and/or custodian of mortgage loan subsidy buydown funds for Federal Home Loan Mortgage Corporation and various mortgagors, respectively.”</i>	<i>“Freddie Mac Buydown Custodial Account.”</i>

Proper designation must appear as the account title on the copy of the signature card or bank statement for each custodial account you maintain for us. The abbreviated account titling will be accepted and is considered the same as the unabbreviated account titling, thus giving Freddie Mac and such persons the same rights and interests with respect to the funds deposited or held in the account.

A copy of the bank statement is also accepted in lieu of a copy of the signature card. Guide Section 8302.6 provides additional language around the rights and interest of Freddie Mac when using the abbreviated account designations.

The bank statement must identify the depository institution at which the accounts are maintained and must reflect the bank account number and proper account owner titling, as required in Guide Section 8302.6.

If you change the account titling on existing accounts to the abbreviated titling, then you must comply with the requirements for changing accounts as outlined in Guide Section 8304.11.

# Establish and Maintain Custodial Accounts

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## Establish an Account with GPI

You remit funds to us from your custodial accounts through the cash remittance system using our contracted service bureau, Global Payments, Inc. (GPI). You must send a Letter of Authorization to the financial institution where Freddie Mac's funds will be drafted and send us a copy of this authorization to the following address:

Regular/Overnight Mail: (obtained from Guide Directory 1 under Section 8302.7)

Freddie Mac  
Attn: Counterparty Credit Risk Management  
1551 Park Run Drive  
McLean, VA 22102

## **Letter of Authorization**

An example of a Letter of Authorization is shown below:

<p><b>Draft Letter of Authorization</b></p> <p>(PRINT ON YOUR INSTITUTION'S LETTERHEAD)</p> <p><i>(Designated bank name)</i></p> <p><i>(Street address)</i></p> <p><i>(City, state, zip code)</i></p> <p>Re:      <b>(Freddie Mac Seller/Service number)</b>           <b>(Name of account)</b>           <b>(Account number)</b></p> <p>Dear _____:</p> <p>This letter authorizes your bank to honor electronic debits initiated through the Automated Clearinghouse (ACH) system against the subject account at your bank.</p> <p>We approve your honoring of the ACH transfers without signature or other authorization.</p> <p>Sincerely,</p> <p><b>(Seller/Service authorized signature)</b> <b>(Typed name of authorized signer)</b> <b>(Telephone number of authorized signer)</b></p>
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## Establish and Maintain Custodial Accounts

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### ***What must I communicate to Freddie Mac?***

You must send us the appropriate documentation for each account you open. Documentation is also necessary if your institution, or the institution where you maintain your custodial account(s), has a name change or you change the account drafted through the cash remittance system, using Global Payments, Inc. (GPI).

The types of documentation required are:

- Forms 1057SF, *Letter Agreement for Servicer's Single-Family Principal and Interest, or P&I Disbursement Clearing Custodial Account* and Form 1058SF, *Letter Agreement for Servicer's Single-Family Buydown or Escrow Custodial Account* (for custodial accounts opened at another eligible depository) or
- Forms 1059SF, *Letter Agreement for Single-Family Principal and Interest, or P&I Disbursement Clearing Custodial Account* and Form 1060SF, *Letter Agreement for Single-Family Buydown or Escrow Custodial Account*
- Copies of signature cards or bank statements
- Copy of the Letter of Authorization for cash remittances for the principal and interest custodial accounts or disbursement clearing custodial account, and a voided check or magnetic ink character recognition (MICR) specification sheet

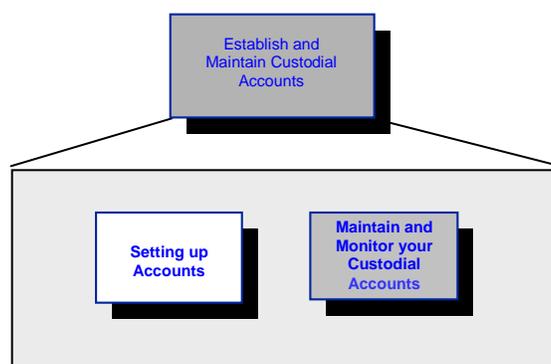
The documentation required above also pertains to you if you use third-party depositories or if your custodial accounts are maintained in-house.

# Establish and Maintain Custodial Accounts

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## Maintaining and Monitoring your Custodial Accounts

This section discusses the requirements and overall processes you must follow after you have set up your custodial account(s).



After establishing a Freddie Mac custodial account, you must:

- Deposit funds on a timely basis.
- Reconcile the account monthly, as of the accounting cutoff date.
- Monitor eligibility ratings for the institution where your custodial accounts are held and establish a new custodial account in an eligible depository for any depository that becomes ineligible.

### ***Depositing Funds***

You must:

- Deposit mortgage loan payments into a custodial account within one business day of receipt of the payment. If using a lockbox, funds must be deposited within two business days of receipt of the payment by the lockbox or other service.
- Deposit corporate funds for amounts due Freddie Mac for items such as repurchase proceeds, and interest due for newly funded loans, when the corresponding remittance is due to Freddie Mac.
- Advance funds if the P&I account balance is insufficient to cover the remittance due.

Refer to Guide Sections 8302.10, 8302.12 and 8304.9 for more information on what type of funds to deposit and when they should be deposited.

# Establish and Maintain Custodial Accounts

## When must I reconcile the accounts?

All Freddie Mac custodial accounts must be reconciled within 45 days of each accounting cutoff date. You must resolve all variances and fund any shortages within 90 days of the accounting cutoff. When reconciling your P&I account, you must complete Form 59, *Principal and Interest Custodial Account Reconciliation Worksheet*, which compares the bank balance to the total amount due to us. When reconciling your escrow custodial account, you must complete Form 59E, *Escrow Custodial Account Reconciliation Worksheet*, which compares the bank balance to the total escrow liability.

## Funding Variances

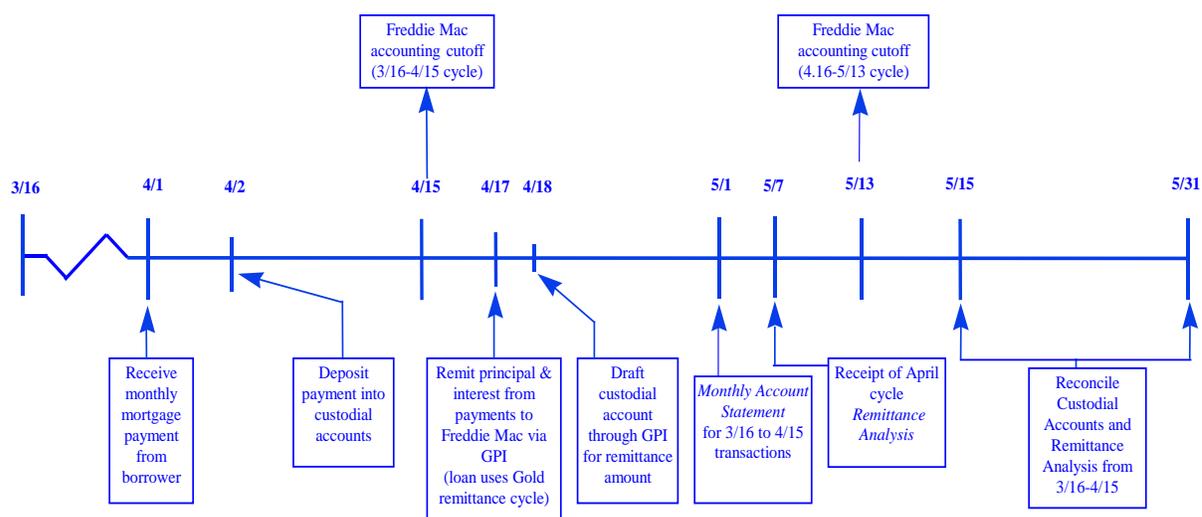
You must fund the account for any shortage, even if you have not identified the cause. Shortages must be funded no later than 90 days following the accounting cycle cutoff. However, Freddie Mac reserves the right to request that funding occur immediately.

## Corporate Advances

You must advance funds if the remittance due is greater than the P&I custodial or escrow custodial account balance. Neither account balances may go below zero, even if allowed by the institution housing the account. You may reimburse yourself immediately (that same day) upon receipt of payments.

## Custodial Accounts Timeline

An example of a timeline for the custodial account process is shown below.



note: GPI is used for our cash remittance system

## Establish and Maintain Custodial Accounts

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### Can custodial account funds be invested?

You may invest custodial account funds in a time deposit at an eligible depository that is eligible to hold the particular type of custodial account funds you are investing. Time deposits refer to funds deposited in a certificate of deposit held in a financial institution for a fixed term or with the understanding that the depositor can withdraw the funds only by giving prior notice. The time deposit account can only contain funds from the same type of custodial account. You cannot commingle escrow funds and principal and interest funds for investment purposes or with funds other than Freddie Mac or borrower funds.

The following rules apply:

- You must execute and return the appropriate letter agreement, based on the type of custodial account and where the depository is located.
- You must title a time deposit account exactly the same way as the custodial account from which the funds were withdrawn. Time deposit account funds may be invested for no longer than seven days. Custodial account funds must be re-deposited into their original custodial accounts prior to remitting or disbursing, so the funds are available for remitting to us, disbursing escrow payments, or applying buydown funds to the borrower's payment.
- You may retain any interest earned on a time deposit investment or interest-bearing account.

## Establishing and Maintaining Custodial Accounts

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### Review

- A custodial account is a demand deposit account or interest-bearing deposit account you must establish and maintain at an eligible depository into which principal and interest payments, escrow funds and other monies due to Freddie Mac, or held on behalf of Freddie Mac mortgages, are deposited.
- You must establish and maintain at least one escrow custodial account for each Seller/Servicer number under which you service loans for us.
- You must deposit into the escrow custodial account all funds collected on the borrower's behalf. These funds are used to make payments for the borrower for items such as taxes and insurance.
- You must deposit the entire amount collected on a borrower's behalf, even if we only own a partial interest in the mortgage.
- You may establish and maintain more than one escrow account for each Seller/Servicer number, but all of our requirements apply to each account. A consolidated reconciliation must be performed on a monthly basis for each Servicer number.

## **Establish and Maintain Custodial Accounts**

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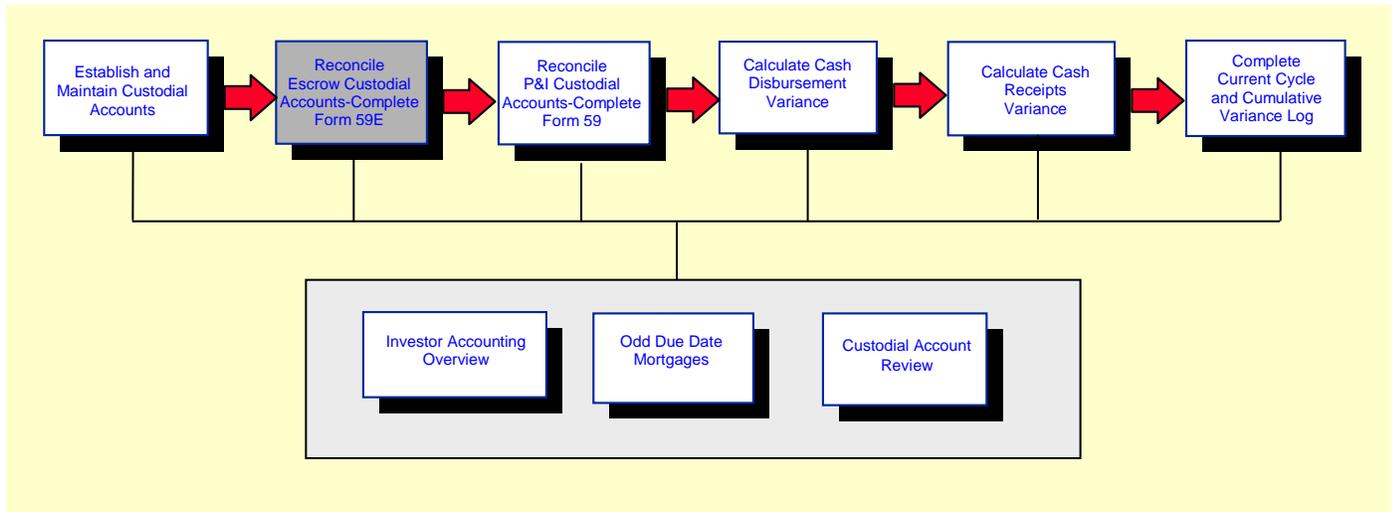
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# Reconcile Escrow Custodial Accounts

# 2

## Introduction

This chapter provides you with the information necessary to understand how to reconcile escrow custodial accounts.



## Objectives

After completing this chapter, you will:

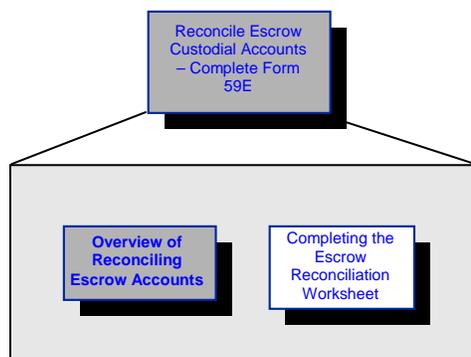
- Have a general understanding of Freddie Mac's escrow custodial account requirements
- Understand the escrow custodial account reconciliation process
- Be able to complete Form 59E, *Escrow Custodial Account Reconciliation Worksheet*

# Reconcile Escrow Custodial Accounts

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## Overview of Reconciling Escrow Custodial Accounts

The purpose of this section is to provide you with an overview of reconciling escrow custodial accounts.



### ***Set Up and Maintenance of Accounts***

For a brief overview of escrow custodial account set-up and maintenance requirements, refer to Chapter 1, *Establish and Maintain Custodial Accounts*, in this manual. For a detailed description of escrow custodial account set-up and maintenance, refer to *Single-Family Seller/Servicer Guide* (Guide) Chapter 8302.

### ***Types of Escrow Fund Categories***

All funds held on behalf of the borrower are considered to be escrow funds. Escrow funds are categorized according to their source and their purpose. Listed below are some of the most common categories of escrow funds:

- Taxes and insurance
- Suspense (or partial payments)
- Buydown subsidy (At your option you may open a separate buydown custodial account for buydown funds.)
- Biweekly payments
- Insurance proceeds

### ***Is it mandatory that I establish an escrow custodial account?***

Yes, Freddie Mac requires that you establish a separate escrow custodial account for each Seller/Servicer number, even if you do not currently collect or plan to collect escrow money. You must open an escrow custodial account for unplanned events such as partial payments or insurance claim proceeds.

### ***When do I reconcile the escrow custodial account?***

If you have more than one escrow custodial account, you must complete a consolidated reconciliation within 45 days of each accounting cycle cutoff.

## Reconcile Escrow Custodial Accounts

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### ***What form do I use to reconcile?***

When reconciling your escrow custodial account, you must complete Form 59E, *Escrow Custodial Account Reconciliation Worksheet*. You may use either the online version, or a copy of the form to complete the reconciliation.

### ***Can I use collections from one loan to offset a deficit of another loan?***

For any type of escrow fund, the collections from one loan cannot be used to offset a deficit for another loan.

If there is a deficit, you are required to advance funds to the escrow account prior to remitting the amount due, and then collect the shortfall from the individual borrower. (Refer to Guide Section 8304.6.)

### ***What type of records must I maintain for collected funds?***

You must maintain detailed records at the loan level for each category of escrow-collected funds. These records are often referred to as a trial balance. The total of the trial balance should equal the liability on the *Escrow Custodial Account Reconciliation Worksheet*.

### ***May I make one remittance for a liability that involves multiple investors?***

Yes, for remittance purposes only, our escrow funds may be commingled with escrow funds belonging to other investors. An example would be paying county taxes for multiple investors from a single disbursement account. Our escrow funds may not be transferred to your disbursement account until immediately before remitting the escrow amount due.

Monies for loans not owned in whole or part by us may NEVER be deposited into our escrow custodial account.

## Reconcile Escrow Custodial Accounts

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### ***What is the difference between a biweekly mortgage and a biweekly payment plan?***

A biweekly mortgage is a mortgage on which the borrower makes a principal and interest payment every two weeks pursuant to either the terms of the note, a rider, or a separate agreement. Each payment received is applied as a P&I payment. The biweekly payment schedule cannot be changed.

A biweekly payment plan is when the borrower's account is debited every two weeks, however a principal and interest payment is applied once a month pursuant to the terms of the note. The biweekly payments may be stopped at any time.

### ***Why would a borrower select a biweekly payment plan?***

A borrower may choose to select a biweekly payment plan to accelerate the reduction in principal on a mortgage by applying the equivalent of one or more additional monthly payments each year, thereby reducing total interest costs.

### ***Does a biweekly payment plan impact my investor reporting?***

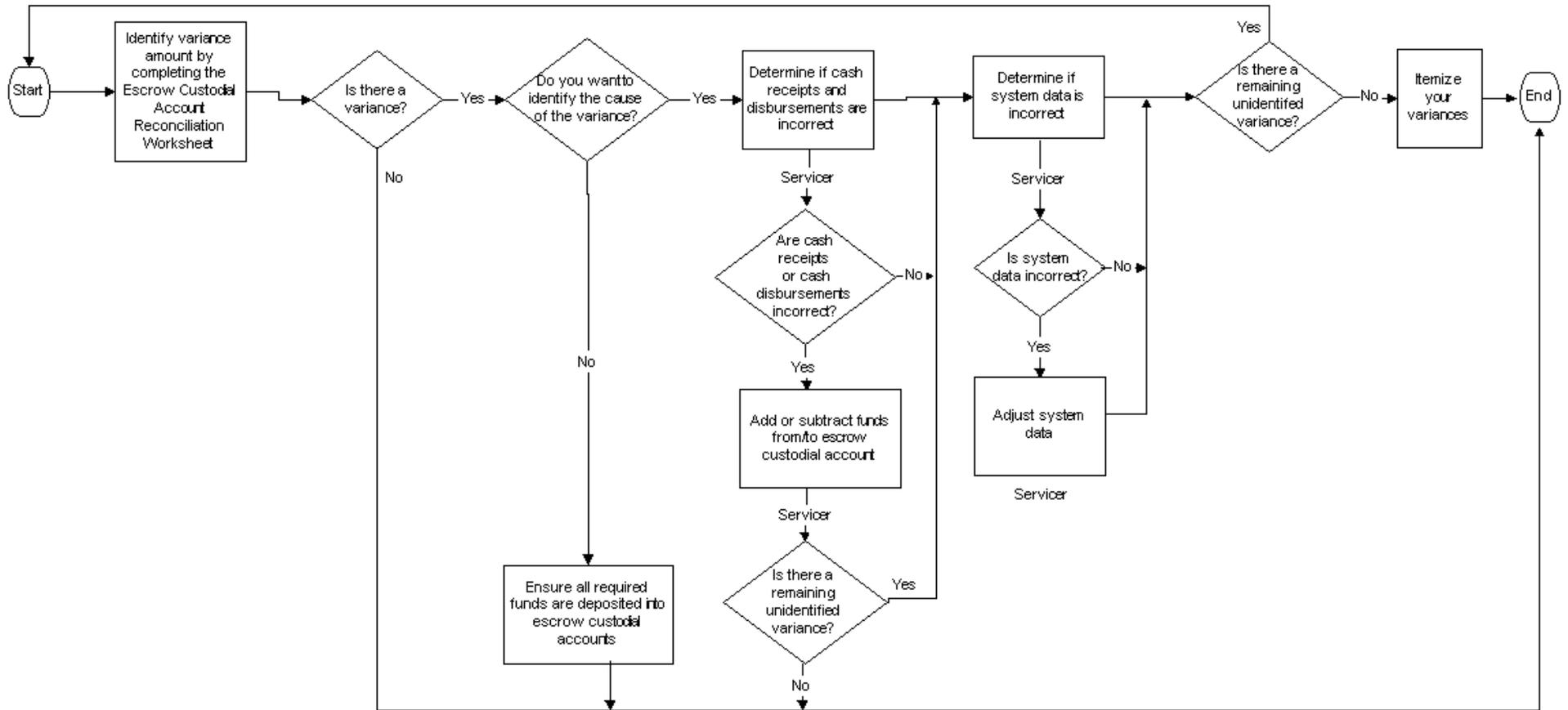
Biweekly payment plans do not change the conditions and terms of the note regarding the amount of monthly payments, the application of payments, the assessment of late charges, and the calculation of delinquencies. Nor do they change the way payments are reported or remitted to us, or the way delinquencies are reported to us.

### ***Where do I keep biweekly payment plan funds?***

For biweekly payment plans, you must maintain the funds as unapplied P&I payments in the escrow custodial account until the full monthly payment is applied. At that time, collected biweekly funds not applied are then combined with the second biweekly P&I and transferred to the P&I custodial account as a full payment when applied.

# Reconcile Escrow Custodial Accounts

## Process Flow for Reconciling Escrow Custodial Accounts and Resolving Variances

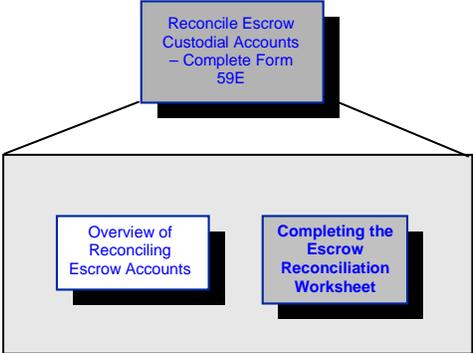


# Reconcile Escrow Custodial Accounts

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## Completing the Escrow Custodial Account Reconciliation Worksheet

The remainder of this chapter explains how to complete Form 59E, *Escrow Custodial Account Reconciliation Worksheet*, one section at a time.



# Reconcile Escrow Custodial Accounts

## Worksheet Example

Shown below is an example of Form 59E, *Escrow Custodial Account Reconciliation Worksheet*. Note that lines 1, 2, 3a, and 3c will automatically calculate based on the values you enter on the form.

		<h1>Form 59E</h1>	
		As of	00/15/00
<h2>Escrow Custodial Reconciliation Worksheet - Monthly Account Statement</h2>			
<p>Note: Do not enter any data in shaded fields. Values will automatically calculate based on information entered in other fields.  <b>You must complete a consolidated reconciliation if you have more than one Escrow Custodial Account</b></p>			
Seller/Servicer Number:		Seller/Servicer Name:	
<b>Section 1 - Adjusted Bank Balance</b>			
1a)	Bank Balance as of	00/15/00	0.00
	1b) Subtract: Outstanding debits	_____	
	1c) Add: Deposits in Transit	_____	
1)	Adjusted bank balance (lines 1a-1b+1c)		0.00
<b>Section 2 - Total Liability</b>			
2a)	Escrow trial balance total as of	00/15/00	
<b>Enter cumulative totals for:</b>			
	2b) Negative escrow trial balance as of	00/15/00	
	2c) Adjustments for suspense accounts	_____	
	2d) Adjustments for Mortgages not included on trial	_____	
	2e) Adjustments for other accounts (e.g. buydown subsidies)	_____	
2)	Adjusted escrow balance (lines 2a+2b+2c+2d+2e)		0.00
<b>Section 3 - Total Variance</b>			
3a)	Current cycle's total cumulative variance (line 1 - line 2)		0.00
3b)	Enter previous cycle's cumulative variance (line 3a of previous cycle)		
3c)	Current cycle's variance (line 3a - 3b)		0.00
			overage/(shortage)
Prepared by: _____		Date _____	
Approved by: _____		Date _____	

# Reconcile Escrow Custodial Accounts

## Completing Section 1 - Adjusted Bank Balance

Section 1- Adjusted Bank Balance, is used to calculate an accurate bank balance as of the accounting cutoff date. You will complete this by adjusting the beginning bank balance for timing differences relating to deposits or debits.

Shown below is Section 1 of the *Escrow Custodial Account Reconciliation Worksheet*.

Section 1 - Adjusted Bank Balance	
1a)	Bank Balance as of <u>00/15/00</u>
	1b) Subtract: Outstanding debits
	1c) Add: Deposits in Transit
1)	Adjusted bank balance (lines 1a-1b+1c) <b>0.00</b>

### Line 1a) Bank balance as of \_\_\_/15/\_\_\_

Enter on line 1a the balance from the escrow custodial account bank statement as of the accounting cycle cutoff (usually the 15th day of the month).

Example: If you are performing November's reconciliation, use the bank balance as of 11/15/XX.

### Line 1b) Outstanding debits

Enter on line 1b the total amount of funds disbursed from the escrow custodial account as of the accounting cutoff date, but not debited to the bank statement until the next business day after the accounting cutoff.

### Line 1c) Deposits in transit

Enter on line 1c the total amount of escrow funds collected as of the accounting cutoff date, but not credited to the bank statement until the next business day (or two business days for lockbox transactions) after the accounting cutoff.

### Line 1) Adjusted bank balance

Line 1 automatically calculates based on the values you entered on lines 1a through 1c.

$$\begin{array}{r} 1a: \text{ Bank balance} \\ - 1b: \text{ Outstanding debits} \\ + 1c: \text{ Deposits in transit} \\ \hline = \mathbf{1 \text{ Adjusted bank balance}} \end{array}$$

# Reconcile Escrow Custodial Accounts

## Completing Section 2 – Total Liability

Section 2 - Total Liability, is used to calculate an accurate escrow liability amount. It captures the total of all types of escrow funds held as of the accounting cutoff date.

Shown below is Section 2 of the *Escrow Custodial Account Reconciliation Worksheet*.

Section 2 - Total Liability			
2a)	Escrow trial balance total as of	<u>00/15/00</u>	_____
<b>Enter cumulative totals for:</b>			
2b)	Negative escrow trial balance as of	<u>00/15/00</u>	_____
2c)	Adjustments for suspense accounts		_____
2d)	Adjustments for Mortgages not included on trial		_____
2e)	Adjustments for other accounts (e.g. buydown subsidies)		_____
2)	Adjusted escrow balance (lines 2a+2b+2c+2d+2e)		0.00

### **Line 2a) Escrow trial balance total as of \_\_\_/15/\_\_\_**

Enter on line 2a the total positive escrow balance and leave 2b blank. However, if the total of the escrow balances as reflected on your investor loan trial balance nets negative escrow balances from your positive escrow balance, then record the net figure here and record your negative escrow amount on line 2b. You must advance any negative amounts for each individual borrower.

### **Line 2b) Negative escrow trial balance total as of \_\_\_/15/\_\_\_**

Enter on line 2b the negative escrow total as of the reconciliation date only if the trial balance nets negative escrow balances against positive escrow balances to calculate the escrow total. If the trial balance sums only the positive escrow balances, an adjustment for negative escrow balances is not necessary. See the example on the following page.

# Reconcile Escrow Custodial Accounts

## Example of Negative Escrow

An example of negative escrow is shown below. In this example

- Loan A's escrow balance is \$100
- Loan B's escrow balance is (\$25)
- The trial balance total is \$75



# Form 59E

As of **00/15/00**

## Escrow Custodial Reconciliation Worksheet - *Monthly Account Statement*

Note: Do not enter any data in shaded fields. Values will automatically calculate based on information entered in other fields.

You must complete a consolidated reconciliation if you have more than one Escrow Custodial Account

Seller/Service Number: \_\_\_\_\_ Seller/Service Name: \_\_\_\_\_

Section 1 - Adjusted Bank Balance		
1a)	Bank Balance as of <u>00/15/00</u>	100.00
	1b) Subtract: Outstanding debits	0.00
	1c) Add: Deposits in Transit	0.00
1)	Adjusted bank balance (lines 1a-1b+1c)	100.00
Section 2 - Total Liability		
2a)	Escrow trial balance total as of <u>00/15/00</u>	75.00
<b>Enter cumulative totals for:</b>		
	2b) Negative escrow trial balance as of <u>00/15/00</u>	25.00
	2c) Adjustments for suspense accounts	0.00
	2d) Adjustments for Mortgages not included on trial	0.00
	2e) Adjustments for other accounts (e.g. buydown subsidies)	0.00
2)	Adjusted escrow balance (lines 2a+2b+2c+2d+2e)	100.00
Section 3 - Total Variance		
3a)	Current cycle's total cumulative variance (line 1 - line 2)	0.00
3b)	<u>Enter</u> previous cycle's cumulative variance (line 3a of previous cycle)	0.00
3c)	Current cycle's variance (line 3a - 3b)	0.00
		overage/(shortage)

Prepared by: Bob Jones Date 4/28/xx

Approved by: Mary Smith Date 4/28/xx

The Escrow Custodial Reconciliation Worksheet is a required document. See Instructions tab for information on completing it. The additional tabs in this workbook are optional tools to assist you in identifying variances.

## Reconcile Escrow Custodial Accounts

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### **Line 2c) Adjustments for suspense accounts**

If they are not included in your trial balance totals, enter on line 2c the suspense totals (partial payments, unapplied payments) as of the accounting cutoff.

### **Line 2d) Adjustments for mortgages not included on trial balance**

Enter on line 2d the escrow balance of any loans funded by us as of the accounting cutoff, but not included in the trial balance totals on line 2a.

### **Line 2e) Adjustments for other accounts**

Enter on line 2e the total escrow balance for all other escrow amounts collected as of the accounting cutoff, but not included in your trial balance totals on line 2a. Buydown subsidy accounts would be the most common.

### **Line 2) Adjusted escrow balance**

Line 2 automatically calculates based on the values you entered on lines 2a through 2e.

2a: Escrow trial balance total  
+ 2b: Negative escrow balance  
+ 2c: Adjustments for suspense accounts  
+ 2d: Adjustments for mortgages not included on trial balance  
+ 2e: Adjustments for other accounts (e.g. buydown subsidies)  
= **2: Adjusted Escrow Balance**

## Completing Section 3 - Total Variance

Section 3 - Total Variance is used to calculate the total cumulative and current cycle variance for the escrow account.

Shown below is Section 3 of the *Escrow Custodial Account Reconciliation Worksheet*.

Section 3 - Total Variance		
3a)	Current cycle's total cumulative variance (line 1 - line 2)	0.00
3b)	<u>Enter</u> previous cycle's cumulative variance (line 3a of previous cycle)	
3c)	Current cycle's variance (line 3a - 3b)	0.00
		overage/(shortage)

## Reconcile Escrow Custodial Accounts

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### ***Line 3a) Current cycle's total cumulative variance***

Line 3a automatically calculates based on the values calculated for lines 1 and 2. This is the cumulative amount of all variance items that have occurred up to the accounting cutoff date.

$$\begin{array}{r} 1: \text{ Adjusted bank balance} \\ - 2: \text{ Adjusted escrow balance} \\ \hline = 3a: \text{ Current cycle's total cumulative variance} \end{array}$$

### ***Line 3b) Previous cycle's total cumulative variance***

Enter on line 3b the total cumulative variance (line 3a) from the previous cycle's *Escrow Custodial Account Reconciliation Worksheet*.

### ***Line 3c) Current cycle's variance***

Line 3c automatically calculates based on the value calculated for line 3a, and the value you entered for line 3b.

$$\begin{array}{r} 3a: \text{ Current cycle's total cumulative variance} \\ - 3b: \text{ Previous cycle's total cumulative variance} \\ \hline = 3c: \text{ Current cycle's variance} \end{array}$$

## **Itemize Current Cycle Variance**

Once you have calculated any current cycle variance, you should identify and resolve current cycle variances and use the Variance Log sheets to itemize the transactions you identified as causing a variance. You should complete a log for each type of variance. You will learn the different types of variances and how to identify, resolve, and itemize these variances in chapter 7 of this manual, Complete Current Cycle Variance and Cumulative Variance Logs, and by participating in a case study during the training class.

# Reconcile Escrow Custodial Accounts

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## Review

- The most common categories of escrow funds include the following:
  - Taxes and insurance
  - Suspense (or partial payments)
  - Buydown subsidy (At your option you may open a separate buydown custodial account for buydown funds.)
  - Biweekly payments
  - Insurance proceeds
- Freddie Mac requires that you establish a separate escrow custodial account for each Seller/Servicer number, even if you do not currently collect or plan to collect escrow money. You must open an escrow custodial account for unplanned events such as partial payments or insurance claim proceeds.
- If you have more than one escrow custodial account, you must complete a consolidated reconciliation within 45 days of each accounting cycle cutoff.
- You must maintain detailed records at the loan level for each category of escrow-collected funds. These records are often referred to as a trial balance. The total of the trial balance should equal the liability on Form 59E, *Escrow Custodial Account Reconciliation Worksheet*.

## Reconcile Escrow Custodial Accounts

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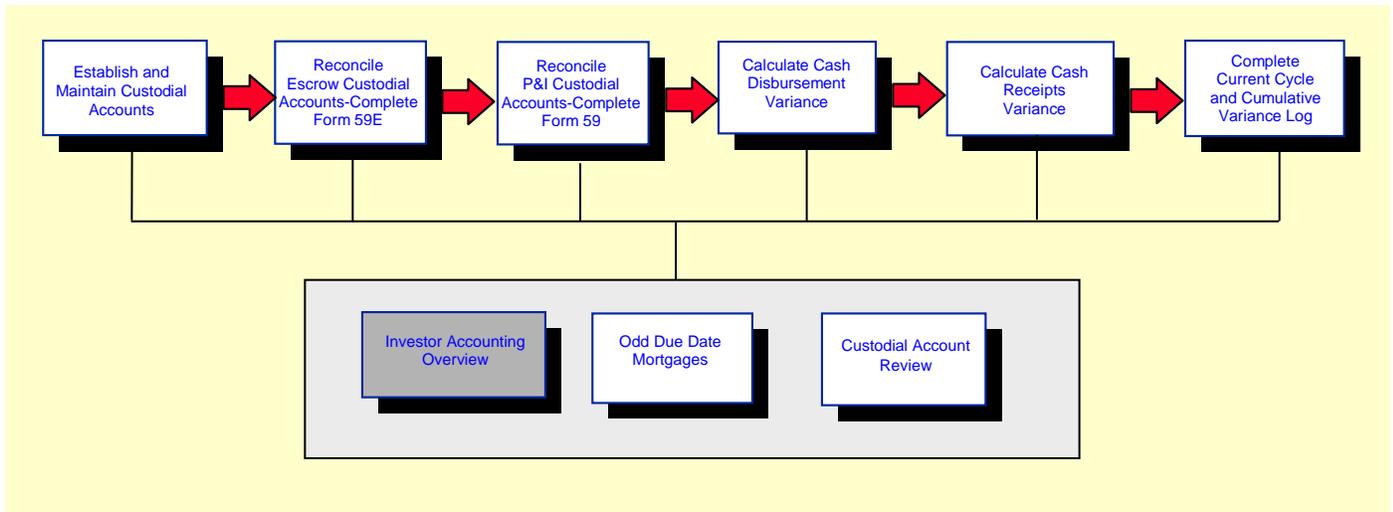
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# Investor Accounting Overview

# 3

## Introduction

This chapter introduces the investor accounting process for servicing Freddie Mac loans and describes the relationship between your cash management and investor reporting processes.



## Objectives

After you complete this section, you will:

- Have a general understanding of the investor accounting process
- Have a general understanding of cash management
- Be familiar with your investor reporting responsibilities
- Understand the relationship between cash management and investor reporting

# Investor Accounting Overview

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## Introduction to Investor Accounting

An investor is someone who buys whole or part interest in a mortgage. The investor is entitled to their share of the cash flow over the life of the mortgage. We are the final investor if we purchase a mortgage and then hold it in our portfolio. However, the majority of our mortgages are packaged into securities and sold to outside investors. In this case, we are not the final investor.

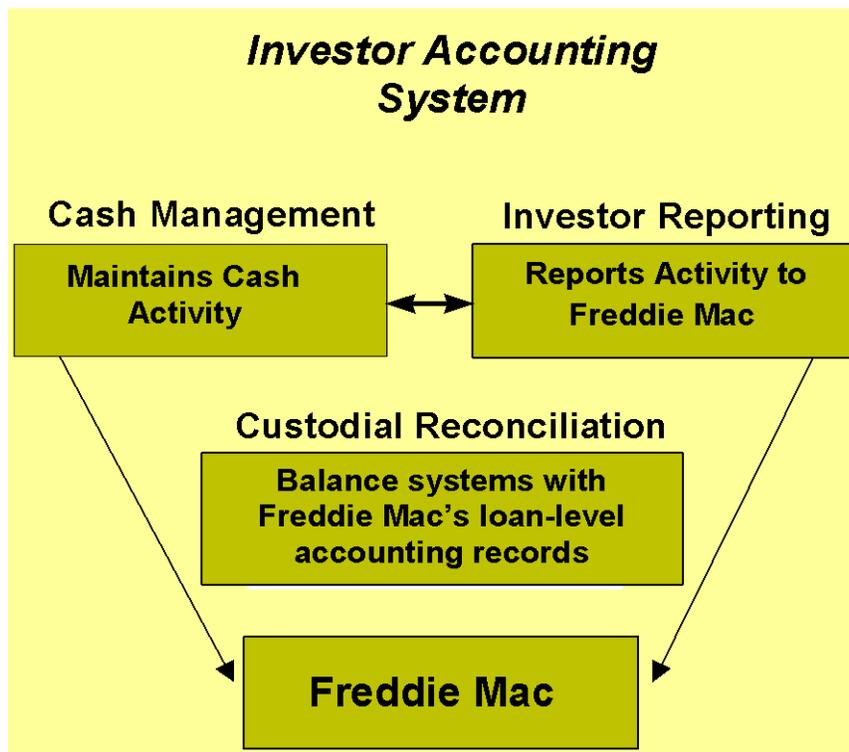
### ***What is investor accounting?***

Investor accounting is the process of accounting for mortgages that you service for us. Investor accounting includes three major activities: cash management, investor reporting, and custodial reconciliation. These activities are described below.

***Cash management*** - Is the process of collecting, processing and depositing borrowers' payments to custodial accounts.

***Investor reporting*** - Is the process of reporting and remitting to us all activity that has taken place in the cash management system.

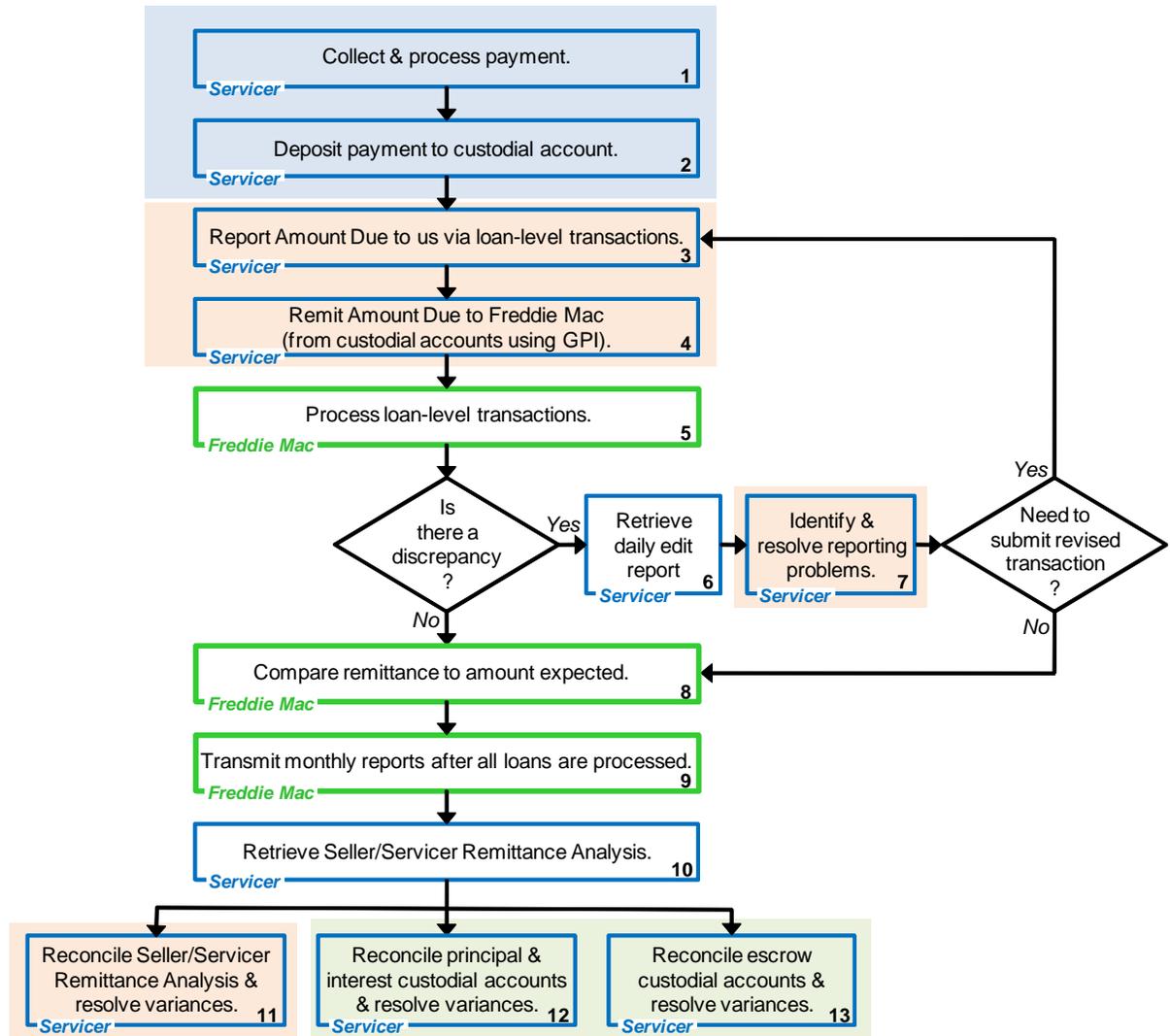
***Custodial reconciliation*** - Is the process of ensuring that your cash management and investor reporting systems are in balance with our loan-level accounting records.



The diagram above shows the high-level activity “systems” involved with the Investor Accounting System. More detailed activities involved in investor accounting for our mortgages are shown in the process flow on the following page.

# Investor Accounting Overview

The investor accounting process flow reflects the accounting activities for our mortgages. The activities are shown in the order in which they occur, and are labeled to identify if you or Freddie Mac performs them. The activities are shaded to indicate if they are related to cash management, investor reporting, or custodial reconciliation. The information in this publication focuses on boxes 12 and 13 only.



Key:

- Cash Management (Boxes 1 and 2)
- Investor Reporting (Boxes 3, 4, 7, and 11)
- Custodial Reconciliation (Boxes 12 and 13)

# Investor Accounting Overview

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## Understanding Cash Management

Cash management is the process of

- Collecting borrowers' payments
- Posting payments, reversals and adjustments to borrowers' loan histories
- Depositing borrowers' payments into the appropriate accounts (i.e., principal and interest custodial and escrow custodial accounts)

## Cash Management Reports

The following reports are outputs of the cash management process. These reports will help you when completing your custodial account reconciliation process.

- Loan history
- Daily collections report
- Bank statement

### *Loan History*

The loan history is the record between you and the borrower. It reflects all payment activity for the mortgage. An example of a loan history is shown below.

<b>Name:</b>	<b>Smith, John</b>	<b>Loan Number:</b>	<b>52288</b>
<b>Address:</b>	<b>Route. 7-11 Manassas, VA</b>	<b>Interest Rate:</b>	<b>0.07</b>
		<b>Servicing Fee:</b>	<b>0.0025</b>
<b>Received: (LPRD)</b>	<b>1-Mar</b>	<b>8-Apr</b>	
<b>Due: (DDLPI)</b>	<b>1-Mar</b>	<b>1-Apr</b>	
<b>Tran Type:</b>	<b>1 00</b>	<b>1 00</b>	
<b>Amount:</b>	<b>\$ 1,098.32</b>	<b>\$ 1,098.32</b>	
<b>Interest:</b>	<b>\$ 714.44</b>	<b>\$ 713.82</b>	
<b>Principal:</b>	<b>\$ 105.88</b>	<b>\$ 106.50</b>	
<b>Principal Bal.:</b>	<b>\$ 122,368.87</b>	<b>\$ 122,262.37</b>	
<b>Escrow:</b>	<b>\$ 278.00</b>	<b>\$ 278.00</b>	
<b>Escrow Bal.:</b>	<b>\$ 603.42</b>	<b>\$ 881.42</b>	
<b>Fees:</b>	<b>\$ -</b>	<b>\$ -</b>	

# Investor Accounting Overview

## Daily Collections Report

The daily collections report summarizes the investors' share of collections received on a given day. An example of a daily collections report is shown below.

BORROWER	DDLPI	PAYMENT RECEIVED	PRINCIPAL	INTEREST	ESCROW	SERVICE FEE	NET INTEREST	FREDDIE DEPOSIT
	<u>7-Apr</u>							
CROWE	4/1/xx	\$ 1,027.68	\$ 65.78	\$ 756.90	\$ 205.00	\$ 28.64	\$ 728.26	\$ 794.04
JOLLY	4/1/xx	\$ 1,098.24	\$ 95.98	\$ 779.26	\$ 223.00	\$ 24.82	\$ 754.44	\$ 850.42
FOX	4/1/xx	\$ 138,991.85	\$ 138,820.70	\$ 171.15	\$ -	\$ 5.70	\$ 165.45	\$ 138,986.15
		\$ 141,117.77	\$ 138,982.46	\$ 1,707.31	\$ 428.00	\$ 59.16	\$ 1,648.15	\$ 140,630.61
	<u>8-Apr</u>							
SMITH	4/1/xx	\$ 1,098.32	\$ 106.50	\$ 713.82	\$ 278.00	\$ 25.49	\$ 688.33	\$ 794.83
MANTLE	4/1/xx	\$ 1,003.10	\$ 97.05	\$ 668.05	\$ 238.00	\$ 33.40	\$ 634.65	\$ 731.70
COSELL	4/1/xx	\$ 1,345.03	\$ 128.53	\$ 930.50	\$ 286.00	\$ 58.56	\$ 871.94	\$ 1,000.47
		\$ 3,446.45	\$ 332.08	\$ 2,312.37	\$ 802.00	\$ 117.45	\$ 2,194.92	\$ 2,527.00

## Bank Statement

The bank statement summarizes the investors' entire share of cash receipts and cash disbursements. It represents the balance of your cash management process. An example of a bank statement is shown below.

BANK OF BAGWAN				
MONGOL MORTGAGE AS CUSTODIAN AND/OR BAILEE FOR FEDERAL HOME LOAN MORTGAGE CORPORATION AND/OR VARIOUS OWNERS OF INTEREST IN MORTGAGES AND/OR MORTGAGE-RELATED SECURITIES AND/OR VARIOUS MORTGAGORS				
POSTED DATE	CHECKS AND OTHER DEBITS	DEPOSITS AND OTHER CREDITS	EXPLANATION OF TRANSACTIONS	BANK BALANCE
16-Mar			BEGINNING BALANCE	\$ 46,000.00
8-Apr		\$ 140,630.61	ACH CREDIT	\$ 186,630.61
<b>9-Apr</b>		<b>\$ 2,527.00</b>	<b>ACH CREDIT</b>	<b>\$ 189,157.61</b>
10-Apr		\$ 2,590.54	ACH CREDIT	\$ 191,748.15
11-Apr		\$ 5,201.78	ACH CREDIT	\$ 196,949.93
12-Apr	\$ 138,986.14		GPS -THE MORTGAGE CORP.	\$ 57,963.79
13-Apr		\$ 710,759.35	ACH CREDIT	\$ 768,723.14
15-Apr		4023.34	ACH CREDIT	\$ 772,746.48
TOTALS	\$ 138,986.14	\$ 865,732.62		

## Bank Statement Cutoff

Your bank statement may cut off on any date. However we recommend that your bank statement cuts off on the accounting cutoff (usually the 15th of the month) to correspond with the time period being reconciled.

## Bank Statement Documentation

You must keep an actual bank statement as supporting documentation. If you have an in-house account and the ability to print the activity you still must include an actual bank statement with your bank's logo.

# Investor Accounting Overview

## Daily Collections Report and Cash Management Reports

The relationship between the daily collections report and cash management reports are shown on the next page. You should be able to trace a payment to a deposit or itemize any deposit back to the individual loan payments.

This daily collections report reflects a borrower's payment on loan number 765431. You post the payment to the borrower's loan record on the day received (4/1) and to Freddie Mac's custodial account the following business day (4/2).

Daily Collections Report for Investor			Investor: Freddie Mac		
Date: 04/01					
<u>Investor Loan Number</u>	<u>Servicer Loan Number</u>	<u>Payment Due Date</u>	<u>Total Collected</u>	<u>Interest</u>	<u>Principal</u>
123456781	765431	04/01/XY	683.93	604.66	79.27
123456782	765432	04/01/XY	724.16	651.00	73.16
123456783	765433	04/01/XY	611.51	555.77	55.74
123456784	765434	04/01/XY	780.48	699.42	81.07
<b><u>Daily Total</u></b>			2,800.09	2,510.85	289.84

Freddie Mac Custodial Account Bank Statement	
<b><u>Deposits</u></b>	
04/02	2,800.09*

Servicer Loan Record			
Loan Number	765431		
Investor Loan Number	123456781		
DDLPI	04/01		
<b><u>Transactions</u></b>			
<u>Date</u>	<u>Total Payment</u>	<u>Interest</u>	<u>Principal</u>
04/01	683.93	604.66	79.27
<b>Beginning Loan Balance.....</b>			<b>80,621.50</b>
<b>Current Loan Balance.....</b>			<b>80,542.23</b>

\*Figure is net servicing fee and participation percentage.

# Investor Accounting Overview

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## Overview of Amount Due

In your investor reporting process, you calculate and report the amount due to Freddie Mac for each loan.

The amount due on your portfolio is calculated at the

- Loan level, based on your loan-level transactions
- Portfolio level, based on your *Monthly Account Statement*

## Loan-level Amount Due

Once a month you report the amount due for each loan you service for Freddie Mac. The loan-level amount due is the liability owed to Freddie Mac for each loan.

Amount Due = Principal due + Interest due

## Gross Unpaid Principal Balance

Listed below are some points to remember about the gross unpaid principal balance (UPB):

- The previous accounting cycle's ending gross UPB is the beginning gross UPB for the current accounting cycle. For example, the January cycle's ending gross UPB equals the February cycle's beginning gross UPB.
- For mortgages *modified with partial principal forbearance*, the gross UPB must equal the sum of the interest bearing UPB (the amortizing principal balance of the mortgage) and the deferred UPB (the principal forbearance balance), as of the accounting cutoff.
- The ending gross UPB will be reported at 100 percent for the current accounting cycle.
- The ending gross UPB is always zero for payoffs and third-party foreclosure sales.

## Principal Due

The principal due to us for mortgage activity is the difference between the current cycle's beginning gross UPB and the ending gross UPB for the current accounting cycle. Principal due is also referred to as principal reduction.

For mortgages modified with partial principal forbearance, principal due is the difference between the current cycle's beginning interest bearing UPB and the current cycle's ending interest bearing UPB.

# Investor Accounting Overview

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## ***Calculating Principal Due***

When calculating principal due, remember:

- Principal due for payoffs and third-party foreclosure sales will always be equal to the current cycles' beginning gross UPB since the current cycle's ending gross UPB must be zero.
- Principal due for inactivations (mortgages in foreclosure that you are moving to an inactive status) will always be zero.

Report actual principal received from loans, except for those loans that are reported under the scheduled/scheduled and timely P&I accounting methods.

## **Interest Due**

Interest due Freddie Mac is calculated at the accounting net yield rate (ANY). The ANY is on the *Funding Detail Report* and is equal to the note rate less the service fee.

There are two types of interest due: monthly and exception.

*Monthly interest* is one full month of interest calculated at the ANY, based on the current accounting cycle's beginning gross UPB. For mortgages modified under HAMP with a partial principal forbearance, use the interest bearing UPB, not the gross UPB, to calculate monthly interest due.

- *Exception interest* is calculated at the ANY, based on the current accounting cycle's beginning gross UPB. It is due for exception activity (payoffs, REOs and third-party foreclosure sales). There are two types of exception interest: daily and monthly.
  - *Daily exception interest* is due when the exception date for payoffs and third-party foreclosure sales is not the first of the month.
  - *Monthly exception interest* is due if a payoff occurred between the 16<sup>th</sup> and the end of the month, for FHA/VA foreclosures, and REOs.

## ***Calculating Interest Due***

Interest due is:

- Calculated using the current cycle's beginning gross UPB
- Calculated using net yield interest
- Paid in arrears

Current cycle's beginning gross UPB x ANY ÷ Time = Interest Due

## ***Monthly Interest Due***

You must report monthly interest for all active mortgages, regardless of what has been collected from the borrower.

# Investor Accounting Overview

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When calculating monthly interest due, remember

- *Monthly interest* is based on full calendar months even though our accounting cycle begins on the 16<sup>th</sup> of the month and ends on the 15<sup>th</sup> of the following month.
- *Monthly interest* is due in arrears. For example, in the May accounting cycle you report April's interest, and in the June accounting cycle you report May's interest.
- *Monthly interest* is calculated based on a 12-month, 360-day year.

## Exception Interest Due

Listed below are important points to remember for monthly exception interest:

- *Monthly exception interest* differs from monthly interest in that the exception interest may be due for more than one month and may be a credit.
- *Monthly exception interest* is due for payoffs occurring between the 16<sup>th</sup> and the end of the month, REOs, and FHA/VA foreclosures.

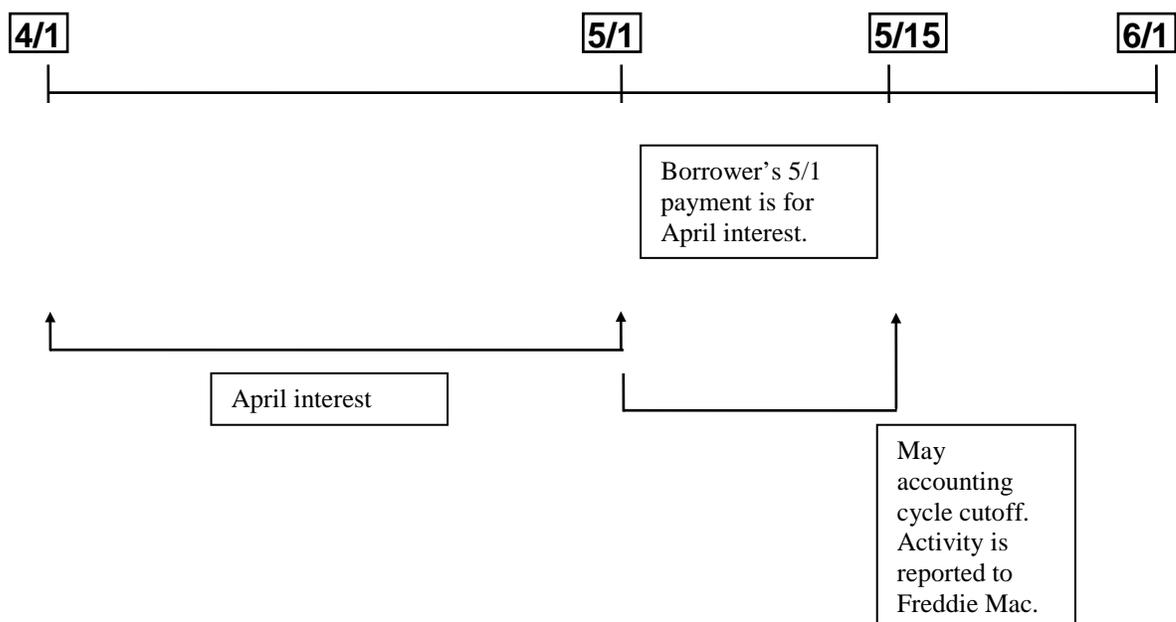
Listed below are important points to remember for daily exception interest:

- *Daily exception interest* is based on a 365-day year.
- *Daily exception interest* is calculated from the first of the month up to, but not including, the payoff date.
- *Daily exception interest* is due for payoffs and third-party foreclosure sales.

For payoffs and third-party foreclosure sales, the total exception interest due equals the total of the daily and monthly exception interest.

## Interest Due Timeline Example

Shown below is an example of a timeline of interest due.



# Investor Accounting Overview

## Freddie Mac's Role in the Investor Reporting Process

Upon receipt of your remittances and reporting we

- Compare what you reported to what we processed
- Compare what you remitted to what we processed
- Provide you with reports identifying any differences between what you reported and remitted to what we processed

When we receive your loan-level transactions we compare the data you transmit to us against our database to identify any discrepancies. We call these discrepancies "edits." To notify you of any discrepancies, we send you daily edit reports the business day after we receive your loan-level transactions.

### What daily reports does Freddie Mac provide to help with your process?

Listed below are the daily reports that we provide to assist you with the investor reporting process:

- *Edits to be Cleared* report
- *System Cleared Edits* report
- *Loan-Level Missing* report (provided during the last two weeks of the month)

The following table provides high-level descriptions of the daily edit reports.

Report	Purpose	Timing	How You Receive the Report
<i>Edits To Be Cleared</i>	Lists edits that prevent us from processing a transaction	Daily	Service Loans application
<i>System Cleared Edits</i>	Lists edits our system was able to resolve to finish processing a transaction	Daily	
<i>Loan-Level Missing</i>	Lists loans you did not report to us and loans with unresolved edits on the <i>Edits To Be Cleared</i> report	Available daily during the monthly reporting cycle, starting the day after 75 percent of your monthly loan transactions are processed.	

# Investor Accounting Overview

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## What to do with the Daily Edit Reports

You need to report all missing loans and revise all loans with unresolved discrepancies.

## What is a corrected transaction?

You send us a corrected transaction when you need to change the information transmitted for a mortgage. If it passes all the edits, then the corrected transaction will replace any other transactions submitted during the current cycle for the mortgage. The Service Loans application includes a flag used to tell us that a transaction is a correction.

You must send a corrected transaction when you:

- Are clearing an edit from the *Edits To Be Cleared* report
- Want to replace a transaction that will be included on your monthly or interim transmission
- Want to replace a transaction we have already processed

## What monthly reports do we provide?

Listed below are the monthly reports we provide to assist you with the investor reporting process:

- *Monthly Account Statement*
- *Loan Reconciliation Difference Report*
- *Detailed Adjustment Report*
- *Seller/Servicer Remittance Analysis*

We “final” the accounting cycle after we process a loan-level transaction for every mortgage you service for us. This normally occurs around the end of the month. After we final, we send you the monthly reconciliation reports that summarize the activity on your Freddie Mac portfolio for the cycle.

# Investor Accounting Overview

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## Monthly Reconciliation Report Descriptions

High-level descriptions of the monthly reconciliation reports are included in the table below. Use the monthly reconciliation reports to reconcile your custodial account and *Seller/Servicer Remittance Analysis*.

<b>Report</b>	<b>Purpose</b>	<b>Timing</b>	<b>How You Receive the Report</b>
<i>Monthly Account Statement</i>	Lists the total amount due to us as of the accounting cutoff.	Month end	Service Loans application
<i>Loan Reconciliation Difference Report</i>	Lists the loan-level transactions that appeared on the <i>Edits To Be Cleared</i> and the <i>System Cleared Edits</i> reports throughout the cycle and any mortgages you did not report.		
<i>Detailed Adjustment Report</i>	Itemizes the adjustments and billings we have made to your Freddie Mac portfolio. (You will not receive this report if there are no adjustments.)		Service Loans application

## Monthly Account Statement

The *Monthly Account Statement* represents the balance of your investor reporting system. The ending balance represents your liability due Freddie Mac as of the accounting cutoff.

# Investor Accounting Overview

## Monthly Account Statement Example

The following is an example of the *Monthly Account Statement*.

0.00 REPORT: XXXXX: ACCOUNTANT: 2A2123 SERVICER: 123456789		LOAN LEVEL REPORTING MONTHLY ACCOUNT STATEMENT AS OF 02/15/XX				PAGE: 1 RUN DATE: 02/28/XX RUN TIME: 21:42:27 FINAL	
BEGINNING BALANCE						45,429.32	
TRANSACTIONS APPLIED	PRINCIPAL DUE	DFRD PRINCIPAL CURTAILMENT	BORR INCENTIVE CURTAILMENT	INTEREST DUE	TOTAL P&I		
NON EXCEPTIONS	4,297.50	0.00	0.00	38,160.36	42,457.86		
PREPAID PAY OFF (61)	305,037.27	0.00	0.00	2,404.53	307,441.80		
ADD TOTAL PRINCIPAL & INTEREST	309,334.77	0.00	0.00	40,564.89	349,899.66	349,899.66	
LESS REMITTANCES MADE						184,415.46	
ADD ADJUSTMENTS MADE BY FREDDIE MAC						0.00	
ENDING BALANCE						210,913.52	

## What is the Seller/Servicer Remittance Analysis?

The *Seller/Servicer Remittance Analysis* (also called the Cash Statement) is a summary report, which recaps:

- Your daily remittances through the cash remittance system
- When cash is available to us
- The Amount Due calculated on what we processed
- Your cumulative overage/shortage balance

To ensure the transactions you report and the cash you remit to us reconcile, your system's information must agree with the information on our system. We compare the amount received (what you call in to us) with the Amount Due in our system, and then provide a *Seller/Servicer Remittance Analysis* to you via the Service Loans application

# Investor Accounting Overview

## Remittance Analysis Example

An example of the *Seller/Service Remittance Analysis* is shown below.

Freddie Mac Seller/Service Remittance Analysis										FINAL Last Updated: 10/30/1998 12:00:00 AM	
Servicer Number: Servicer Name: Servicer Contact Name:											
Date	Amount Received			Amount Due				Balance	Int. Reimbursement		
	P&I, Adj, Int. Advanced	P/O, TP FCL	Corrections	P&I, Int. Advanced	P/O, TP FCL	Adj.	Adj Code				
								1,000,000.00			
Oct. 16	2,000.00	100.00	0.00	0.00	0.00	0.00		1,002,100.00	0.00		
Oct. 17	3,000.00	500.00	0.00	0.00	0.00	0.00		1,005,600.00	0.00		
Oct. 18	0.00	0.00	0.00	0.00	0.00	0.00		1,005,600.00	0.00		
Oct. 19	0.00	0.00	0.00	0.00	0.00	0.00		1,005,600.00	0.00		
Oct. 20	0.00	0.00	0.00	0.00	0.00	0.00		1,005,600.00	0.00		
Oct. 21	0.00	0.00	0.00	0.00	0.00	0.00		1,005,600.00	0.00		
Oct. 22	0.00	0.00	0.00	0.00	0.00	0.00		1,005,600.00	0.00		
Oct. 23	0.00	0.00	0.00	0.00	0.00	0.00		1,005,600.00	0.00		
Oct. 24	0.00	0.00	0.00	0.00	0.00	0.00		1,005,600.00	0.00		
Oct. 25	0.00	0.00	0.00	0.00	0.00	0.00		1,005,600.00	0.00		
Oct. 26	0.00	0.00	0.00	0.00	0.00	0.00		1,005,600.00	0.00		
Oct. 27	0.00	0.00	0.00	0.00	0.00	0.00		1,005,600.00	0.00		
Oct. 28	0.00	0.00	0.00	0.00	0.00	0.00		1,005,600.00	0.00		
Oct. 29	0.00	0.00	0.00	0.00	0.00	0.00		1,005,600.00	0.00		
Oct. 30	0.00	0.00	0.00	0.00	0.00	0.00		1,005,600.00	0.00		
Oct. 31	0.00	0.00	0.00	0.00	0.00	0.00		1,005,600.00	0.00		
Nov. 1	0.00	0.00	0.00	0.00	0.00	0.00		1,005,600.00	0.00		
Nov. 2	0.00	0.00	0.00	0.00	0.00	0.00		1,005,600.00	0.00		
Nov. 3	0.00	0.00	0.00	0.00	0.00	0.00		1,005,600.00	0.00		
Nov. 4	0.00	0.00	0.00	0.00	0.00	0.00		1,005,600.00	0.00		
Nov. 5	0.00	0.00	0.00	0.00	0.00	0.00		1,005,600.00	0.00		
Nov. 6	0.00	0.00	0.00	1,005,700.00	0.00	0.00		(100.00)	0.02		
Nov. 7	0.00	0.00	0.00	0.00	0.00	0.00		(100.00)	0.02		
Nov. 8	0.00	0.00	0.00	0.00	0.00	0.00		(100.00)	0.02		
Nov. 9	0.00	0.00	0.00	0.00	0.00	0.00		(100.00)	0.02		
Nov. 10	0.00	0.00	0.00	0.00	0.00	0.00		(100.00)	0.02		
Nov. 11	0.00	0.00	1,000.00	0.00	0.00	0.00		900.00	0.00		
Nov. 12	0.00	0.00	0.00	0.00	0.00	0.00		900.00	0.00		
Nov. 13	0.00	0.00	0.00	0.00	0.00	0.00		900.00	0.00		
Nov. 14	0.00	0.00	0.00	0.00	0.00	500.00	MULT	400.00	0.00		
Nov. 15	0.00	0.00	0.00	0.00	0.00	2,000.00	BALI	(1,600.00)	0.39		
<b>Totals:</b>	<b>5,000.00</b>	<b>600.00</b>	<b>1,000.00</b>	<b>1,005,700.00</b>	<b>0.00</b>	<b>2,500.00</b>			<b>0.49</b>		

## Cash Management and Investor Reporting Relationship

Cash management is the collection of funds, processing and depositing borrowers' payments to custodial accounts, and making remittances from the principal and interest custodial account. Your cash management activity and ending balance are represented by your bank statement.

Investor reporting is the reporting of all activity that has occurred in the cash management process. Your investor reporting activity and ending balance are represented by your *Monthly Account Statement*.

The two processes should be equal. In other words, activity on your bank statement should be reflected on your *Monthly Account Statement* and vice versa. In theory, the balances of those two reports should be the same.

# Investor Accounting Overview

## Monthly Account Statement and Bank Statement Comparison

An example of a comparison of a MAS and a bank statement is shown below.

*March Cycle* - You received a \$100 payment due Freddie Mac, deposited the funds, and reported the payment as a loan-level transaction. The *Monthly Account Statement* and the custodial account both have a \$100 balance as of March 15<sup>th</sup>.

*April Cycle* - You received a \$150 payment due Freddie Mac, deposited the funds, and reported payment as a loan-level transaction. You remitted the \$100 due from the previous cycle. The *Monthly Account Statement* and the custodial account both have a \$100 beginning balance, \$100 reduction, \$150 increase and \$150 ending balance as of April 15<sup>th</sup>.

Bank Statement				
Posted Date	Checks and Other Debts	Deposits and Other Credits	Explanation of Transactions	Bank Balance
17-Mar			Beginning Balance	100.00 <sup>A</sup>
18-Mar	100.00 <sup>B</sup>		ACH Debt	0.00
19-Mar		150.00 <sup>C</sup>	Collections	150.00
Totals	<u>100.00</u>	<u>150.00</u>	Ending Balance	<u>150.00<sup>P</sup></u>

0.00 REPORT: XXXXX		LOAN LEVEL REPORTING				PAGE: 1
ACCOUNTANT: 2A2123		MONTHLY ACCOUNT STATEMENT				RUN DATE: 05/30/XX
SERVICER: 123456789		AS OF 04/15/XX				RUN TIME: 21:42:27
						FINAL
BEGINNING BALANCE						100.00 A
TRANSACTIONS APPLIED	PRINCIPAL DUE	DFRD PRINCIPAL CURTAILMENT	BORR INCENTIVE CURTAILMENT	INTEREST DUE	TOTAL P&I	
NON EXCEPTIONS	50.00	0.00	0.00	100.00	150.00	
PREPAID PAYOFF (61)	0.00	0.00	0.00	0.00	0.00	
ADD TOTAL PRINCIPAL & INTEREST	50.00	0.00	0.00	100.00	150.00	150.00 C
LESS REMITTANCES MADE						100.00 B
ADD ADJUSTMENTS MADE BY FREDDIE MAC						0.00
ENDING BALANCE						150.00 D

## Investor Accounting Overview

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### ***Loan History vs. Amount Due***

A borrower's loan history should equal the amount due Freddie Mac (if there are no reporting discrepancies). However, differences between the loan history and the amount due can be caused by delinquent and prepaid interest. You will see in the next chapter that both delinquent and prepaid interest are accounted for in your P&I custodial account reconciliation. This should not cause a large difference when reconciling your P&I custodial account. (However, it may cause smaller amortization differences.)

# Investor Accounting Overview

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## Review

- Investor accounting is the process of accounting for mortgages that you service for us. Investor accounting includes three major activities: cash management, investor reporting, and custodial account reconciliation.
- Deposit payments received into the appropriate custodial account. Identify discrepancies by reconciling your custodial accounts on Forms 59 and 59E.
- Report payments through loan-level transactions. Identify discrepancies by reviewing the edit reports.
- Remit payments through the cash remittance system. Identify discrepancies by reviewing the *Seller/Servicer Remittance Analysis*.

# Investor Accounting Overview

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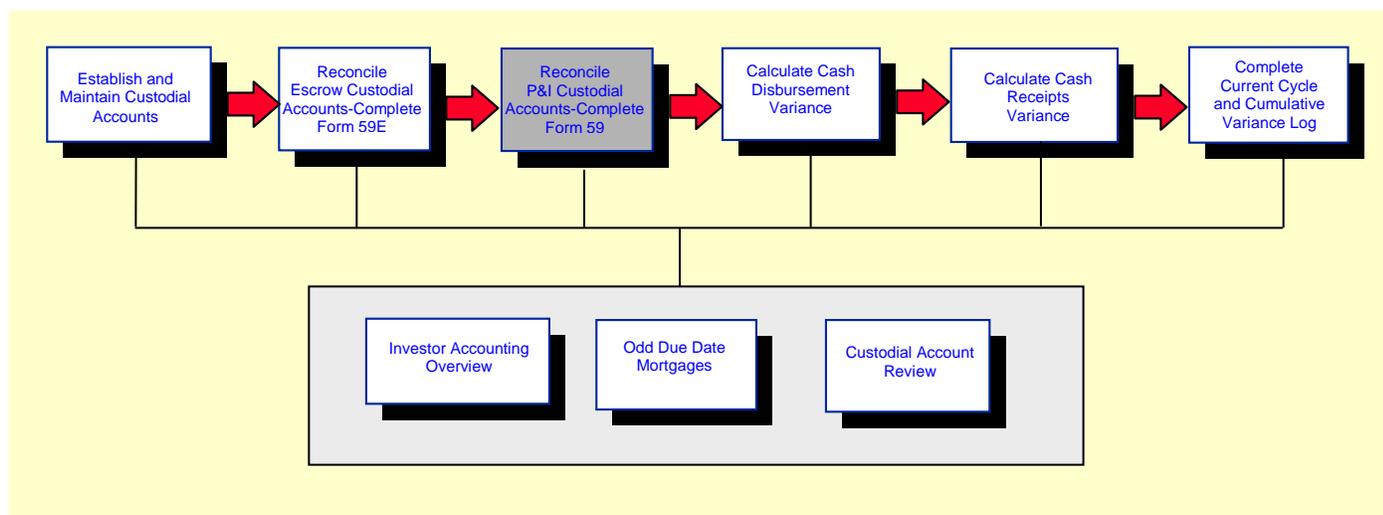
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# Reconcile Principal and Interest Custodial Accounts

# 4

## Introduction

This chapter explains requirements for reconciling principal and interest (P&I) custodial accounts and provides details on how to complete Form 59, *Principal and Interest Custodial Account Reconciliation Worksheet – Monthly Account Statement*.



## Objectives

After completing this chapter, you will:

- Have a general understanding of the P&I custodial account reconciliation process
- Be familiar with Form 59, *Principal and Interest Custodial Account Reconciliation Worksheet – Monthly Account Statement*.

# Reconciling Principal and Interest Custodial Accounts

## Overview of Reconciling Principal and Interest (P&I) Custodial Accounts

Each accounting cycle cutoff (usually the 15th of the month unless the 15<sup>th</sup> falls on a non-business day), we require you to use the *Monthly Account Statement* to reconcile your P&I custodial account. The total amount due to us as of the accounting cutoff is the ending balance that appears on the *Monthly Account Statement*. The *Monthly Account Statement* is available to you monthly via the Service Loans application. The principal and interest custodial account reconciliation process will aid you in identifying variances and reconciling your P&I account.

### ***What do I need to begin reconciling?***

You will need your bank statement, the *Monthly Account Statement* from Freddie Mac, and internal reports to support your numbers when reconciling your P&I custodial account. The following table identifies and gives a brief description of the types of statements and internal reports you will need to thoroughly support your numbers when reconciling your P&I custodial account.

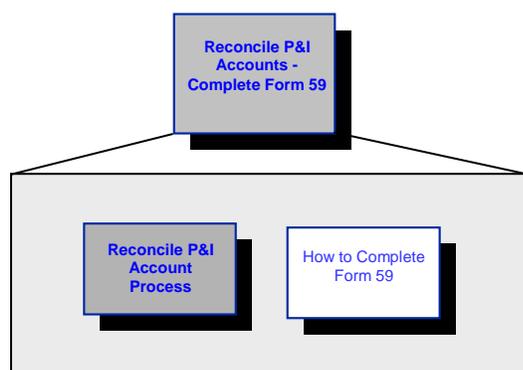
<b>Statement or Internal Report</b>	<b>Description</b>
Bank statement	This is your monthly statement you receive from your bank.
<i>Monthly Account Statement</i> (MAS)	The <i>Monthly Account Statement</i> is available via the Service Loans application at month end from Freddie Mac. The ending balance on the <i>Monthly Account Statement</i> reflects the total liability due Freddie Mac as of the accounting cutoff.
<i>Loan Reconciliation Difference Report</i> (LRDR)	The <i>Loan Reconciliation Difference Report</i> is available via the Service Loans application at month end from Freddie Mac. This report reflects all missing loans and loan-level edits that occurred during the cycle.
Trial Balance report	This is your monthly internal report.
Collections report	Your monthly internal report that lists all monthly funds received from borrowers on a day-by-day basis. The report should show a detailed allocation of the payments received. For example: How much is allocated to principal, interest, escrow, service fee, etc...
Delinquency Information and Prepaid Information	Your internal monthly report showing detailed delinquency and prepaid information per loan, including active and inactive loan totals.

## Reconciling Principal and Interest Custodial Accounts

Statement or Internal Report	Description
Cash Receipts to Amount Due for Interest	Your internal report (amount of Interest reported to Freddie Mac – change in delinquent interest + change in prepaid interest – cash deposited for Interest)
Cash Receipts to Amount Due for Principal	Your internal report (amount of Principal reported to Freddie Mac - cash deposited for Principal)

### The Reconciliation Process

This section describes and summarizes the overall reconciliation process for P&I custodial accounts.



Familiarize yourself with the process outlined below to reconcile your P&I custodial account.

1. Complete Form 59, *Principal and Interest Custodial Account Reconciliation Worksheet*. After you complete the worksheet, you will be able to determine:
  - If a variance exists between the balance in your P&I custodial account(s), and your ending balance due to us as of the accounting cutoff being reconciled.
    - The amount of the cumulative variance to date, if any, will display on line 6a - “Current Cycle’s Total Cumulative Variance” of the worksheet.
    - The items that comprise the cumulative variance on line 6a, if any, should be tracked on the *Cumulative Variance Logs*.
  - If there is a change between the previous cycle’s total cumulative variance (previous cycle’s line 6a) and the current cycle’s total cumulative variance (current cycle’s line 6a).
    - The amount of this change will display on line 6c - Current Cycle’s Variance, of the worksheet.
    - The items that comprise the change should be tracked on the *Current Cycle Variance Log*.

## Reconciling Principal and Interest Custodial Accounts

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- Variances can be classified as one of two types:
  - Cash receipt and reporting variances
  - Cash disbursement variances

Refer to the *Principal and Interest Custodial Account Reconciliation Worksheet* section later in this chapter for details on how to complete worksheet.

2. Calculate your cash disbursement variances for the cycle using the *Cash Disbursements to the Amount Remitted Worksheet*.

A cash disbursement variance is a result of a variance between the cash disbursement (withdrawals) portion of your cash management process and your remittances to us (your investor reporting process). When you remit a payment to us, your custodial account bank balance and the MAS decrease by the same amount. If they do not, there is a cash disbursement variance. You calculate your cash disbursement variance by completing the *Cash Disbursements to Amount Remitted Worksheet*.

Refer to chapter 5, *Calculate Cash Disbursement Variance*, for details on how to calculate and complete the worksheet necessary to determine any cash disbursement variances.

3. Calculate your cash receipts variances for the current cycle using the *Cash Receipts to Current Amount Due Worksheet*.

A cash receipts variance is the result of a variance between the cash receipts (deposits) portion of your cash management process and the amounts processed as due on the MAS (based on your loan-level transactions reports). When you deposit and report a payment, your custodial account bank balance and MAS increase by the same amount. If not, there is a cash receipts variance. You calculate your cash receipt variances by completing the *Cash Receipts to Current Amount Due Worksheet*.

Refer to chapter 6, *Calculate Cash Receipts Variances*, for details on how to calculate and complete the worksheet necessary to determine any cash receipt variances.

4. Verify that your worksheets are correct by using the Numbers Check formula.

- The totals from the three worksheets (the *P&I Custodial Account Reconciliation Worksheet*, the *Cash Disbursements to Amount Remitted Worksheet*, and the *Cash Receipts to Current Amount Due Worksheet*) should compute and match-up using the following formula:

$$\begin{array}{r} \text{Cash Receipt Variance} \\ - \text{Cash Disbursement Variance} \\ \hline = \text{Current Cycle's Variance} \\ \text{(Line 6c from the } P\&I \text{ Custodial Account Reconciliation Worksheet)} \end{array}$$

## Reconciling Principal and Interest Custodial Accounts

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- If your reconciliation worksheets do not tie out, verify that all
  - Delinquent totals and prepaid totals are consistent from worksheet to worksheet
  - Worksheets are footed correctly
  - Numbers on the worksheets represent the requested data
- 5. Identify the transactions causing your cash disbursements variance and record them on a *Current Cycle Variance Log*.

See Chapter 5 for additional information on identifying cash disbursements differences.

- 6. Identify the transactions causing your cash receipts variance and record them on a *Current Cycle Variance Log*.

See Chapter 6 for additional information on identifying cash receipts differences.

- 7. Record all outstanding variances on the *Cumulative Variance Log* and designate them as cash or paper.

Transfer all outstanding current cycle and previous cycle reconciliation items to a new Cumulative Variance Log. This log should equal line 6a of your *P&I Custodial Account Reconciliation Worksheet*. Identify each item as a cash or paper adjustment.

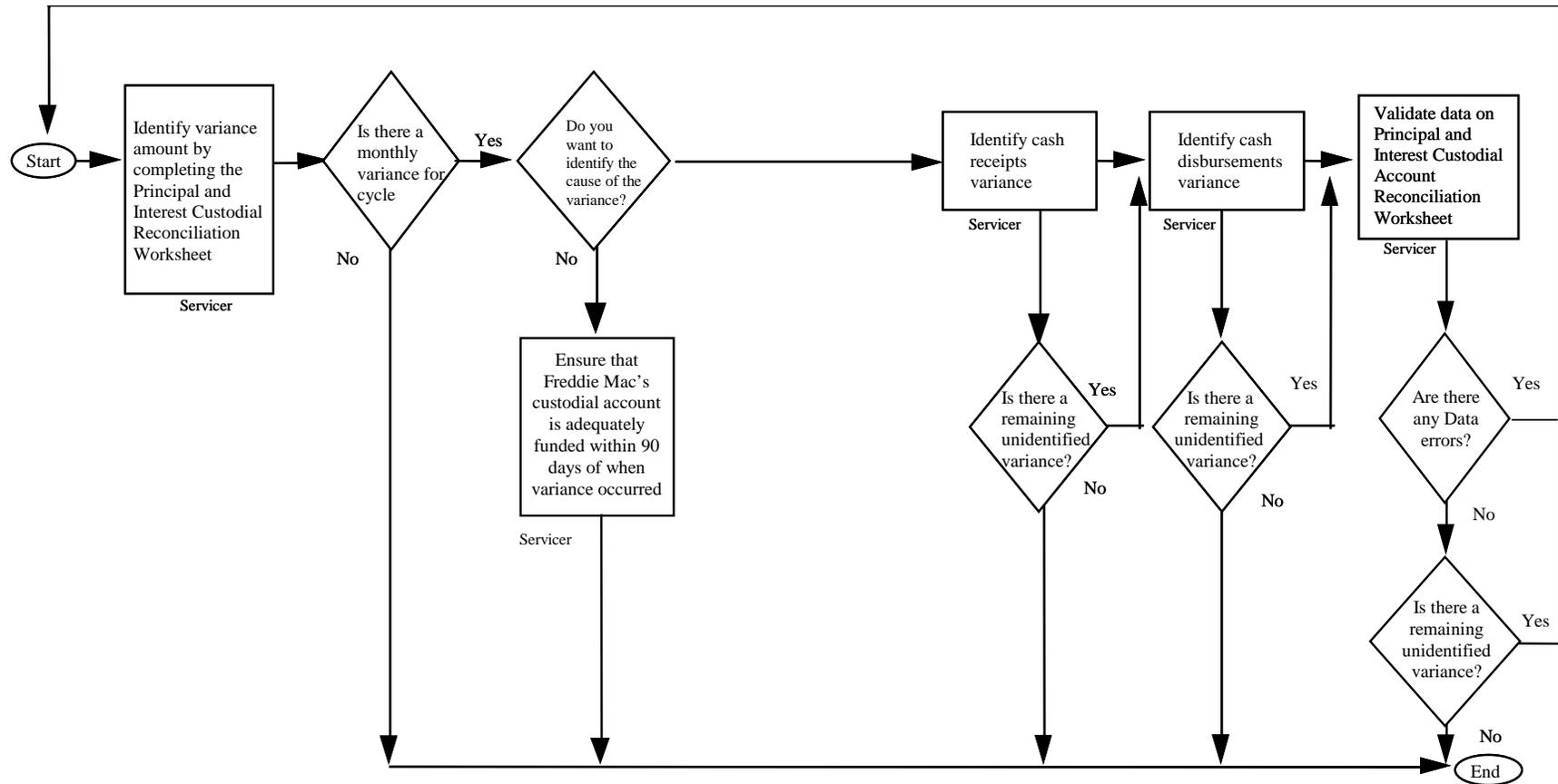
For additional information, refer to Chapter 7, *Complete Current Cycle Variance and Cumulative Variance Logs*.

- 8. Repeat the above steps for each previous cycle until the total cumulative variance is identified.

# Reconciling Principal and Interest Custodial Accounts

## Reconciliation Process-Monthly Account Statement

A process flow of the reconciliation process for reconciling the bank account to the *Monthly Account Statement* is shown below.

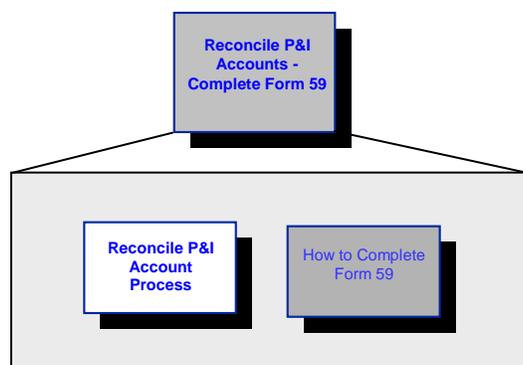


# Reconciling Principal and Interest Custodial Accounts

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## The Principal and Interest Custodial Account Reconciliation Worksheet

You are required to use Form 59, *Principal and Interest Custodial Account Reconciliation Worksheet – Monthly Account Statement (P&I Custodial Account Reconciliation Worksheet)* to reconcile your P&I account. You may use either the online version, or a copy of the form to complete the reconciliation. If a line item does not apply to your Freddie Mac portfolio, enter zero or “N/A”. Ensure that your Form 59 includes the “prepared by” and “approved by” names and dates.



### Worksheet Sections

The *P&I Custodial Account Reconciliation Worksheet* contains the following three sections:

- **Adjusted Bank Balance** - adjusts the P&I custodial bank account as of the accounting cutoff date (usually the 15th of the month). Your bank statement represents your cash management process.
- **Total Liability** - adjusts the net current amount due to us for amounts reported, but not collected (delinquents), and for amounts collected, but not reported (prepaids). The MAS represents the amount due us from your investor reporting process.
- **Total Variance** - identifies the amount of the variance between the adjusted bank balance and the adjusted liability. The total variance is the difference between your cash management system and your investor reporting system.

# Reconciling Principal and Interest Custodial Accounts

## Reconciliation Worksheet

An example of the *P&I Custodial Account Reconciliation Worksheet* is shown below. Note that lines 1, 3, 4, 5, 6a, and 6c will automatically calculate based on the values you enter on the form.

		<h1>Form 59</h1>
		As of <b>00/15/00</b>
<h2>Principal and Interest Custodial Account Reconciliation Worksheet - Monthly Account Statement</h2>		
<small>Note: Do not enter any data in shaded fields. Values will automatically calculate based on information entered in other fields.</small>		
<b>Seller/Servicer Number:</b> _____		<b>Seller/Servicer Name:</b> _____
<b>Section 1 - Adjusted Bank Balance</b>		
1a)	Bank balance as of <u>00/15/00</u>	_____
	1b) Outstanding debits	_____
	1c) Deposits in transit	_____
1)	Adjusted bank balance (lines 1a - 1b + 1c)	0.00
<b>Section 2 - Total Liability</b>		
2)	Ending Balance from the _____ Monthly Account Statement (Month/Yr)	_____
<b>Subtract cumulative totals for:</b>		
	3a) Delinquent interest on active Mortgages	_____
	3b) Delinquent interest on inactive Mortgages	_____
	3c) Delinquent principal on scheduled/scheduled Mortgages	_____
3)	Subtotal for delinquent principal and interest (lines 3a + 3b + 3c)	0.00
<b>Add cumulative totals for:</b>		
	4a) Prepaid interest	_____
	4b) Prepaid principal on scheduled/scheduled Mortgages	_____
	4c) Minority principal and interest collected but not reported as of _____ (Month/Yr)	_____
4)	Subtotal for prepaid items (lines 4a + 4b + 4c)	0.00
5)	Total Liability (lines 2 - 3 + 4)	0.00
<b>Section 3 - Total Variance</b>		
6a)	Current cycle's total cumulative variance (line 1 - line 5)	0.00
6b)	Previous cycle's total cumulative variance (line 6a from previous cycle)	_____
6c)	Total variance for the current cycle (line 6a - line 6b)	0.00
Prepared by: _____		Date: _____
Approved by: _____		Date: _____
<p><b>The Principal and Interest Custodial Account Reconciliation Worksheet is a required document. See instructions worksheet for information on completing it. The additional worksheets in this workbook are optional tools to assist you in identifying variances.</b></p>		

# Reconciling Principal and Interest Custodial Accounts

## Completing Section 1 - Adjusted Bank Balance

The Adjusted Bank Balance section is used to calculate an accurate bank balance as of the reconciliation date by adjusting the beginning bank balance for timing differences relating to deposits or debits. In other words, it identifies your adjusted bank balance by subtracting outstanding debits and adding deposits in transit (outstanding credits) to your actual bank balance, as of the accounting cutoff.

One of the most common adjustments is for outstanding deposits (frequently called deposits in transit).

To complete this section you will need:

- Your bank statement for the current cycle
- Supporting documentation for outstanding debits
- Supporting documentation for deposits in transit

Section 1 - Adjusted Bank Balance	
1a)	Bank balance as of <u>    (00/15/00)    </u>
1b)	Outstanding debits
1c)	Deposits in transit
1)	Adjusted bank balance (lines 1a - 1b + 1c)
	0.00

### **Line 1a) Bank balance as of   /15/**

Enter on line 1a the balance from your principal and interest custodial account bank statement as of the accounting cutoff date (usually the 15th of the current month).

Example: If you are performing April's reconciliation, use the bank balance as of 4/15.

### **Line 1b) Subtract outstanding debits**

Do not record any amounts for remittances made via the cash remittance system (GPI). The *Monthly Account Statement* uses the cash we receive. Cash is made available to us the same day it is debited from your bank account. While there will be a timing difference of one business day between the day you initiate the remittance via the cash remittance system, (by phone or via the Service Loans application) and when your account is debited, there is no timing difference between when the cash is made available to us and when it is withdrawn from your bank account.

You will rarely have an adjustment for outstanding debits. Line 1b should only contain items for withdrawals initiated by the accounting cutoff, but not debited from the bank statement until the business day after the cutoff, with the exception of cash (GPI) remittances.

## Reconciling Principal and Interest Custodial Accounts

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The primary reason for an entry on this line is for payment reversals processed on the accounting cutoff date that were indicated as a debit entry to the bank statement the following business day.

### ***Line 1c) Add deposits in transit***

Enter on line 1c the total amount of collections for transactions included on the Monthly Account Statement that are not reflected in the custodial bank balance as of the cutoff date. The most common deposit in transit items are daily deposits posted to borrowers' loan histories, but not reflected on the bank statement until after the accounting cutoff. Usually, these deposits are for the day(s) just prior to the cutoff date of the bank statement.

### ***Line 1) Adjusted bank balance***

Line 1 automatically calculates based on the values you entered on lines 1a through 1c.

1a: Bank balance as of \_\_\_/15/\_\_\_\_  
- 1b: Outstanding debits  
+ 1c: Deposits in transit  

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= **1: Adjusted bank balance**

## Completing Section 2 - Total Liability

The second section of the worksheet, Total Liability, is used to adjust the total amount due us for funds not collected, but reported (delinquents), and for funds collected, but not reported (prepaids). This section of the worksheet identifies your adjusted liability to us by subtracting your delinquent interest and adding your prepaid interest from the total due us from the MAS.

To complete this section you will need:

- Final MAS for the month being reconciled
- Last page of the delinquent interest report\*
- Last page of the delinquent principal report (for scheduled/scheduled loans only)\*
- Last page of the prepaid interest report\*
- Last page of the prepaid principal report (for scheduled/scheduled loans only)\*
- Freddie Mac Minority Principal and Interest report

Delinquent and prepaid interest should be cumulative and calculated at the accounting net yield (ANY) rate.

\* Some reports may be substituted with a spreadsheet or handwritten report. Refer to Form 59 instructions for additional details.

## Reconciling Principal and Interest Custodial Accounts

Section 2 - Total Liability		
2)	Ending Balance from the _____ Monthly Account Statement (Month/Yr)	_____
<b>Subtract cumulative totals for:</b>		
3a)	Delinquent interest on active Mortgages	_____
3b)	Delinquent interest on inactive Mortgages	_____
3c)	Delinquent principal on scheduled/scheduled Mortgages	_____
3)	Subtotal for delinquent principal and interest (lines 3a + 3b + 3c)	0.00
<b>Add cumulative totals for:</b>		
4a)	Prepaid interest	_____
4b)	Prepaid principal on scheduled/scheduled Mortgages	_____
4c)	Minority principal and interest collected but not reported as of _____ (Month/Yr)	_____
4)	Subtotal for prepaid items (lines 4a + 4b + 4c)	0.00
5)	Total Liability (lines 2 - 3 + 4)	0.00

### **Line 2) Ending balance**

Enter on line 2 the ending balance (last line) from the final *Monthly Account Statement* for the cycle being reconciled.

Example: If you are performing April's reconciliation, use the final *Monthly Account Statement* for 4/15.

### **Line 3a) Delinquent interest on active mortgages**

Enter on line 3a the cumulative amount of interest for active mortgages that has been both reported to us and included as interest due on the *Monthly Account Statement*, but has not been collected from borrowers as of the cycle's cutoff. Do not include delinquent interest not reported to us for loans reported to us under the Alternate Method program (actual/actual reporting).

### **Line 3b) Delinquent interest on inactive mortgages**

Enter on line 3b the cumulative amount of interest for inactive mortgages that has been reported to us, but has not been collected from borrowers as of the cycle's cutoff. The cumulative delinquent interest amount carried for an inactive mortgage should remain constant from the cycle the loan is inactivated until the loan status changes (for example, when the loan is reinstated or foreclosed upon).

Do not include loans reported to us under the Alternate Method program (actual/actual reporting).

If your report has one total for delinquent interest on active and inactive mortgages, you may report the total on line 3a. You do not have to break this into two figures for line 3a and 3b.

## Reconciling Principal and Interest Custodial Accounts

### **Line 3c) Delinquent principal on scheduled/scheduled mortgages**

Enter on line 3c the cumulative amount of delinquent principal reported to us, but not collected from borrowers. This will only apply to mortgages reported under the Guaranteed Timely Principal and Interest or scheduled/scheduled reporting methods.

### **Line 3) Subtotal for delinquent principal and interest**

Line 3 reflects the amounts that have been included on the *Monthly Account Statement* as principal and interest due to us for which you have not yet received the funds from borrowers. Line 3 automatically calculates based on the values you entered on lines 3a, 3b, and 3c.

Subtract cumulative totals for:	
3a)	Delinquent interest on active Mortgages _____
3b)	Delinquent interest on inactive Mortgages _____
3c)	Delinquent principal on scheduled/scheduled Mortgages _____
3)	Subtotal for delinquent principal and interest (lines 3a + 3b + 3c) <b>0.00</b>

### **What are delinquent interest amounts?**

Delinquent interest amounts are aggregate figures consisting of uncollected interest reported to us for the current cycle, and uncollected interest reported to us in previous cycles that remains uncollected as of the current cutoff.

### **When do I remit delinquent interest?**

You must remit delinquent interest for all loans, except loans reported under the Alternate Method program, until you place loans into foreclosure and an inactive status. This means you must remit to us delinquent interest on single-family loans, even though you have not collected the interest from the borrower.

### **What funds may I use to remit delinquent interest?**

You can use funds collected on our behalf, but not yet due, to offset any delinquent interest you remit. Since delinquent interest is almost always greater than prepaid interest, an advance of funds from your corporate account may be required. However, any funds you collect before the next required remittance may be used to repay the corporate advance. We support this process because the delinquent interest which has been passed through is actually money owed to you, either from the borrower when they bring the loan current, or from us after the property is placed in real estate owned (REO) status.

## Reconciling Principal and Interest Custodial Accounts

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### Is this the same as I report for delinquency reporting?

The delinquent interest calculation for custodial account reconciliation purposes is different from the monthly EDR. An accurate delinquent interest total will include monthly interest for any payment not collected as of the accounting cutoff being reconciled, whereas, accurate EDR reporting will include only loans for which the payment is not received as of the next payment due date.

### Example of Delinquent Interest

In the following example, a loan is inactivated after three months. In January, the interest due us is \$100 and the total delinquent interest is \$100. In March the interest due us for the current cycle is still \$100, but the cumulative delinquent interest is now \$300. In March, the loan is referred to foreclosure and the loan is inactivated via a loan-level transaction. In months April through June, you no longer pass interest through to us (because the loan was inactivated in March.) and the cumulative delinquent interest on the P&I Reconciliation Worksheet remains constant at \$300, even though the actual amount of delinquent interest from the borrower continues to increase (typically on the loan record and your internal trial balance reports).

	Month	Interest Due	Cumulative Delinquent Interest Due Us	Cumulative Delinquent Interest Due per Trial Balance
<b>Loan is Active</b>	January	100	100	100
	February	100	200	200
	March	100	300	300
<b>Loan is Inactive</b>	April	0	300	400
	May	0	300	500
	June	0	300	600

## Reconciling Principal and Interest Custodial Accounts

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### ***Line 4a) Prepaid interest***

Enter, on line 4a, the total cumulative amount of interest prepayments collected from borrowers. Do not include loans reported under the Alternate Method program (actual/actual reporting).

Prepaid interest is collected when borrowers make payments in advance for future monthly payments. Prepaid interest must be held and reported only when it is scheduled to be reported. Prepaid principal is not part of the adjustment, because it must be reported in the same cycle that it is collected for loans reported under the Net Yield (scheduled/actual) method.

### ***Line 4b) Prepaid principal on scheduled/scheduled mortgages***

Enter and add, on line 4b, the total cumulative amount of principal reduction from prepayment installments collected for mortgages sold under the Guaranteed Timely Principal and Interest program or scheduled/scheduled reporting method.

For loans sold under these reporting methods, prepaid principal reduction affects the custodial account reconciliation in exactly the same manner as prepaid interest affects the custodial account reconciliation for standard products (i.e., prepaid principal must be held and reported only when it is scheduled).

### ***Line 4c) Minority principal and interest collected but not reported***

Line 4c, minority principal and interest collected but not reported, does not apply to all Servicers. If applicable, enter on line 4c the total amount of minority principal and interest collected, but not posted on the Adjustments line of the *Monthly Account Statement*.

If applicable to your Freddie Mac portfolio, we bill you monthly for the minority portion of loans that we originally purchased a percentage of, and later purchased the remaining percentage (or minority portion) of. We bill for the minority principal and interest separately because the original participation percentage we purchased has been securitized. We bill you for the minority portions of loan payments collected from the previous accounting cycle. The amounts are due to us on the last business day of the current cycle.

Example: For mortgages sold under the Accelerated Remittance Cycle (ARC), the majority participation percentage of the payment due on May 1 is reported to us on May 15<sup>th</sup> and remitted on May 18<sup>th</sup>. The minority portion of the payment due May 1<sup>st</sup> is billed in early June and made available via the cash remittance system (GPI) by June 15<sup>th</sup>.

## Reconciling Principal and Interest Custodial Accounts

### Line 4 – Subtotal for prepaid items

Record amounts you have received for principal and interest that have not yet been reported to us. Line 4 automatically calculates based on the values you entered on lines 4a, 4b, and 4c.

Add cumulative totals for:		
4a)	Prepaid interest	_____
4b)	Prepaid principal on scheduled/scheduled Mortgages	_____
4c)	Minority principal and interest collected but not reported as of _____ (Month/Yr)	_____
4)	Subtotal for prepaid items (lines 4a + 4b + 4c)	0.00
5)	Total Liability (lines 2 - 3 + 4)	0.00

### Line 5) Total liabilities

Line 5 is your adjusted total amount due to Freddie Mac. Line 5 automatically calculates based on the value you entered on line 2, and the values calculated for lines 3 and 4.

Line 2: Ending balance

- Line 3: Subtotal for delinquent principal and interest

+ Line 4: Subtotals for prepaid items

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= **Line 5: Total liabilities**

## Completing Section 3 – Total Variance

The third section of the worksheet, Total Variance, is used to calculate your total cumulative variance and the current cycle variance. This section of the worksheet compares the adjusted bank balance to the total liability. Any difference is considered a variance and must be funded within 90 days of when it originated, regardless if it is identified.

Section 3 - Total Variance		
6a)	Current cycle's total cumulative variance (line 1 - line 5)	0.00
6b)	Previous cycle's total cumulative variance (line 6a from previous cycle)	_____
6c)	Total variance for the current cycle (line 6a - line 6b)	0.00

### Line 6a) Current cycle's total cumulative variance

Line 6a reflects the cumulative amount of all variance items which have occurred up to the date of the accounting cutoff. Line 6a automatically calculates by subtracting the total liability calculated on line 5 from the adjusted bank balance calculated on line 1. This is a cumulative amount for all outstanding (i.e. unresolved) variance items which have occurred up to the date of the accounting cutoff being reconciled.

# Reconciling Principal and Interest Custodial Accounts

## **Line 6b) Previous cycle's total cumulative variance**

Enter, on line 6b, the total cumulative variance (line 6a) from the previous accounting cycle's P&I Reconciliation Worksheet. If you have not been reconciling your P&I custodial account, you will need to go back to the previous cycle to complete the P&I Reconciliation Worksheet up to line 6a. You then have line 6a from the previous accounting cycle to put on line 6b of the current accounting cycle.

## **Line 6c) Current cycle's variance**

Line 6c, the total current monthly variance automatically calculates by subtracting the amount you entered on line 6b from the amount calculated on line 6a.

$$\begin{array}{r} 6a: \text{Current cycle's total cumulative variance} \\ - 6b: \text{Previous cycle's total cumulative variance} \\ \hline = \mathbf{6c: \text{Current cycle's variance}} \end{array}$$

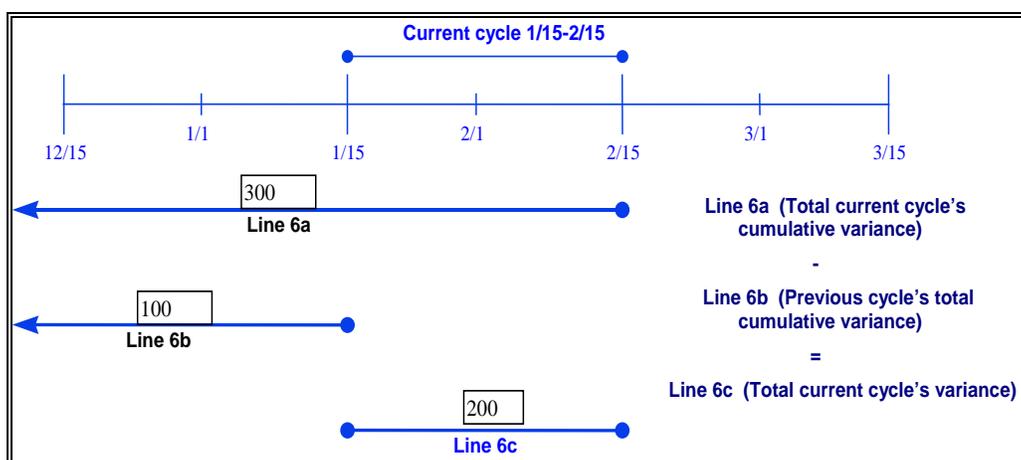
## **Purpose of the Current Cycle Variance**

We calculate the current cycle variance only to identify a specific variance amount to correspond to the current time period. This enables us to take the total variance and perform a smaller reconciliation.

For example, if the current cycle's cumulative variance is \$300 and the previous cycle's cumulative variance is \$100, the current cycle's variance is \$200. We know we are only reviewing current cycle transactions to identify a \$200 difference, not the full \$300 difference. Bracketing takes two known points, or amounts, and uses these points as references for isolating a target. By bracketing the variance, we identify a specific variance amount and a time period to search for the cause of the variance. Once you have identified the current cycle's variance you may work your way backwards to identify the previous cycle variances.

## **Timeline**

A timeline illustrating the relationship between lines 6a), 6b) and 6c) is shown below.



# Reconciling Principal and Interest Custodial Accounts

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## Review

- Each accounting cycle cutoff (usually the 15<sup>th</sup> of the month unless the 15<sup>th</sup> falls on a non-business day), we require you to use the *Monthly Account Statement* to reconcile your P&I custodial account.
- The total amount due to us as of the accounting cutoff is the ending balance that appears on the *Monthly Account Statement*. The *Monthly Account Statement* is available to you each month via the Service Loans application.
- You are required to use Form 59, *Principal and Interest Custodial Account Reconciliation Worksheet – Monthly Account Statement* to reconcile your P&I account.
- Form 59 contains the following three sections:
  - Adjusted Bank Balance - adjusts the P&I custodial bank account as of the accounting cutoff date (usually the 15<sup>th</sup> of the month). Your bank statement represents your cash management process.
  - Total Liability - adjusts the net current amount due to us for amounts reported, but not collected (delinquents), and for amounts collected, but not reported (prepaids). The *Monthly Account Statement* represents the amount due us from your investor reporting process.
  - Total Variance - identifies the amount of the variance between the adjusted bank balance and the adjusted liability. The total variance is the difference between your cash management system and your investor reporting system.

## Reconciling Principal and Interest Custodial Accounts

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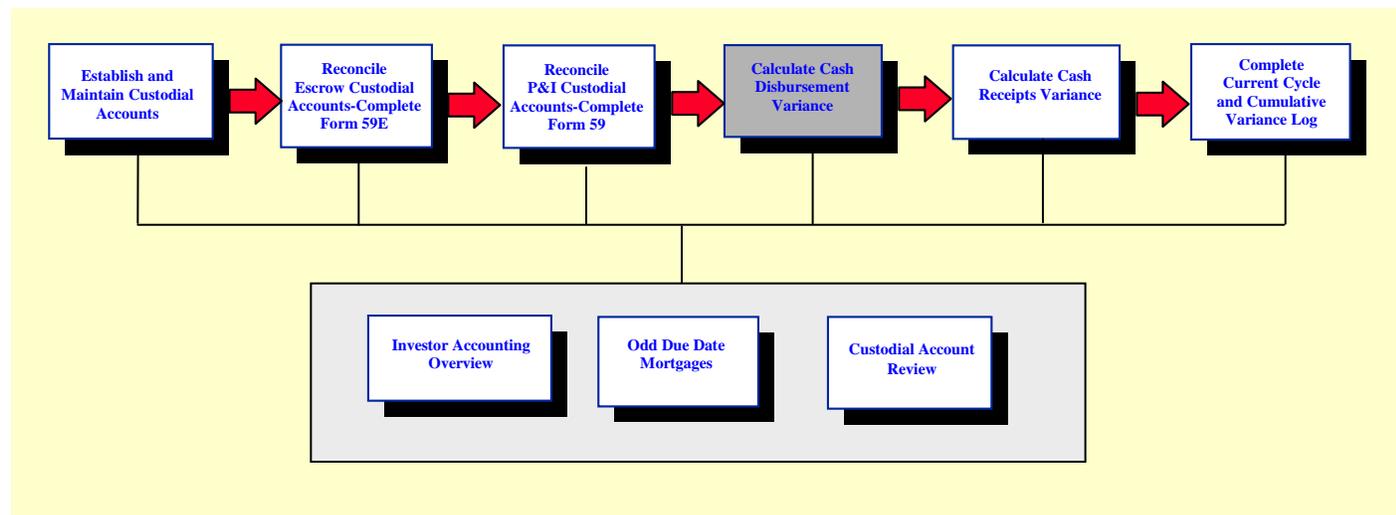
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# Calculate Cash Disbursement Variance

# 5

## Introduction

This chapter explains how to identify and resolve differences between the cash disbursements portion of your cash management process and the total remittances Freddie Mac received.



## Objectives

After completing this section, you will be able to:

- Explain what a cash disbursement is
- Determine your cash disbursements variance
- Identify and resolve cash disbursements variances

# Calculate Cash Disbursements

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## Introduction to Reconciling Cash Disbursements

The following will provide an overview of key terminology and general processes you should be familiar with when reconciling cash disbursements.

### ***What is investor reporting?***

Investor reporting is the monthly process of reporting to Freddie Mac all activity that has taken place in your cash management system. As part of your investor reporting process, you report the Amount Due to us for each transaction using loan-level reporting, and we make available to you a report summarizing the portfolio-level Amount Due on the *Monthly Account Statement*.

### ***How do cash management and investor reporting relate to one another?***

The Amount Due reported to Freddie Mac for loan-level transactions (investor reporting) should correspond to the amount you collected from the borrower and posted to the loan record (cash management).

The amount remitted to us should correspond to the amount withdrawn from your custodial account.

### ***Cumulative Cash Overage/Shortage***

A cumulative cash overage or shortage on your *Seller/Servicer Remittance Analysis* has no impact on the principal and interest custodial account reconciliation. When you remit funds to us, the amount is recorded on the *Monthly Account Statement* and withdrawn from your bank account. This reduces both the net Amount Due to Freddie Mac and your bank balance by the same amount.

### ***What is a cash disbursements variance?***

A cash disbursements variance occurs when you withdraw funds from your principal and interest custodial account for any reason other than remitting the funds to us through the cash remittance system.

### ***How do I reconcile my cash disbursements variance?***

Complete the following steps to reconcile your cash disbursements variance:

1. Calculate the amount of your cash disbursements variance by completing the *Cash Disbursements to Amount Remitted Worksheet*.
2. Identify the transactions that make up your variance by reviewing your bank statement for any debits that are not remittances to us through GPI.
3. For each identified variance, determine if it is a cash or paper adjustment.

# Calculate Cash Disbursements

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## ***What is a cash disbursement?***

A cash disbursement is anything that reduced your bank balance and may be individually designated as a debit, journal entry (JE), manual adjustment, check transfer GPI EFT/ACH debit, reversal or something similar.

## ***How are funds remitted?***

When you become a Freddie Mac Servicer, you establish an account with GPI. We provide you with their toll-free remittance number and your identification number. You can then initiate remittances by using the GPI telephonic cash remittance system, or by electronically initiating a remittance via the Service Loans application. For information contact (800) FREDDIE.

## ***When is my account debited?***

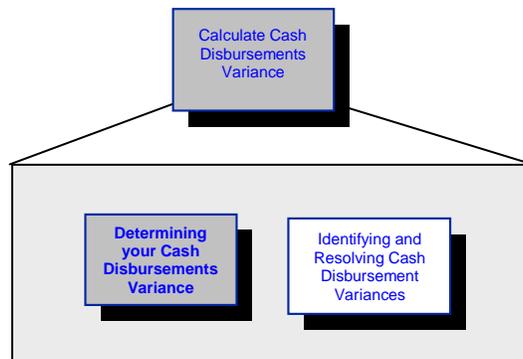
If you complete your remittance before 9:00 p.m. Eastern time, your bank account will be debited the following business day.

## ***When is my Freddie Mac receivable account updated?***

Once we receive your remittance, we credit your receivable account. This reduces the amount due on the *Monthly Account Statement* (on the Remittances Made line) and records the amount as an Amount Received (i.e., cash debited from your custodial account via a GPI remittance) on your *Seller/Servicer Remittance Analysis*. The total cash Amount Received on your *Seller/Servicer Remittance Analysis* is equal to the remittances made on your *Monthly Account Statement*, which will correspond to what was debited from your custodial account.

## **Determining Your Cash Disbursements Variance**

Completing the *Cash Disbursements to Amount Remitted Worksheet* calculates the amount of the cash disbursements variance. This section explains how to complete the *Cash Disbursements to Amount Remitted Worksheet*.



# Calculate Cash Disbursements

## Cash Disbursements to Amount Remitted Worksheet

Shown below is an example of the *Cash Disbursements to Amount Remitted Worksheet*. Note that lines 1 and 3 will automatically calculate based on the values you enter on the form.

		00/15/00
<b>Cash Disbursements to Amount Remitted Worksheet- Monthly Account Statement</b>		
Seller/Service Number:		Seller/Service Name:
<b>Section 1 - Adjusted Cash Disbursements</b>		
1a)	Cash Disbursements from Bank Statement	_____
1b)	Add outstanding drafts	_____
1c)	Less previous cycle's outstanding drafts	_____
1)	Adjusted cash disbursements (1a + 1b - 1c)	0.00
<b>Section 2 - Total Remittances to Freddie Mac</b>		
2)	Total cash made available to Freddie Mac in the cycle (Remittances made from Monthly Account Statement)	_____
<b>Section 3 - Total Variance</b>		
3)	Total cash disbursement variance (line 1 - line 2)	0.00

### Completing Section 1 - Adjusted Cash Disbursements

Section 1 of the *Cash Disbursements to Amount Remitted Worksheet* is used to calculate the total amount of your disbursements that correspond to current cycle activity for the cycle you are reconciling. The total disbursements for the cycle may include a withdrawal for *previous* cycle activity and/or may *not* include a withdrawal for *current* cycle activity.

As an example, consider payment reversals that occur on the accounting cutoff date. The payment is reversed (debited from the bank account as a separate entry as opposed to netted with the daily collections) on the accounting cutoff day which impacts the loan-level transaction reported and your delinquent or prepaid interest, but the amount is not withdrawn from the custodial account until the following business day which is the next

## Calculate Cash Disbursements

accounting cycle. This is typical of the one-day lag between the day the transaction is initiated and the transaction appearing on the bank statement the following business day.

You will never have an outstanding debit due to a GPI remittance. The day remittances are received at Freddie Mac is the same day the funds are withdrawn from your bank accounts.

Shown below is Section 1 of the *Cash Disbursements to Amount Remitted Worksheet*.

Section 1 - Adjusted Cash Disbursements		
1 a)	Cash Disbursements from Bank Statement	_____
1 b)	Add outstanding drafts	_____
1 c)	Less previous cycle's outstanding drafts	_____
1)	Adjusted cash disbursements (1 a + 1 b - 1 c)	0.00

### Line 1a) Cash Disbursements from Bank Statement

Enter on line 1a the total disbursements (withdrawals/debits) from your bank statement for the cycle.

Keep the following information in mind:

- Record your total cash disbursements for the cycle from your bank statement.
- Remember that a cash disbursement will include anything that reduced your bank balance during the cycle, regardless of the reason.
- Most bank statements will provide a total of all debits. If your bank statement cuts off on the 15<sup>th</sup> of the month, you can use the total provided on your bank statement. If the accounting cutoff is the preceding business day, ensure your bank account statement cuts off on that day (i.e. the 14<sup>th</sup> if the 15<sup>th</sup> falls on a non-business day).
- If your bank statement does not cut off on the 15<sup>th</sup> of the month, you will have to manually calculate your cash disbursements total for the cycle. If you manually calculate your cash disbursements, verify the number is correct by using the following formula:

$$\begin{array}{r} \text{Beginning bank statement balance (usually the 16}^{\text{th}}\text{)} \\ + \text{Cash receipts for the cycle} \\ - \text{Cash disbursements for the cycle} \\ \hline = \text{Your ending bank balance as of the cutoff} \end{array}$$

## Calculate Cash Disbursements

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### **Line 1b) Outstanding debits**

Enter on line 1b the total amount of outstanding debits recorded on line 1b of your current cycle's *Principal and Interest Custodial Account Reconciliation Worksheet*. Make sure you use the same number on both worksheets.

Your cash disbursements for the cycle increase for any transactions initiated by the accounting cutoff date that were not actually withdrawn from the bank account until the following business day (which is the following accounting cycle).

- When performing a bank reconciliation, the way we define *outstanding debits* is slightly different from the generic use of the phrase. We consider outstanding debits to be all withdrawals initiated by the accounting cutoff that are not debited from the bank account as of the accounting cutoff (i.e., as of the 15<sup>th</sup>). The generic use of outstanding debits applied to our process would require all remittances to GPI that were completed through the accounting cutoff (regardless of time) be included as an outstanding debit. However, we treat remittances made, which have not been debited from your custodial account as being made the following cycle. (The common generic methodology treats them as outstanding debits.) These remittances would be included on the following cycle's *Monthly Account Statement*.
- Remember that outstanding debits are not for planned activity, such as payoff proceeds (typically for payoffs occurring near the cutoff) that you plan to remit within the five business days following the cutoff. Outstanding debits on line 1b should reflect initiated withdrawals (not due to GPI remittances), as of the accounting cutoff, that are not debited until the following business day. (Two business days if you use a lockbox.)

### **Line 1c) Previous cycle's outstanding debits**

Enter on line 1c the total amount of outstanding debits recorded on line 1b of your previous cycle's *Principal and Interest Custodial Account Reconciliation Worksheet*.

Your cash disbursements for the cycle decrease for any transactions withdrawn from your bank account this cycle that were accounted for in the previous cycle.

### **Line 1) Adjusted cash disbursements**

Line 1 automatically calculates based on the values you entered on lines 1a through 1c. This total represents your adjusted cash disbursements for the cycle.

1a: Cash disbursements from bank statement  
- 1b: Outstanding drafts  
+ 1c: Previous cycle's outstanding drafts  

---

= **1: Adjusted cash disbursements**

## Calculate Cash Disbursements

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### Completing Section 2 – Total Remittances to Freddie Mac

Section 2 of the *Cash Disbursements to Amount Remitted Worksheet* is used to record the total amount of withdrawals from the bank account for the cycle that corresponds to the amount received by Freddie Mac through the cash remittance system, as of the accounting cutoff.

Shown below is Section 2 of the *Cash Disbursements to Amount Remitted Worksheet*.

Section 2 - Total Remittances to Freddie Mac	
2)	Total cash made available to Freddie Mac in the cycle (Remittances made from Monthly Account Statement) _____

#### **Line 2) Total cash made available to Freddie Mac in the cycle**

Record on line 2 the total cash made available to us according to the Remittances Made line from the *Monthly Account Statement* for the cycle being reconciled. This number will also correspond to the Total Amount Received by Freddie Mac on the *Seller/Service Remittance Analysis* for the cycle.

### Completing Section 3 – Total Variance

Section 3 of the *Cash Disbursements to Amount Remitted Worksheet* identifies if a cash disbursement variance exists for the *cycle* you are reconciling. Section 3 is shown below.

Section 3 - Total Variance	
3)	Total cash disbursement variance (line 1 - line 2) <span style="background-color: yellow;">0.00</span>

#### **Line 3) Total cash disbursements variance**

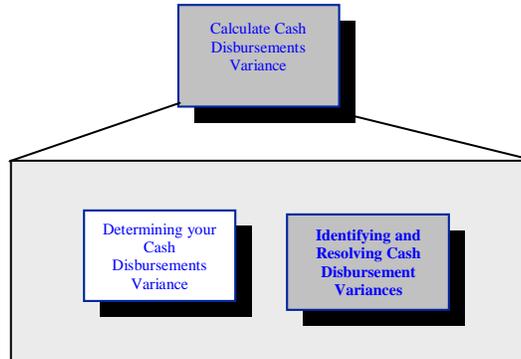
Line 3 automatically calculates by subtracting the value you entered on line 2 from the value calculated for line 1. The result is your total cash disbursements variance for the cycle. Line 3 should always be zero or positive. You should not have total adjusted withdrawals less than what was withdrawn via GPI. In other words, we would not show more cash being received than what was debited from your bank account. In rare cases, this total may be negative if there is a manual cash adjustment (made by Freddie Mac) to the “Remittances made available” line on the *Monthly Account Statement* and on the *Detailed Adjustment Report*.

# Calculate Cash Disbursements

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## Identifying and Resolving Cash Disbursements Variance

This section will explain how to identify and resolve cash disbursements variances and how to determine whether the variance requires a cash or paper adjustment.



### ***What do I do if I have a variance?***

If you have a variance, you need to

1. Start a variance log.
2. Identify the cause(s) of the variance.
3. Determine if these items are cash or paper adjustments.

### ***Starting a Variance Log***

The first thing you should do if you have a cash disbursements variance is record the cycle and type of variance (cash disbursements) at the top of a blank *Current Cycle Variance Log*. Record the total variance amount from line 3 of the *Cash Disbursements to Amount Remitted Worksheet*.

The itemized transactions should equal the total variance. We recommend you carry amounts to be deposited to the bank account as positive adjustments, and amounts to be withdrawn from the bank account as negative adjustments. Refer to *Carrying the Adjustments* in Chapter 7.

If the total variance is positive, there were more withdrawals from your bank account than remittances made per the *Monthly Account Statement*.

If the total variance is negative, there were less withdrawals from your bank account than remittances made per the *Monthly Account Statement*. Remember this would only happen in rare cases, for example, if there is a manual cash adjustment to the “Remittances made available” line on the *Monthly Account Statement* and on the *Detailed Adjustment Report*.

# Calculate Cash Disbursements

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## ***How to Identify Cash Disbursement Variances***

To identify cash disbursement variances, complete the following steps:

1. Review your bank statement(s) for the cycle and record on the *Current Cycle Variance Log* (cash disbursements) each withdrawal that was not a GPI call-in, such as adjustments, journal entries, and manual debits.

We suggest adjusting bank statement transaction descriptions, to make it easier to determine the reason for the withdrawal.

- Record non-remittance withdrawals as positive numbers on your variance log. They are recorded as a positive adjustment, because if the withdrawal was incorrect, you would add the money back (redeposit) to the bank account.
  - Do not include any withdrawals from line 1b and 1c of the *Cash Disbursements to Amount Remitted Worksheet* as reconciling items.
2. Analyze other billings by identifying adjustments we have made to your remittance line. If you received a *Detailed Adjustment Report* from us, review the report. If these adjustments have not been adjusted for in your custodial account, record all billings on your *Current Cycle Variance Log* with the same sign (positive or negative) as on your *Detailed Adjustment Report*.

## ***Determining if a Variance is a Cash or Paper Adjustment***

For each withdrawal identified on your Current Cycle Variance Log (cash disbursements), you need to determine whether the transaction is a cash or paper adjustment.

**Paper adjustment** - The adjustment is “paper” if it will clear when we process a transaction or billing or if it offsets with another variance of the same amount in the opposite direction. For example, you may have a cash disbursement variance of \$100 and a cash receipt variance of \$100.

**Cash adjustment** - The adjustment is “cash” if it will clear when the amount is deposited or withdrawn from the custodial account.

## ***Over and Under Remittances Have no Impact on your Custodial Reconciliation***

If you remit too much money through GPI, you will have an overage on your *Seller/Service Remittance Analysis*. If you do not send us enough funds, you will have a shortage on your *Seller/Service Remittance Analysis*. *Seller/Service Remittance Analysis* balances have no impact on your custodial account reconciliation.

## Calculate Cash Disbursements

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- If you have an overage on your *Seller/Servicer Remittance Analysis*, the amount of the over remittance reduced your bank balance. It also reduced the Amount Due to us on the *Monthly Account Statement*. You may reduce the overage by reducing a future remittance amount, if you are sure it was due to over remitting and was not a timing issue. Remember, reducing a remittance amount does not mean removing the amount from the custodial account. You can only take money out of the custodial account if you have an overage on your principal and interest custodial account reconciliation.
- If you have a shortage on your *Seller/Servicer Remittance Analysis*, the amount of the under remittance is reflected in your bank balance and the Amount Due to us on the *Monthly Account Statement*. You should remit any shortages immediately.

### Example

In the following example, the Servicer has one loan and this is the first cycle it had to be reported. The beginning balances on the *Monthly Account Statement*, *Seller/Servicer Remittance Analysis*, and bank statement are zero.

**During Month 1**, a payment for \$100 is received and reported to us. The bank account and the *Monthly Account Statement* both show a \$100 increase and a \$100 ending balance. At the end of Month 1, the cash is not yet due to us, so there is no activity or balance on the *Seller/Servicer Remittance Analysis*. The *Monthly Account Statement* equals the bank balance and the principal and interest custodial account reconciliation is in balance.

**During Month 2**, a payment for \$100 is received and reported to us. The bank account and the *Monthly Account Statement* both show a \$100 increase. The remittance for the previous month was not made, so neither the bank account nor the Amount Due to us was reduced. The bank account and the *Monthly Account Statement* both show a \$200 ending balance and the principal and interest custodial account reconciliation is in balance. The *Seller/Servicer Remittance Analysis*, however, shows a shortage of \$100 because the \$100 due from the previous month was not remitted. Again, the *Seller/Servicer Remittance Analysis* balance has no impact on your custodial account reconciliation.

### **Information on the Seller/Servicer Remittance Analysis**

For information on how to read the *Seller/Servicer Remittance Analysis*, please refer to our publication, *Investor Reporting to Freddie Mac*.

# Calculate Cash Disbursements

## Report Comparison

An example of the relationship between the *Monthly Account Statement*, *Seller/Service Remittance Analysis*, and bank statement is shown below. The ending balance on the *Monthly Account Statement* should equal the ending balance on the bank statement. The \$100 shortage on the *Seller/Service Remittance Analysis* does not impact the custodial account reconciliation.

Month 1 Bank Statement (16th-15th)			Month 1 Monthly Account Statement			Month 1 Remittance Analysis Cash Statement (16th-15th)			
Debits	Credits	Balance				Cash	Rec'd	Due	
16th (Beginning Bal.)		0	Beginning Bal.		0	16th (Beginning Bal.)			0
1st	100	100	Transaction Applied			ARC	0	0	0
			Non Exceptions	100		15th (Ending Bal.)			0
15th (Ending Bal.)		<b>100</b>	+ Total Principal & Interest	100					
			- Remittances made to FM	0					
			+/- Adjustments by FM	0					
			Ending Balance		<b>100</b>				

Month 2 Bank Statement (16th-15th)			Month 2 Monthly Account Statement			Month 2 Remittance Analysis Cash Statement (16th-15th)			
Debits	Credits	Balance				Cash	Rec'd	Due	Over/(Short)
16th (Beginning Bal.)		100	Beginning Bal.		100	16th (Beginning Bal.)			0
1st	100	200	Transaction Applied			ARC	0	100	100>
			Non Exceptions	100		15th (Ending Bal.)			<100>
15th (Ending Bal.)		<b>200</b>	+ Total Principal & Interest	100					
			- Remittances made to FM	0					
			+/- Adjustments by FM	0					
			Ending Balance		<b>200</b>				

# Calculate Cash Disbursements

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## Review

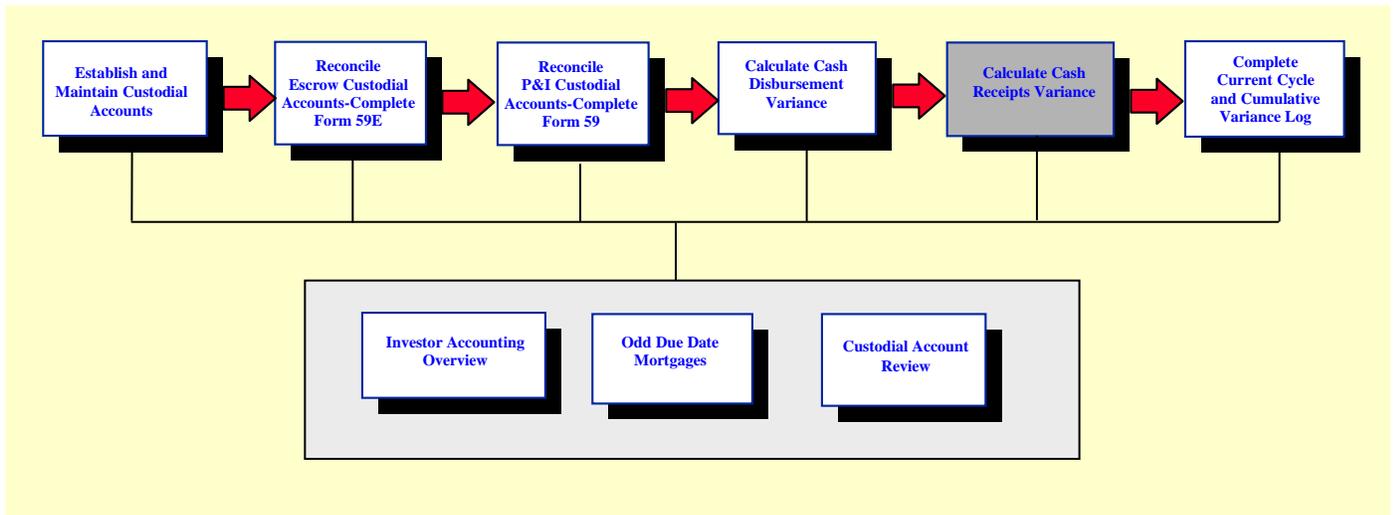
- A cash disbursements variance occurs when you withdraw funds from your principal and interest custodial account for any reason other than remitting the funds to us through the cash remittance system (GPI).
- Reconcile your cash disbursements variance by completing the following steps.
  1. Calculate the amount of your cash disbursements variance by completing the *Cash Disbursements to Amount Remitted Worksheet*.
  2. Identify the transactions that make up your variance by reviewing your bank statement for any debits that are not remittances to us through GPI.
  3. For each identified variance, determine if it is a cash or paper adjustment.
- A cash disbursement is anything that reduced your bank balance and may be individually designated as a debit, journal entry (JE), manual adjustment, check transfer GPI EFT/ACH debit, reversal or something similar.
- Paper adjustment - The adjustment is “paper” if it will clear when we process a transaction or billing or if it is offset with another variance for the same amount in the opposite direction. For example, you may have a cash disbursement variance of \$100 and a cash receipt variance of (\$100).
- Cash adjustment - The adjustment is “cash” if it will clear when the amount is deposited or withdrawn from the custodial account.

# Calculate Cash Receipts Variance

# 6

## Introduction

This chapter describes how to identify and resolve differences between the cash receipts portion of your cash management process and the amount due reported to us in your investor reporting process (variances that occur as a result of our reporting requirements versus actual collections).



## Objectives

After completing this section, you will be able to:

- Complete the Cash Receipts Worksheet.
- Identify and resolve cash receipt variances.
- Identify loan-level variances.

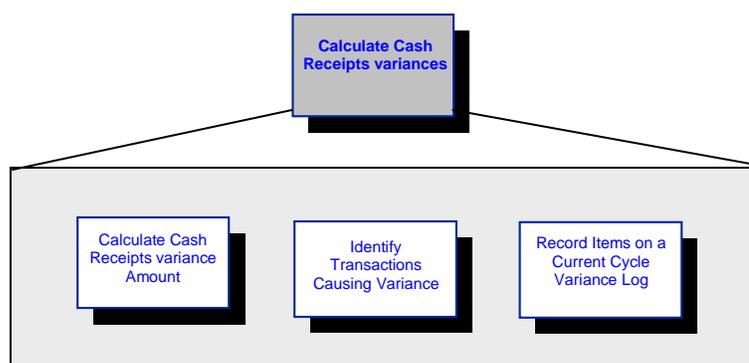
# Calculate Cash Receipts Variance

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## Introduction to Reconciling Cash Receipts

There are three steps involved in the process of analyzing cash receipts and the current amount due:

1. Use the *Cash Receipts to Current Amount Due Reconciliation Worksheet* to calculate your cash receipts variance amount.
2. Identify the transactions causing the variance.
3. Record the outstanding items you identified in step 2 on a current cycle variance log.



For details see chapter 7, *Complete Current Cycle Variance and Cumulative Variance Logs*.

### **What is a cash receipt?**

A *cash receipt* is any transaction that increases your bank balance, and may include

- Collections
- Deposits
- Bank credits
- Journal entries

Most of your cash receipts will be for the amount you collected in your payment processing area (i.e., borrower payments and payoff proceeds). The cash receipts should have a specific transaction type or designation on your bank statement to make them readily identifiable.

### **What is a cash receipts variance?**

A cash receipts variance occurs when the amount of your deposits for the cycle is not equal to the total amount due Freddie Mac for the cycle. The total amount due us is comprised of loan-level transactions and other billings we processed.

## Calculate Cash Receipts Variance

---

### ***What is investor reporting?***

Investor reporting is the process of reporting the amount due for each transaction using loan-level reporting. The total amount due that we process for your entire portfolio is reflected on the *Monthly Account Statement*.

### ***How do cash management and investor reporting relate to one another?***

The amount due reported for loan-level transactions (investor reporting) should correspond to the amount you collected from borrowers and posted to their mortgage records (cash management). The amount due for other billings by us should have corresponding deposits or withdrawals into the custodial account.

### ***What causes a cash receipts variance?***

Whenever your deposits for the cycle are not equal to the total Amount Due for the cycle, you will have a cash receipts difference. Some common causes of cash receipts variances are:

- Deposits other than loan-level collections
  - Manual deposits
  - Adjustments
  - Deposit errors
  - Advances
- Other Billings by Freddie Mac
  - Short payoff adjustments
  - SCRA
  - Minority principal and interest
  - Loan modifications
- Loan-level differences
  - Reporting errors
  - Interest on new fundings
  - Amortization differences
  - Repurchases

# Calculate Cash Receipts Variance

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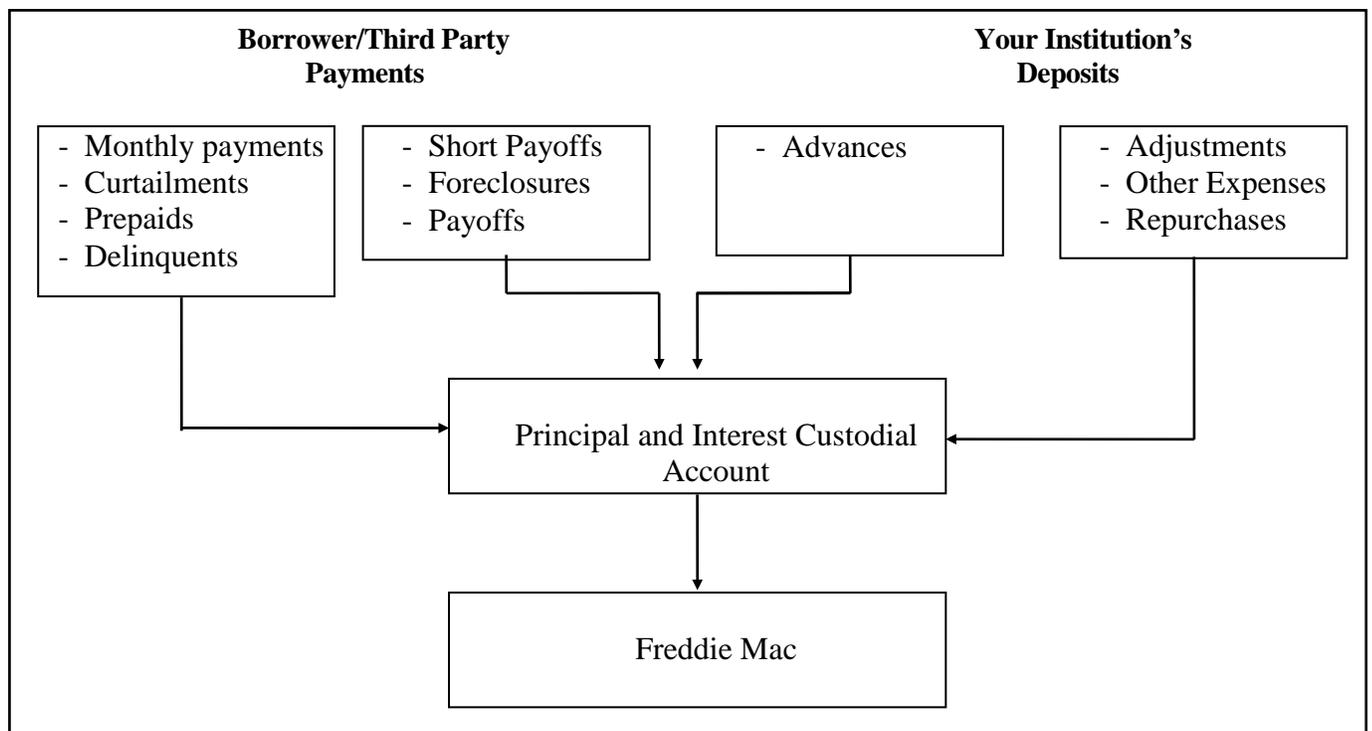
## Sources of Cash Receipts

There are two primary sources of funds you deposit into the principal and interest custodial account.

1. The borrower or a third-party makes payments which you deposit for
  - Monthly principal and interest payments
  - Curtailments (additional principal)
  - Payoffs
  - Third-party sale foreclosure proceeds
2. Your institution makes deposits from your corporate account for
  - Advances
  - Expenses
  - Repurchase proceeds

## Diagram - Cash Receipts Process

Shown below is a diagram that illustrates the flow of funds from a borrower, third party, or your institution to the custodial account and then to us.



## Calculate Cash Receipts Variance

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### **Amount Due**

A liability is a financial obligation for which one business owes another. Each accounting cycle, you calculate and report your institution's liability to us. This liability is reported as an "Amount Due."

### **What is the total liability due Freddie Mac?**

The total liability is the sum of all the amounts due, less the amounts remitted, plus/minus any adjustments made by us.

- Total liability increases as additional amounts become due.
- Total liability decreases as amounts are remitted.

### **Calculating Loan-Level and Portfolio-Level Amount Due**

Calculating and reporting the Amount Due is done at two levels:

1. Loan-level (reflected in your loan-level reporting to us)

**Principal + Interest = Total loan-level amount due**

2. Portfolio level (reflected on the *Monthly Account Statement* that we send to you each month). We calculate the Amount Due at the portfolio level and report this amount to you on the *Monthly Account Statement*.

### **Loan-Level Amount Due and Cash Receipts**

There may be variances between the amount you deposit and post for a mortgage, and the Amount Due you report to us.

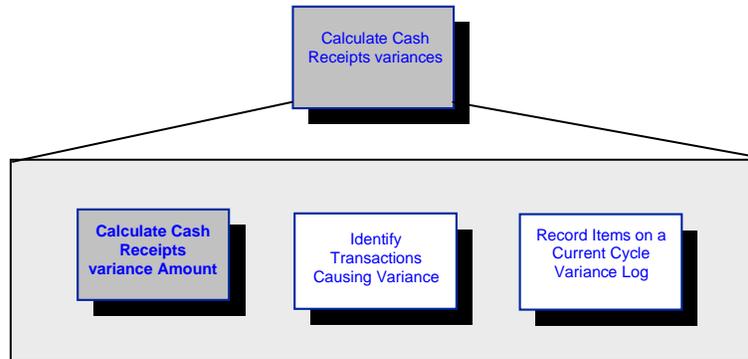
- If you deposit the borrower's entire payment (including servicing fee) into our custodial account, there will be a difference between the amount you deposit and the Amount Due Freddie Mac. This is due to your servicing fee and any participation percentage that we do not own.
- If you only deposit the Freddie Mac share of the payment into the custodial account, then the amount deposited should equal the loan-level transaction Amount Due reported for the mortgage, provided the loan was and is current.

# Calculate Cash Receipts Variance

---

## Understanding Cash Receipts and Amount Due

This section gives an overview and explains how to calculate cash receipts, amount due and how to fill out the *Cash Receipts to Current Amount Due Worksheet*.



Theoretically, both the amount you post to the borrower's mortgage record and the loan-level Amount Due you report to Freddie Mac should correspond to the amount you collected from the borrower (cash receipts).

This relationship between cash receipts and the Amount Due is always true for current mortgages. However, you will need to make adjustments for a mortgage that is, or was, delinquent or prepaid.

### ***Calculation for Cash Receipts***

The calculation for determining loan-level cash receipts is shown below.

$$\begin{aligned} & \text{Loan-level Amount Due} \\ & - \text{Change in Delinquent Interest} \\ & + \text{Change in Prepaid Interest} \\ & = \text{Cash Receipts} \end{aligned}$$

### ***Calculation for Loan-Level Amount Due***

The calculation for determining loan-level Amount Due is shown below.

$$\begin{aligned} & \text{Cash Receipts} \\ & + \text{Change in Delinquent Interest} \\ & - \text{Change in Prepaid Interest} \\ & = \text{Loan-level Amount Due} \end{aligned}$$

## Calculate Cash Receipts Variance

---

### ***Mortgage Status and Determining Loan-Level Amount Due***

Refer to the table below to determine what must be included in the Amount Due versus what would be collected from the borrower.

<b>Determine Loan-Level Amount Due</b>	
<b>If a mortgage is</b>	<b>Then the Amount Due</b>
Delinquent, but still reported as active,	Will include interest due from the borrower, but not yet collected.
Delinquent, but still reported as active, and uses the scheduled/scheduled reporting method,	Will include principal and interest due from the borrower, but not yet collected.
Prepaid,	Will not include interest from the borrower for the future cycle(s), which has been collected.
Prepaid and is reported using the scheduled/scheduled reporting method,	Will not include the principal and interest for the future cycle(s) that have been collected.
A participation,	Will include our applicable percentage of what was collected from the borrower for principal and interest.

### ***Interest Rates***

The interest posted to the mortgage record will be at the note rate. The interest due to Freddie Mac will be at the accounting net yield (ANY).

### ***Cash Receipts and Loan-Level Amount Due Examples***

On the following pages, three examples are provided that show the relationship between cash receipts and the loan-level Amount Due.

- Example A illustrates the relationship for a mortgage that is current.
- Example B illustrates the relationship for a mortgage that is delinquent.
- Example C illustrates the relationship for a mortgage that is prepaid.

## Calculate Cash Receipts Variance

In the examples we use the following data:

- Data is for the April accounting cycle.
- The March ending unpaid principal balance (UPB) is \$99,834.91.

Status as of April 15	Example	March DDLPI	April DDLPI	Amount Due Us for April Cycle ANY= 8.625%			April Cycle Ending UPB
				Principal	Interest	Total	
Current	A	3/1	4/1	55.86	717.56	773.42	99,779.05
Delinquent	B	3/1	3/1	0.00	717.56	717.56	99,834.91
Prepaid	C	3/1	5/1	112.14	717.56	829.70	99,722.77

Example	Cash Receipts	Delinquent Interest			Prepaid Interest		
		March	April	Change	March	April	Change
A	773.42	0.00	0.00	0.00	0.00	0.00	0.00
B	0.00	0.00	717.56	717.56	0.00	0.00	0.00
C	1,546.86	0.00	0.00	0.00	0.00	717.16	717.16

### Example A - Mortgage is Current

A borrower makes their April payment in the April accounting cycle.

April accounting cycle

Activity: April payment received

DDLPI: April 1

Total amount due is 773.42 (717.56 interest + 55.86 principal = 773.42)

#### Cash Receipts

Total cash receipts equal:

<b>773.42</b>	<b>Loan-level Amount Due</b>
<b>- 0.00</b>	<b>Change in Delinquent Interest</b>
<b>+ 0.00</b>	<b>Change in Prepaid Interest</b>
<b>= 773.42</b>	<b>Cash Receipts</b>

The calculation for cash receipts is  $773.42 - 0.00 + 0.00 = 773.42$

## Calculate Cash Receipts Variance

---

### Amount Due

Amount Due equals:

<b>773.42</b>	<b>Cash Receipts</b>
<b>+ 0.00</b>	<b>Change in Delinquent Interest</b>
<b>- 0.00</b>	<b><u>Change in Prepaid Interest</u></b>
<b>= 773.42</b>	<b>Loan-level Amount Due</b>

The calculation for Amount Due us is  $773.42 + 0.00 - 0.00 = 773.42$

### **Example B - Mortgage is Delinquent**

A borrower makes their March payment by April 15<sup>th</sup>, but does not make an April payment.

April accounting cycle

Activity: April payment not received

DDLPI: March 1

Total amount due is 717.56 (717.56 interest + 0.00 principal = 717.56)

### Cash Receipts

Total cash receipts equal:

<b>717.56</b>	<b>Loan-level Amount Due</b>
<b>- 717.56</b>	<b>Change in Delinquent Interest</b>
<b>+ 0.00</b>	<b><u>Change in Prepaid Interest</u></b>
<b>= 0.00</b>	<b>Cash Receipts</b>

The calculation for total cash receipts is  $717.56 - 717.56 + 0.00 = 0.00$

### Amount Due

Amount Due equals:

<b>0.00</b>	<b>Cash Receipts</b>
<b>+ 717.56</b>	<b>Change in Delinquent Interest</b>
<b>- 0.00</b>	<b><u>Change in Prepaid Interest</u></b>
<b>= 717.56</b>	<b>Loan-level Amount Due</b>

The calculation for Amount Due Freddie Mac is  $0.00 + 717.56 - 0.00 = 717.56$

## Calculate Cash Receipts Variance

---

### **Example C - Mortgage is Prepaid**

A borrower makes their April and May payment in the April accounting cycle.

April accounting cycle

Activity: April payment received

May payment received

DDLPI: May 1

Total amount due is 829.70 (717.56 interest + 112.14 principal = 829.70)

### **Cash Receipts**

Total cash receipts equal:

	<b>829.70</b>	<b>Loan-level Amount Due</b>
-	<b>0.00</b>	<b>Change in Delinquent Interest</b>
+	<b>717.16</b>	<b><u>Change in Prepaid Interest</u></b>
=	<b>1,546.86</b>	<b>Cash Receipts</b>

The calculation for cash receipts is  $829.70 - 0.00 + 717.16 = 1,546.86$

### **Amount Due**

Amount Due equals:

	<b>1,546.86</b>	<b>Cash Receipts</b>
+	<b>0.00</b>	<b>Change in Delinquent Interest</b>
-	<b>717.16</b>	<b><u>Change in Prepaid Interest</u></b>
=	<b>829.70</b>	<b>Loan-level Amount Due</b>

The calculation for Amount Due is  $1,546.86 + 0.00 - 717.16 = 829.70$

## Calculate Cash Receipts Variance

---

### ***Mortgage was Current and Remains Current***

Shown below is an example of the formula used when a mortgage was current in the previous cycle and remains current this cycle.

- Amount Due = 100
- Cash Receipts = 100
- Delinquent Interest = 0
- Prepaid Interest = 0

$$\begin{aligned} & \text{Cash Receipts} \\ & + \text{Change in Delinquent Interest} \\ & - \text{Change in Prepaid Interest} \\ & = \text{Amount Due } \{100 + 0 - 0 = 100\} \end{aligned}$$

### ***Mortgage was Current, Now Delinquent***

Shown below is an example of the formula used when a mortgage was current in the previous cycle, but is delinquent this cycle.

- Amount Due = 100
- Cash Receipts = 0
- Delinquent Interest = 100
- Prepaid Interest = 0

$$\begin{aligned} & \text{Cash Receipts} \\ & + \text{Change in Delinquent Interest} \\ & - \text{Change in Prepaid Interest} \\ & = \text{Amount Due } \{0 + 100 - 0 = 100\} \end{aligned}$$

## Calculate Cash Receipts Variance

---

### ***Mortgage was Delinquent, Now Current***

Shown below is an example of the formula used when a mortgage was delinquent in the previous cycle, but is current this cycle.

- Amount Due = 100
- Cash Receipts = 200
- Delinquent Interest = 0
- Prepaid Interest = 0

$$\begin{aligned} & \text{Cash Receipts} \\ & + \text{Change in Delinquent Interest} \\ & - \text{Change in Prepaid Interest} \\ & = \text{Amount Due } \{200 + (100) - 0 = 100\} \end{aligned}$$

### ***Mortgage was Current, Now Prepaid***

Shown below is an example of the formula used when a mortgage was current in the previous cycle, but is prepaid this cycle.

- Amount Due = 100
- Cash Receipts = 200
- Delinquent Interest = 0
- Prepaid Interest = 100

$$\begin{aligned} & \text{Cash Receipts} \\ & + \text{Change in Delinquent Interest} \\ & - \text{Change in Prepaid Interest} \\ & = \text{Amount Due } \{200 + 0 - 100 = 100\} \end{aligned}$$

## Calculate Cash Receipts Variance

---

### ***Mortgage was Prepaid, Now Current***

Shown below is an example of the formula used when a mortgage was prepaid in the previous cycle, but is current this cycle.

- Amount Due = 100
- Cash Receipts = 0
- Delinquent Interest = 0
- Prepaid Interest = 0

$$\begin{aligned} & \text{Cash Receipts} \\ & + \text{Change in Delinquent Interest} \\ & - \text{Change in Prepaid Interest} \\ & = \text{Amount Due } \{0 + 0 - (100) = 100\} \end{aligned}$$

### ***Formulas for Amount Due and Cash Receipts***

You can reverse the formula for amount due and apply the new formula for cash receipts.

#### **Formula for Amount Due**

$$\begin{aligned} & \text{Cash Receipts} \\ & + \text{Change in Delinquent Interest} \\ & - \text{Change in Prepaid Interest} \\ & = \text{Amount Due} \end{aligned}$$

#### **Formula for Cash Receipts**

$$\begin{aligned} & \text{Amount Due} \\ & - \text{Change in Delinquent Interest} \\ & + \text{Change in Prepaid Interest} \\ & = \text{Cash Receipts} \end{aligned}$$

# Calculate Cash Receipts Variance

## The Cash Receipts to Current Amount Due Worksheet

This section explains how to calculate your cash receipts variance by completing the *Cash Receipts to Current Amount Due Worksheet*.

Shown below is an example of the *Cash Receipts to Current Amount Due Worksheet*. The worksheet has three sections: Adjusted Cash Receipts, Total Liability, and Total Variance. Note that lines 1, 2, 3, 4, 5, and 6 will automatically calculate based on the values you enter on the form.

Seller/Service Number:		Seller/Service Name:		00/15/00
<b>Cash Receipts to Current Amount Due Worksheet - Monthly Account Statement</b>				
<b>Section 1 - Adjusted Cash Receipts</b>				
1 a)	Cash Receipts from Bank Statement			
1 b)	Add: Deposits in Transit			
1 c)	Less previous cycle's deposits in transit			
1)	Adjusted cash receipts (line 1 a + 1 b - 1 c)			0.00
<b>Section 2 - Total Liability</b>				
<b>Amount Due from Monthly Account Statement</b>				
2 a)	Total Principal and Interest			
2 b)	Adjustments made by Freddie Mac			
2)	Net Current Amount Due Freddie Mac			0.00
<b>Change in Delinquencies</b>				
3 a)	Current Cycle 00/15/00 (line 3 current cycle P&I Wksht.)			
3 b)	Previous Cycle 00/15/00 (line 3 previous cycle P&I Wksht.)			
3)	Net change in delinquencies (line 3 a - 3 b)			0.00
<b>Change in Prepaids</b>				
4 a)	Current cycle 00/15/00 (line 4 current cycle P&I Wksht.)			
4 b)	Previous cycle 00/15/00 (Line 4 previous cycle P&I Wksht.)			
4)	Net change in prepaids (line 4 a - 4 b)			0.00
5)	Total Liability (lines 2 - 3 + 4)			0.00
<b>Section 3 - Total Variance</b>				
6)	Total cash receipts variance (line 1 - line 5)			0.00

# Calculate Cash Receipts Variance

## Completing Section 1 – Adjusted Cash Receipts

Section 1 calculates the total cash receipts for the current cycle. Keep in mind that total receipts for the cycle may include a deposit for the previous cycle's activity and may not include a deposit for current cycle activity. A common example of this is a payment received on the accounting cutoff date. The payment is posted to the mortgage record on the accounting cutoff day which impacts your loan-level transaction reported, but is not reflected on your bank statement until the following business day, which is the next accounting cycle.

Section 1 - Adjusted Cash Receipts	
1 a)	Cash Receipts from Bank Statement
1 b)	Add: Deposits in Transit
1 c)	Less previous cycle's deposits in transit
1)	Adjusted cash receipts (line 1 a + 1 b - 1 c)

### Line 1a) Cash Receipts from Bank Statement

Enter on line 1a the total receipts (deposits/credits) from your bank statement for the cycle.

Keep in mind the following information:

- Remember that a cash receipt will include anything that increases your bank balance during the cycle.
- Most bank statements will provide a total credit amount. If your bank statement cuts off on the 15<sup>th</sup> of the month, you can use the total provided on your bank statement.
- If your bank statement does not cut off on the 15<sup>th</sup> of the month, then you will have to manually calculate your cash receipts total for the cycle. If you manually calculate your cash receipts, verify the number is correct by using the following formula:

$$\begin{array}{r} \text{Beginning balance} \\ + \text{Cash Receipts for the Cycle} \\ - \text{Cash Disbursements for the Cycle} \\ \hline = \text{Your ending bank balance as of the cutoff} \end{array}$$

### Line 1b) Deposits in Transit

Enter on line 1b the total amount of deposits in transit recorded on line 1c of your **current cycle's** *Principal and Interest Custodial Account Reconciliation Worksheet*. Verify that you use the same number on both worksheets.

On this line you are increasing your current cycle's cash receipts for transactions that were initiated by the accounting cutoff date, but not actually credited to your bank balance until the following business day, which is in the next cycle.

## Calculate Cash Receipts Variance

### Line 1c) Previous Cycle' Deposits in Transit

Enter on line 1c the total amount of deposits in transit recorded on line 1c of your previous cycle's *Principal and Interest Custodial Account Reconciliation Worksheet*.

On this line you are decreasing your current cycle's cash receipts credited to your bank balance this cycle, which was accounted for as a deposit in transit on your previous cycle's reconciliation.

### Line 1) Adjusted Cash Receipts

Line 1 automatically calculates based on the values you entered on lines 1a through 1c.

## Completing Section 2 – Total Liability

Section 2 of the worksheet calculates the total current cycle liability, adjusting for changes in delinquencies and prepaids.

Section 2 - Total Liability			
<b>Amount Due from Monthly Account Statement</b>			
2a)	Total Principal and Interest	_____	
2b)	Adjustments made by Freddie Mac	_____	
2)	Net Current Amount Due Freddie Mac		0.00
<b>Change in Delinquencies</b>			
3a)	Current Cycle 00/15/00 (line 3 current cycle P&I Wksht.)	_____	
3b)	Previous Cycle 00/15/00 (line3 previous cycle P&I Wksht.)	_____	
3)	Net change in delinquencies (line 3a - 3b)		0.00
<b>Change in Prepaids</b>			
4a)	Current cycle 00/15/00 (line 4 current cycle P&I Wksht.)	_____	
4b)	Previous cycle 00/15/00 (Line 4 previous cycle P&I Wksht.)	_____	
4)	Net change in prepaids (line 4a - 4b)		0.00
5)	Total Liability (lines 2 - 3 + 4)		0.00

## Calculate Cash Receipts Variance

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### **Line 2a) Total Principal and Interest**

Enter the amount from the Total Principal and Interest line from your *Monthly Account Statement*. This is the total Amount Due, processed by Freddie Mac for the cycle's loan-level transactions.

### **Line 2b) Adjustments Made by Freddie Mac**

Enter on line 2b the amount from the Adjustments Made by Freddie Mac line from your *Monthly Account Statement*. This is the total Amount Due for the cycle for "other billings." A *Detailed Adjustment Report* to support this number is available to you via the Service Loans application.

### **Line 2) Net Current Amount Due Freddie Mac**

Line 2 automatically calculates based on the values you entered on lines 2a and 2b. This is your net amount due for current cycle activity.

### **Line 3a) Current Cycle Delinquencies**

Enter on line 3a the total amount on line 3 of your **current** cycle's *Principal and Interest Custodial Account Reconciliation Worksheet*. Make sure you use the total from line 3, which includes delinquent interest on active mortgages, inactive mortgages, and delinquent principal for mortgages reported under the scheduled/scheduled reporting method.

### **Line 3b) Previous Cycle Delinquencies**

Enter on line 3b the total amount on line 3 of your **previous** cycle's *Principal and Interest Custodial Account Reconciliation Worksheet*. Make sure you use the total from line 3, which includes delinquent interest on active mortgages, inactive mortgages, and delinquent principal for mortgages reported under the scheduled/scheduled reporting method.

### **Line 3) Net Change in Delinquencies**

Line 3 automatically calculates based on the values you entered on lines 3a and 3b. This is your net change in delinquencies from the previous to the current cycle.

If your net change in cumulative delinquencies is a positive number, it means that your delinquencies increased from the previous cycle. If it is negative, it means that your delinquencies decreased from the previous cycle.

## Calculate Cash Receipts Variance

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### **Line 4a) Current Cycle Prepaids**

Enter on line 4a the total amount on line 4 of your **current** cycle's *Principal and Interest Custodial Account Reconciliation Worksheet*. Make sure you use the total from line 4, which includes prepaid interest, prepaid principal for mortgages reported under the scheduled/scheduled reporting method, and RTC minority P&I collections received, but not yet billed on the *Monthly Account Statement*.

### **Line 4b) Previous Cycle Prepaids**

Enter on line 4b the total amount on line 4 of your **previous** cycle's *Principal and Interest Custodial Account Reconciliation Worksheet*. Make sure you use the total from line 4, which includes prepaid interest, prepaid principal for mortgages reported under the scheduled/scheduled reporting method, and RTC minority P&I collections received, but not yet billed on the *Monthly Account Statement*.

### **Line 4) Net Change in Prepaids**

Line 4 automatically calculates based on the values you entered on lines 4a and 3b. This is your net change in prepaids from the previous cycle to the current cycle.

If your net change in cumulative prepaids is a positive number, it means your prepaids increased from the previous cycle. If it is negative, it means your prepaids decreased from the previous cycle.

### **Line 5) Total Liability**

Line 5 automatically calculates based on the values calculated for lines 2, 3, and 4. This is your total adjusted amount due Freddie Mac for the current cycle.

# Calculate Cash Receipts Variance

## Completing Section 3 – Total Variance

Complete Section 3 of the worksheet to calculate your total cash receipts variance for the cycle.

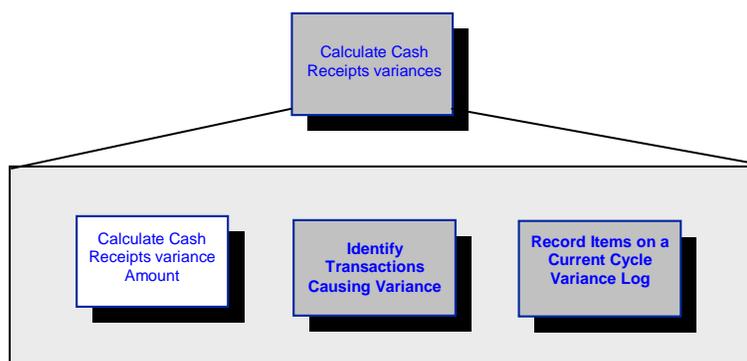
Section 3 - Total Variance		
6)	Total cash receipts variance (line 1- line 5)	0.00

### Line 6) Total Cash Receipts Variance

Line 6 automatically calculates based on the values calculated for line 1 and line 5. This is your total cash receipts variance for the cycle. If line 6 is negative, it means you deposited less during the current cycle than you owed us for current cycle activity. If line 6 is positive, it means you deposited more during the cycle than you owed us for the current cycle.

## Identifying and Resolving Cash Receipt Variances

The purpose of this section is to provide the action steps and information you need to identify the items causing your cash receipts variance.



### What do I do if I have a variance?

If you have a variance:

1. Start a variance log.
2. Identify the cause(s) of the variance.
3. Determine if these items are cash or paper.

Identifying cash receipts variances is usually the most difficult part of reconciling your custodial account, because there are many transactions involved, and many different types of potential problems.

# Calculate Cash Receipts Variance

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## **Starting a Variance Log**

The first thing you should do if you have a cash receipts variance is record the cycle and type of variance (cash receipt) on the top of a blank *Current Cycle Variance Log*, then record the total variance amount (line 6 of your cash receipts worksheet) on the “Total Variance” line.

The total identified transactions should add up to the variance amount, but with the opposite dollar sign. We recommend you carry amounts to be deposited to the bank account as positive adjustments and amounts to be withdrawn from the bank account as negative adjustments.

If your total variance is negative, your bank account is short. If your total variance is positive, your bank account is over. The total variance is the amount that must be deposited to or withdrawn from the bank account to clear the outstanding items. For more details, see Chapter 7: *Complete Current Cycle Variance and Cumulative Variance Log*.

## **How to Identify Cash Receipts Variances**

To identify cash receipts variances, we will complete three steps. We will do a:

1. Deposit analysis
2. Other billings analysis
3. Loan-level analysis

### **Deposit Analysis**

To perform your deposit analysis, complete the following steps.

1. Identify deposit errors. Compare the actual deposits to what should have been deposited. If the amounts are different, subtract the actual deposit from what it should have been and carry the difference on your *Current Cycle Variance Log*.

$$\begin{array}{r} \text{Deposit Should Have Been} \\ - \text{Actual Deposit Made} \\ \hline = \text{Variance} \end{array}$$

2. Identify deposits made that were not part of your normal payment processing. Review the bank statement for any deposits that were not part of the normal loan-level collections. Record non-loan-level collections as negative amounts on your log.

Refer to Deposit Analysis in this chapter for additional information.

# Calculate Cash Receipts Variance

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## **Other Billings Analysis**

To perform your Other Billings Analysis, complete the following steps.

1. Identify adjustments needed because of amounts we have billed or credited you. If you received a *Detailed Adjustment Report* from us, review the report. If these adjustments have not been adjusted for in your custodial account, record all billings on your *Current Cycle Variance Log* with the same sign (positive or negative) as on your *Detailed Adjustment Report*.
2. Identify other fees. If the institution that houses our custodial account charges you fees for maintaining the account, you need to pay these fees with corporate funds. If your account was debited for such fees, it will be offset on your cash disbursements variance log.

Refer to Other Billings Analysis in this chapter for additional information.

## **Loan Level Analysis - Method 1**

To perform your Loan Level Analysis, complete the following steps.

1. Identify discrepancies between what **you reported** and what **you deposited** for each loan. Apply the following formula to each loan in your portfolio:

$$\begin{aligned} & \text{Amount Due Reported to Freddie Mac} \\ & - \text{Change in Delinquent Interest} \\ & + \text{Change in Prepaid Interest} \\ & - \text{Cash Receipts} \\ & \hline & = \text{Loan-Level Cash Receipts Variance} \end{aligned}$$

If you have discrepancies, record them with the same sign (positive or negative) as the formula results. We recommend you automate this process.

2. Identify discrepancies between what **you reported** and what **we processed** for each loan. Review your *Loan Reconciliation Difference* report and record the differences on your *Current Cycle Variance Log*.

Refer to Identify Loan-level Analysis in this chapter for additional information.

# Calculate Cash Receipts Variance

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## ***Loan Level Analysis - Method 2***

You may also use this alternate procedure to perform your Loan Level Analysis that combines the two steps.

Identify discrepancies between what we processed and what you deposited for each loan. The *Detailed Remittance Report*, available in the Service Loans application, provides the loan-level information for what we processed that cycle. Apply the following formula to each loan in your portfolio:

$$\begin{array}{r} \text{Amount Due processed by Freddie Mac} \\ - \text{Change in Delinquent Interest} \\ + \text{Change in Prepaid Interest} \\ - \text{Cash Receipts} \\ \hline = \text{Loan Level Cash Receipts Variance} \end{array}$$

If you have discrepancies, record them with the same sign (positive or negative) as the result of the formula.

Refer to Identify Loan-level Analysis in this chapter for additional information.

## ***Determine if a variance is a cash or paper adjustment***

At some point you need to determine if each reconciling item on your Variance Log is a cash or paper adjustment. You should wait until you finish your *Cumulative Variance Log* since many transactions may clear. In other words, if a transaction offsets with another item in the same cycle or previous cycle, it will not be carried forward to the *Cumulative Variance Log* (i.e., a +20.00 will offset with a -20.00 and net to 0.00). The majority of variances that carried to the cumulative log will be cash adjustments.

**Cash adjustment** - The adjustment is cash if it will clear when the amount is deposited or withdrawn from the custodial account.

**Paper adjustment** - The adjustment is paper if it will clear when we process a transaction or billing.

# Calculate Cash Receipts Variance

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## Deposit Analysis

### ***Deposit Errors***

Check for deposit errors by verifying your daily deposits to your collections report.

- If you find an error, subtract the actual deposit from what it should have been and record this amount on your *Current Cycle Variance Log*.
- Record the deposit error as a cash adjustment.

### ***Deposits Other than Loan-Level Collections***

Variances caused by deposits other than loan-level collections are usually caused by deposits made for correcting adjustments and deposit errors. To identify transactions causing the variance you need to review your bank statement and record all deposits that were not for loan-level collections.

- Record all non-loan-level deposits as a negative amount on your *Current Cycle Variance Log*.
- Analyze the deposit for current cycle activity to determine if it should be carried as an adjustment.
- Determine if the deposit is a cash or paper adjustment.

### ***What causes deposit errors?***

A deposit error occurs when the deposit for the day's loan-level collections is not equal to our share of the total collections. If your process is completely automated, it is unlikely you would have a deposit error. However, if your process requires manual intervention to ensure the funds get moved into our custodial account, you could transpose numbers or switch accounts.

If you identify a deposit error, subtract the actual deposit from what it should have been and record this amount on your log.

### ***Deposit Error Example***

You deposit \$7,300 into the custodial account, but collected \$3,700. You subtract the actual deposit of \$7,300 from the \$3,700 that should have been deposited, resulting in an adjustment of (\$3,600).

The adjustment is carried as a negative because you deposited too much money. To correct the problem, you need to reduce the custodial account balance by withdrawing \$3,600.

# Calculate Cash Receipts Variance

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## ***Why would I have any non-loan-level collections?***

You may have the following types of deposits that are not for loan-level collections:

- Adjustments for prior cycle reconciling items
- Repurchase proceeds
- Payments flowing to the incorrect account for a loan that was set up incorrectly
- Corporate advances
- Delinquent interest advances

Carry manual deposits that are not for loan-level collections as negative adjustments on your *Current Cycle Variance Log* and analyze them for current cycle activity.

## ***Analyze Payments for Current Cycle Activity***

If any of your manual deposits are for an amount due on the *Monthly Account Statement* for the same cycle, do not carry the deposit as a reconciling item unless the offsetting item will also be picked up in the analysis.

## ***Repurchases***

When you repurchase a loan, you must deposit corporate funds to cover the amount due to us for the repurchase transaction and for any delinquent interest advanced to us in previous cycles. You are not required to make this funding until the remittance is initiated through GPI.

**Repurchasing and remitting in the same cycle:** If the remittance due date is on or before the accounting cycle cutoff date, you should be depositing the funds in the same cycle as the transaction is listed on the *Monthly Account Statement*. In such cases, you will not have a variance on your *Cumulative Variance Log*. The manual deposit may need to be on the *Current Cycle Variance Log* to offset the variance depending on how you analyze your loan-level variances. See Example 1.

**Repurchasing and remitting in different cycles:** If you use a repurchase date within four business days before the accounting cutoff, you are not required to remit or deposit the funds until after the accounting cycle cutoff. If the funds are not deposited as of the accounting cutoff, you will have a current cycle cash receipts variance for two cycles.

- You will have a positive adjustment the cycle you reported the repurchase, because there is a transaction on the *Monthly Account Statement* with no corresponding deposit in the custodial account for that cycle. The adjustment will also be on that cycle's *Cumulative Variance Log* and is positive because you have to increase your bank balance.

## Calculate Cash Receipts Variance

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- The following cycle, there will be a deposit with no corresponding activity on the *Monthly Account Statement* so the manual deposit will be carried as a negative adjustment on your *Current Cycle Variance Log*. The positive adjustment on the previous cycle's cumulative log will offset with the current cycle's cash receipts log and net out to zero.

### **Repurchase Example 1 - Same Cycle**

*Scenario:* You report a repurchase that we process in the April cycle. You deposit corporate funds for the repurchase proceeds and delinquent interest before April 15<sup>th</sup>.

*Result:* The delinquent interest portion of the manual deposit should be offset by the decrease in cumulative delinquent interest for this loan and should not be carried on any log.

The amount of the deposit for the amount due us for the current cycle should be carried as a negative adjustment on your *Current Cycle Variance Log*. It will be offset by the loan-level difference between what you deposited and what we processed, thus there will be no variance on the cumulative log.

### **Repurchase Example 2 - Different Cycles**

*Scenario:* You report a repurchase with a payoff date of April 15<sup>th</sup> and deposit the funds on April 21<sup>st</sup> when you call GPI.

*Result:* In the April cycle (when you reported the repurchase), record a positive variance on your April *Current Cycle Variance Log* and your April *Cumulative Variance Log* for the amount of the repurchase transaction (because it was a transaction reported, but not deposited) and for the delinquent interest that dropped off the trial balance.

In the May cycle (when you made the deposit), record a negative adjustment on your May *Current Cycle Variance Log* (because it will be a manual deposit made with no current cycle activity). This will offset with the positive April reconciling item when you compile the May *Cumulative Variance Log*.

### **Corporate Advances**

You may not carry a negative account balance in our custodial account (i.e.- on your bank statement), even if the institution housing the account covers the draft. If your account balance will go below zero you must make a corporate advance.

Corporate advances

- Are required if your custodial account balance is not sufficient to cover a remittance
- Must be deposited by the time the account is drafted for a remittance
- May be recouped immediately from any borrower's principal and interest collections

## Calculate Cash Receipts Variance

---

- Are normally repaid by the following accounting cycle cutoff date, unless delinquencies are high
- Are a loan to the account, not an expense
- Are carried as a negative amount on the *Current Cycle Variance Log* for cash receipts, if the corporate advances are still outstanding as of the accounting cutoff date

### **Recovery of P&I Advances**

How you carry the adjustments depends on

- If you repaid yourself the full amount of the advance as of cutoff
- How you recoup the advance funds (withdrawal or netting deposits)

### **Advances Fully Repaid**

If you repay yourself for corporate advances to the custodial account by withdrawing funds:

- The withdrawal will be a positive adjustment on the *Current Cycle Variance Log* for cash disbursements.
- The deposit will be a negative adjustment on the *Current Cycle Variance Log* for cash receipts.
- The two adjustments will net to zero and not flow to the *Cumulative Variance Log*.

If you repay yourself by netting the deposits, the deposit is reduced by the amount you are repaying yourself, so neither should be carried as a variance.

### **Advance Not Fully Repaid**

If you have not repaid yourself the full amount of your advances, the amount still due you as of the accounting cutoff will be carried as a negative adjustment on the *Current Cycle Variance Log* for cash receipts and on the *Cumulative Variance Log*.

### **Depositing Delinquent Interest for Each Loan**

If you deposit delinquent interest for each delinquent loan and only repay yourself when that borrower makes a payment, you need to account for the amount of the advances outstanding if an advance is not fully repaid.

# Calculate Cash Receipts Variance

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## Other Billing Analysis

The purpose of this section is to provide a brief introduction of the impact of other billings on your custodial reconciliation process.

There are some transactions that cannot be processed as part of normal loan-level reporting, and require us to post an adjustment to your account. Any adjustments will appear on the adjustments line on the *Monthly Account Statement* and on the *Detailed Adjustment Report*. Many Servicers will not receive any adjustments.

We call these adjustments “other billings” in our custodial account reconciliation process.

The most common adjustments are due to loan modifications and short sales.

## ***Billings on the Detailed Adjustment Report***

*Detailed Adjustment Report* billings

- Are remitted through GPI
- Must be deposited to the custodial account when the remittance is due to us
- Will appear on the *Monthly Account Statement*
- Must be carried as reconciling items until the corresponding funds are deposited or withdrawn

When you retrieve the *Detailed Adjustment Report*, review the report and record amounts for other billings on your *Current Cycle Variance Log*. If an adjustment has already been made, the billing and adjustment will offset each other when you compile the *Cumulative Variance Log*. Record the billing on the log using the same sign (positive or negative) as on the *Detailed Adjustment Report*.

# Calculate Cash Receipts Variance

## Example Detailed Adjustment Report

Shown below is an example of a *Detailed Adjustment Report*.

<i>Detailed Adjustment Report</i>							
Accountant ID: 2E6001							
Freddie Mac Performing Loans						06/14	11:40:06 AM
<b>Detail Adjustment Report</b>							
Servicer Number : 123456						<b>FINAL</b>	
Servicer Name : ABC Bank, FSB				Cycle :		05/xx	
FM Loan Number	Payment Adjustment Number	Post Date	Approved Date	Description	Comments	Adjustment Amount	
111111111		04/16	04/14	Charge off		(\$10,239.43)	
222222222		04/20	04/16	Payoff, ThirdParty Sale Fcl		(\$111,266.25)	
333333333		05/04	05/26	REO Rollback	Reverse Interest Advanced	\$4,999.99	
444444444		05/04	05/25	Loan Mod. Capitalized	Interest credit on modified loan	(\$20,383.22)	
555555555		05/04	05/26	Reinstatement Interest	Reinstatement Interest Adjustment on a Loan	(\$78.95)	
666666666		05/04	05/26	Miscellaneous Interest	Interest Adjustment credit due servicer for payoff reversal.	(\$18.16)	
						<b>NET TOTAL</b>	<b>(\$136,986.02)</b>

The Freddie Mac loan number, if applicable. No loan number will show if a loan number is not applicable.

The date an adjustment will post to your Seller/Servicer Remittance Analysis.

The total of all adjustments. This number will appear on the adjustment line of the Monthly Account Statement.

## Billings on the Consolidated Billing Statement

Billings on the Servicer Billing Statement are not remitted via GPI. Therefore, they do **not** flow through the custodial account, and should not be carried as reconciling items.

# Calculate Cash Receipts Variance

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## Loan-Level Analysis

The purpose of this section is to outline the steps and information needed to identify loan-level variances.

### ***Loan-Level Variances***

Most of your differences will be at the loan level. Loan-level cash receipts differences are primarily due to the following:

1. The Amount Due you reported to us is not equal to what you deposited. You will need to generate reports to identify these differences.
2. The Amount Due you reported to us is not equal to what we processed. You will need copies of the *Loan Reconciliation Difference Report* to identify these differences. (This report is available to you at the end of the month via the Service Loans application.)

### ***Causes of Loan-Level Variances***

A loan-level cash receipt variance identified in the first item listed above is usually caused by one of the following reasons:

- Transfer of servicing
- Amortization differences
- Interest on new fundings

A loan-level cash receipt variance identified in the second item listed above is usually caused by a reporting discrepancy.

### ***Calculating your Total Loan-Level Cash Receipts Variances***

To calculate your loan-level cash receipts variances you need to apply the following formula to each mortgage in your portfolio.

$$\begin{array}{r} \text{Amount Due us} \\ - \quad \text{Change in Delinquent Interest} \\ + \quad \text{Change in Prepaid Interest} \\ - \quad \text{Cash Receipts} \\ \hline = \quad \text{Loan Level Cash Receipt Variance} \end{array}$$

If your result is not zero, then record that amount (using the same sign) on your *Current Cycle Variance Log*.

## Calculate Cash Receipts Variance

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### ***Automating the Analysis for Total Loan-Level Cash Receipts Variance***

We strongly suggest you automate the process of calculating your total loan-level cash receipts variance. Your system should already have the required data elements for collections, delinquencies and prepaids.

- You can also automate the loan-level cash receipts variance calculation analysis by only using information from your system. If your system does not store data about what you reported for your loan-level transactions, you can
  - Use what you reported for the Amount Due in the loan-level cash receipts variance calculation.
  - Use the *Loan Reconciliation Difference Report* to identify differences between what you reported and what we processed.
- You can obtain the Amount Due we processed for each loan by downloading the *Remittance Detail Report* from the Service Loans application. You can automate the loan-level cash receipts variance calculation by applying the information you download from the *Remittance Detail Report*.

### ***Detailed Analysis of Principal Cash Receipts Variance and Interest Cash Receipts Variance***

We suggest that you analyze principal cash receipts variances and interest cash receipts variances separately. You can do this by applying the following formulas.

- The formula for interest due variances for net yield and scheduled/scheduled loans is:
  - Interest Due Freddie Mac**
  - **Change in Delinquent Interest**
  - + **Change in Prepaid Interest**
  - **Interest portion of Cash Receipts**
  - = **Loan-Level Cash Receipt Variance (interest)**
- The formula for principal due variances for scheduled/scheduled loans is:
  - Principal Due Freddie Mac**
  - **Change in Delinquent Principal**
  - + **Change in Prepaid Principal**
  - **Principal portion of Cash Receipts**
  - = **Loan-Level Cash Receipt Variance (principal)**
- The formula for principal due variances for net yield loans with actual principal is:
  - Principal Due Freddie Mac**
  - **Principal portion of Cash Receipts**
  - = **Loan-Level Cash Receipt Variance (principal)**

# Calculate Cash Receipts Variance

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## ***Transfers of Servicing***

If you have a loan-level variance and you also had mortgages that were transferred or acquired, verify that no errors have occurred.

The *transferor* (transferring mortgages) needs to ensure that

- The amount received for delinquent interest and sent for prepaid interest ties to the amount that was carried on the previous cycle's reconciliation for those loans.
- The amount received for the net between delinquent and prepaid interest was deposited to the custodial account (withdrawn if the prepaid interest was greater than the delinquent interest).
- Any payments received on these mortgages after the transfer date are forwarded to the transferee.

The *transferee* (acquiring mortgages) needs to ensure that

- The amount paid for delinquent interest and received for prepaid interest ties to the amount that was carried on the previous cycle's reconciliation for those loans.
- The amount paid for the net between delinquent and prepaid interest was withdrawn from the custodial account (deposited if the prepaid interest was greater than the delinquent interest).
- The loans are set up timely to ensure payments are correctly deposited into the custodial account.

## ***Amortization Differences***

Amortization differences occur when the interest due from the borrower is calculated on a loan balance that is different than the previous cycle's ending balance (or, the funded balance if the mortgage is a new funding). Amortization variances are an expense of servicing and must be funded. The late charges you receive from the borrower should more than offset the expense.

Amortization variances occur when:

- Interest due us is calculated on a different unpaid principal balance than the interest due from the borrower.
- A mortgage was delinquent the previous cycle.
- A mortgage was prepaid the previous cycle.
- A curtailment (additional principal) was applied during the cycle before the monthly installment, and the monthly interest posted to the borrower's mortgage was calculated on the lower balance.

## Calculate Cash Receipts Variance

- A payment was applied, and the loan later paid off during the cycle, the daily interest charged the borrower was calculated on the lower balance
- A mortgage amortizes on a biweekly basis (based on your negotiated contract)

### **Example - Determining Amortization Differences**

Shown below is an example of how an amortization difference can occur on a delinquent mortgage.

Assume a borrower made five payments on April 1<sup>st</sup> to bring their delinquent loan current. Their principal balance was reduced after each payment was applied, reducing the amount of interest collected from each payment just as if the payments were made and applied when they were due.

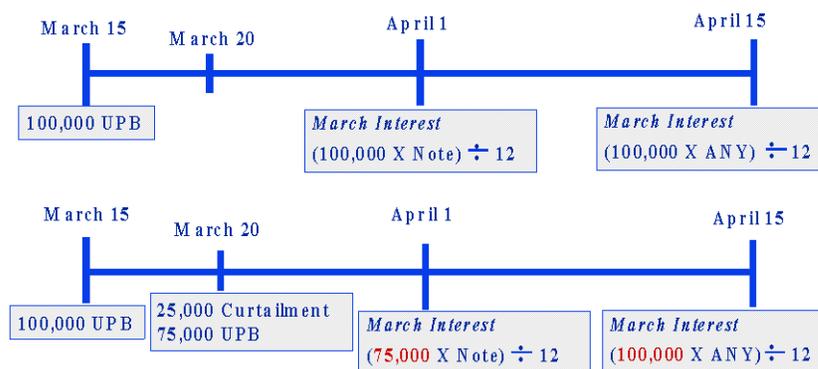
The loan balance remained constant at the December balance when the monthly interest due us was calculated for the December through April payments. Thus, there is an amortization difference because the balance used to calculate the interest due to us was different from the balance used to calculate the interest due from the borrower.

<b>SCHEDULED METHOD - Servicer calculating interest due from the borrower</b>					
	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Difference</u>
December	\$131,864.26	8.00%	\$879.10	\$145.21	\$0.00
January	\$131,719.05	8.00%	\$878.13	\$146.20	<b>(\$0.97)</b>
February	\$131,572.85	8.00%	\$877.15	\$147.21	<b>(\$2.91)</b>
March	\$131,425.64	8.00%	\$876.17	\$148.22	<b>(\$5.83)</b>
April	\$131,277.42	8.00%	\$875.18	\$149.24	<b>(\$9.75)</b>
			\$ 4,385.73		
<b>NET YIELD METHOD - Servicer calculating interest due Freddie Mac</b>					
	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	
December	\$131,864.26	8.00%	\$879.10	\$0.00	
January	\$131,864.26	8.00%	\$879.10	\$0.00	
February	\$131,864.26	8.00%	\$879.10	\$0.00	
March	\$131,864.26	8.00%	\$879.10	\$0.00	
April	\$131,864.26	8.00%	\$879.10	\$0.00	
			\$4,395.48		
<b>AMORTIZATION DIFFERENCE</b>			<b>(\$9.75)</b>		

## Calculate Cash Receipts Variance

### Amortization Differences on Curtailments

Shown below is an example of an amortization difference on a curtailment. A curtailment is additional principal applied to the balance of a mortgage.



- The April 1 payment from the borrower is for March interest. Without a curtailment between the 16<sup>th</sup> and the end of the month, the balance will be the same balance used to calculate the March interest due that is reported to us at the April 15<sup>th</sup> cutoff.
- If a \$25,000 curtailment is applied on March 20<sup>th</sup>, the March interest calculated with the April 1 payment may be on \$75,000, but you still calculate March interest due to us on the March 15<sup>th</sup> balance of \$100,000. You will have an amortization difference. You will need to determine the correct balance on which to calculate interest when a borrower sends a curtailment.

### Amortization Difference - Amount of Interest Collected is Less than Amount Due

The amount of interest collected will be less than the Amount Due if

- You did not receive a borrower's payment for the previous cycle by the previous cycle's cutoff.
- You applied a partial curtailment to a borrower's mortgage record during the cycle before you applied their monthly installment, and you calculated and posted the monthly interest on the lower balance.
- A mortgage amortizes on a biweekly basis and less than three payments are due within the cycle.

You must carry these amortization differences as a positive variance on the *Current Cycle Variance Log* for cash receipts until you deposit funds into the custodial account.

## Calculate Cash Receipts Variance

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### ***Amortization Difference - Amount of Interest Collected is Greater than Amount Due***

The amount of interest collected will be **greater** than the Amount Due if

- You receive a borrower's payment for a future cycle.
- A mortgage amortizes on a biweekly basis and more than two payments are due and collected within the cycle.

You must carry these as a negative variance on the *Current Cycle Variance Log* for cash receipts until you withdraw funds from the custodial account.

### ***Interest on Newly Funded Mortgages***

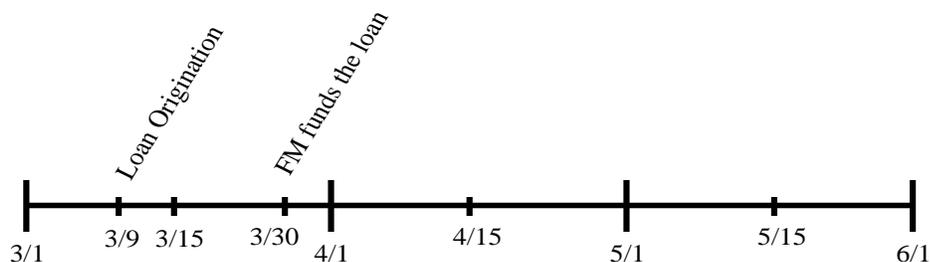
An interest variance will occur on a newly funded mortgage if

- You close the mortgage in the same month that we fund the mortgage. You will not receive a scheduled payment to cover the first month's interest due to us. You must deposit funds to cover the interest due for the month of funding.
- The loan is prepaid when it is set up on your investor reporting system. Funds that were deposited into your corporate account must be transferred over to the custodial account.
- In both cases you must deposit one month's interest by the time you remit the funds through GPI.

### ***Exercise -Newly Funded Mortgages***

Using the timeline below, try your skills at answering the following questions.

1. When is the first time you report interest due to us?
2. What month's interest is being reported when you report to us the first time?
3. When is the borrower's first payment due?
4. What month's interest is being collected with the borrower's first payment?
5. Where does the money come from for the March interest due to us?

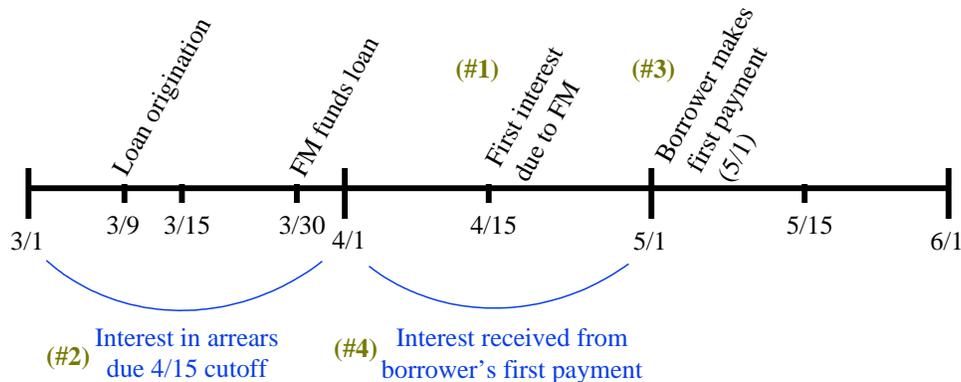


# Calculate Cash Receipts Variance

## Answers to Exercise - Newly Funded Mortgages

Answers to the newly funded mortgage exercise, found on the previous page, are listed below.

1. Q: When is the first time you report interest due to us?  
A: April 15.
2. Q: What month's interest is being reported when you report to us the first time?  
A: March.
3. Q: When is the borrower's first payment due?  
A: May 1.
4. Q: What month's interest is being collected with the borrower's first payment?  
A: April's interest.
5. Q: Where does the money come from for the March interest due to us?  
A: You.



## Sources of Funds to Cover Variances

The sources of funds to cover variances that result from newly funded mortgages are collected from

- The borrower (from the closing date through the end of the month; a 365-day year)
- Freddie Mac, at the time of funding (from the first of the month to the day before the funding date; a 360-day year)

## Calculate Cash Receipts Variance

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### **Example**

Shown below is an example of a loan that funded and originated in the same calendar month, with the corresponding interest collections and interest due Freddie Mac.

Interest from borrower		
(Originated 3/9) 23 days:	\$504.11	
Interest from us		
(FM funded 3/30) 29 days:	<u>+ 644.44</u>	
Total interest collected (52):	= \$1,148.55	
Interest due us (30):	<u>- 666.67</u>	
Interest income (22):	= \$481.88	

### **Reporting Variances**

A reporting variance occurs when the loan-level Amount Due you reported to us is different from the loan-level Amount Due we processed. When there is a reporting difference we send you an edit report the following day. After we complete our processing for the cycle, we summarize all the daily edits on the *Loan Reconciliation Difference Report*. We suggest you use the *Loan Reconciliation Difference Report* when reconciling your custodial account. You will also need your *Loan-Level Missing Report* if you had loans that were not reported on your original transmission.

### **Differences Within Your Records**

A loan can have a difference between what you deposited and what you reported, AND between what you reported and what we processed. If you have a difference between what you reported and what you collected, it will show up when you do your loan-level to cash receipts analysis. Your *Loan Reconciliation Difference Report* will identify differences between what you reported and what we processed.

An example is a loan that originated and funded in the same calendar month, and had the service fee input incorrectly resulting in an incorrect ANY and an error in interest due. There would be a difference between what you deposited and what you reported. There would also be a reporting difference between the interest you reported and the interest we processed. In other words, one loan can cause more than one type of variance.

## Calculate Cash Receipts Variance

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### ***Using the Loan-Level Missing Report***

Record on the *Current Cycle Variance Log* for cash receipts the Amount Due for any loans that you did not initially report that you subsequently transmitted without any edits. These loans would have appeared on the *Loan-Level Missing Report* without an asterisk (\*). Record all amounts subsequently reported as positive numbers on your variance log.

- Do not include loans without an asterisk if you deposited funds for the loan during the same cycle you are reconciling.
- Do not include loans without an asterisk that were transmitted under an invalid loan number that you later retransmitted under the correct loan number. The invalid loan number would have appeared with a 101 edit on the *Edits to be Cleared Report*, and again in Section 3 of the *Loan Reconciliation Difference Report*.
- Do not include loans without an asterisk that were transmitted under a valid, but incorrect, loan number that you retransmitted later under the correct loan number. (This is due to a loan number being assigned to more than one loan on your system.) The wrong loan number would have appeared with a 303 or 309 on the *Edits to be Cleared Report* and again in Section 1 or 2 of the *Loan Reconciliation Difference Report*.

### ***Using Sections 1 and 2 of the Loan Reconciliation Difference Report***

The amounts listed on the *Loan Reconciliation Difference Report* on the “LNH” line reflect what we processed. The differences between what you reported and what we processed need to be carried on your *Current Cycle Variance Log* for cash receipts. In most cases you can use the difference as it was calculated on the report. The difference is calculated by subtracting what you reported from what we processed. The transaction we used in this calculation is identified by an asterisk (\*) in the “DIFF” column.

### ***Using Section 3 of the Loan Reconciliation Difference Report***

Record any amounts reported under invalid loan numbers that were not subsequently retransmitted under the correct loan number or processed by us for the same amounts in Section 1 of this report.

Carry the adjustments using the amounts from this report, *but reverse the sign*. The sign is reversed because we are returning this transaction to you. Do not include amounts for loans you retransmitted under the correct loan numbers.

### ***Using Section 4 of the Loan Reconciliation Difference Report***

Record any amounts due you reported under invalid Servicer numbers that were not subsequently posted to your account as an adjustment.

Carry the adjustments using the amounts from this report, *but reverse the sign*. The sign is reversed because we are returning this transaction to you.

# Calculate Cash Receipts Variance

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## Review

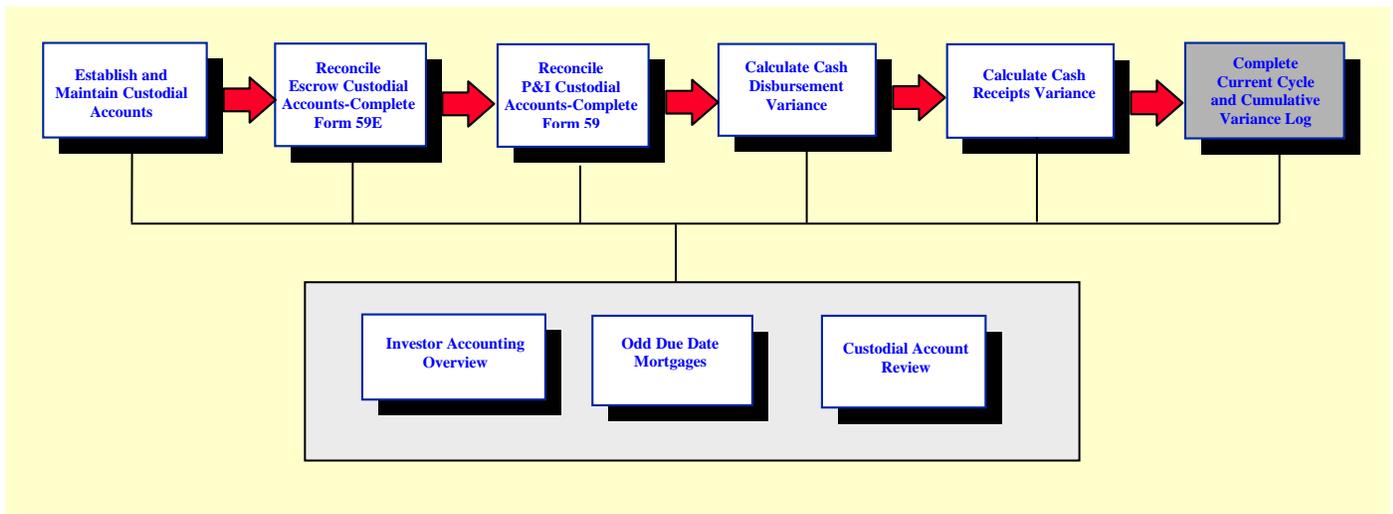
- A cash receipt is any transaction that increases your bank balance, and may include
  - Collections
  - Deposits
  - Bank credits
  - Journal entries
- There are three steps involved in the process of analyzing cash receipts and the current Amount Due:
  1. Use the *Cash Receipts to Current Amount Due Reconciliation Worksheet* to calculate your cash receipts variance amount.
  2. Identify the transactions causing the variance.
  3. Record the outstanding items you identified in step 2 on a current cycle variance log.
- A cash receipts variance occurs when the amount of your deposits for the cycle is not equal to the total amount due Freddie Mac for the cycle. The total amount due us is comprised of loan-level transactions and other billings we processed.
- |                                     |
|-------------------------------------|
| Loan-level Amount Due               |
| - Change in Delinquent Interest     |
| <u>+ Change in Prepaid Interest</u> |
| = Cash Receipts                     |
- |                                     |
|-------------------------------------|
| Cash Receipts                       |
| + Change in Delinquent Interest     |
| <u>- Change in Prepaid Interest</u> |
| = Loan-level Amount Due             |

# Complete Current Cycle Variance and Cumulative Variance Logs

# 7

## Introduction

This chapter will focus on completing your *Current Cycle Variance Log* and the final step of your P&I custodial account reconciliation process, completing the *Cumulative Variance Log*.



## Objectives

After completing this chapter, you will be able to:

- Complete the *Current Cycle Variance* and *Cumulative Cycle Variance Logs*.
- Determine whether a variance is a cash or paper adjustment.

# Current Cycle Variance and Cumulative Variance Logs

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## Identifying and Resolving Current Cycle Variances

To identify causes of variances in the principal and interest custodial account, you need to identify what transactions have a difference between the investor reporting process (*Monthly Account Statement*) and the *cash management process* (bank statement). The total variance can be sub-divided into:

- The cash disbursements variance and
- The cash receipts variance (which includes reporting variances)

### ***What is a cash disbursement variance?***

Cash disbursements variances occur during the accounting cycle when the amount of funds withdrawn from the principal and interest custodial account are different from the amount of cash made available to us as stated on the Remittances Made line of the *Monthly Account Statement*.

### ***Identifying a Cash Disbursement Variance***

You calculate your cash disbursements variances by completing the *Cash Disbursements to Amount Remitted Worksheet*. Identify cash disbursements variances by:

- Comparing the total cash withdrawn from the principal and interest custodial account during the accounting cycle to the amount you remitted to us via GPI.
- Refer to Chapter 5, *Calculate Cash Disbursement Variance* for information on identifying the causes of your cash disbursement variance.

### ***What is a cash receipts variance?***

Cash receipts variances occur when your deposits do not equal the Amount Due that we processed as shown on the *Monthly Account Statement*.

### ***Identifying a Cash Receipts Variance***

Calculate your cash receipts variances by completing the *Cash Receipts to Current Amount Due Worksheet*. Identify cash receipts variances by:

- Comparing the total custodial account deposits you processed and deposited during the applicable accounting cycle to the Amount Due you reported to us.
- Comparing what you reported to us to what we processed, as shown on the *Monthly Account Statement*.
- Refer to Chapter 6, *Calculate Cash Receipts Variance* for information on identifying the cause(s) of your cash receipt variance.

# Current Cycle Variance and Cumulative Variance Logs

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## The Current Cycle Variance Log

You should use a log to itemize the transactions you identify as causing a variance. We use a *Current Cycle Variance Log* to record and itemize all causes of variances for the current cycle only. (This is step 5 and step 6 of the Reconciliation Process described in Chapter 4.) You should complete a separate log for cash receipt and cash disbursement variances. Identify and record all causes of a variance at each step of the process, including any variances that are offset by cash receipts or disbursements variances.

The cash receipts variance total (line 6 of the *Cash Receipts Worksheet*), less the cash disbursement variance total (line 3 of the *Cash Disbursements Worksheet*) should equal the total variance for the current accounting cycle, as calculated on line 6c of the *Principal and Interest Custodial Account Reconciliation Worksheet – Monthly Account Statement*.

## Carrying the Adjustments

Use the *Current Cycle Variance Log* to document variances. It is important you are consistent on how you carry each reconciling item. Ask yourself “How would I clear the transaction if it were in error?” and then

- **Add** (show as positive) amounts that need to be deposited to the bank account, or that you are waiting for us to process a credit for on the *Monthly Account Statement*.
- **Deduct** (show as negative) amounts that need to be withdrawn from the bank account, or that you are waiting for us to process a debit for on the *Monthly Account Statement*.

## Identifying Positive Variances

Following are examples of transactions you would carry as a positive adjustment:

- Payments received before the loan was designated as ours
- Corporate funds due for repurchases
- Interest due for new fundings for which a payment is not due from the borrower for the current cycle
- Amortization differences
- Loan modification credits not yet processed by Freddie Mac
- Short sale credits not yet processed by Freddie Mac



# Current Cycle Variance and Cumulative Variance Logs

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## The Cumulative Variance Log

While the *Current Cycle Variance Log* allows you to record and itemize current cycle variances only, the cumulative variance log tracks all variances outstanding as of the accounting cutoff. Use the *Cumulative Variance Log* to track all unresolved variances as of the accounting cutoff regardless of the cycle it originated. In order to properly manage your principal and interest custodial account(s), corrective action must be taken to remedy all outstanding variances. (This is step 7 of the Reconciliation Process described in Chapter 4.)

## Completing the Cumulative Variance Log

To use the *Cumulative Variance Log*:

1. Delete any transactions on the *Current Cycle Variance Log* that offset each other and/or offset with items found on the previous cycle's *Cumulative Variance Log*. For example, if the previous cycle's *Cumulative Variance Log* has \$100 and the current cycle's cash receipts log has (\$100), this will not flow to the *Current Cycle's Variance Log*.
2. Delete any transactions on the *Current Cycle Variance Log* that offset with each other. Items can only offset if they are in the same amount and opposite signs. For example, a \$20.00 cash receipt variance can cross off with a <\$20.00> cash disbursement variance.

Record the remaining transactions from the *Current Cycle Variance Log* and the previous cycle's *Cumulative Variance Log* onto a new current *Cumulative Variance Log*. The total of the remaining transactions should equal, with the opposite sign, the "Total Cumulative Variance" (line 6a) of the current *Principal and Interest Custodial Account Reconciliation Worksheet*.

As stated earlier in this chapter, we recommend you carry amounts to be deposited to the bank account as positive adjustments, and carry amounts to be withdrawn as negative adjustments.

If your total cumulative variance is negative, your bank account is short. If your total cumulative variance is positive, your bank account is over. This figure is the amount that must be deposited to or withdrawn from the bank account to clear the outstanding items.

## **Why is it necessary to determine if a variance is a cash or paper adjustment?**

Determining whether a variance is a cash or paper adjustment will tell you what action is necessary to resolve the reconciling item. A *cash adjustment* will clear only after you make an adjustment (deposit or withdrawal) to your bank account. A *paper adjustment* will clear in the same cycle, or in a later cycle, after we process the corresponding transaction.



## Current Cycle Variance and Cumulative Variance Logs

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### Review

- Cash disbursements variances occur during the accounting cycle when the amount of funds withdrawn from the principal and interest custodial account are different from the amount of cash made available to us as stated on the Remittances Made line of the *Monthly Account Statement*.
- Cash receipts variances occur when your deposits do not equal the Amount Due that we processed as shown on the *Monthly Account Statement*.
- Use a variance log to itemize the transactions you identify as causing a variance.
- You should complete a separate variance log for your cash receipts and cash disbursements variances.
- Identify and record all causes of a variance identified at each step of the process, including any variances that are offset by cash receipts or disbursements variances.
- Add (show as positive) amounts that need to be deposited to the bank account, or that you are waiting for us to process a credit for on the *Monthly Account Statement*.
- Deduct (show as negative) amounts that need to be withdrawn from the bank account, or that you are waiting for us to process a debit for on the *Monthly Account Statement*.

## **Current Cycle Variance and Cumulative Variance Logs**

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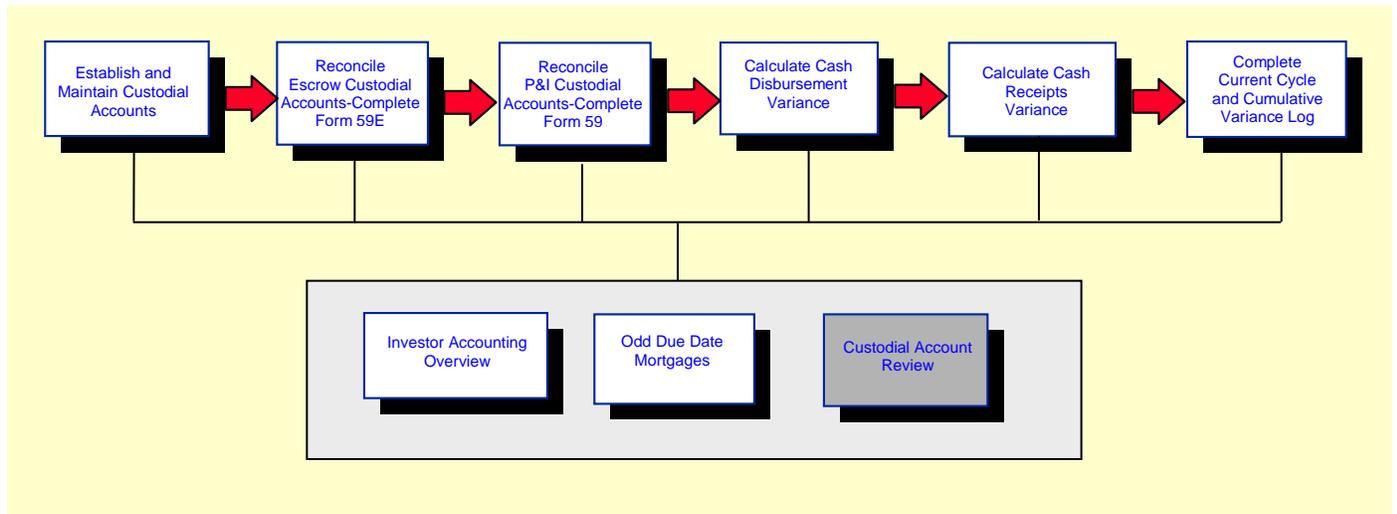
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# Custodial Account Review

# 8

## Introduction

This chapter introduces the Custodial Account Review (CAR) and provides suggestions to maximize your CAR evaluation assessment.



## Objectives

After completing this section, you will be able to:

- Understand the Custodial Account Review (CAR)
- Maximize Your CAR Evaluation Assessment

# Custodial Account Review

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## Overview of the Custodial Account Review (CAR)

The CAR is an analysis Freddie Mac performs of your principal and interest and escrow custodial account reconciliations to determine compliance with our requirements. The process not only ensures our funds are safeguarded, but it can also help you better manage cash flow activities.

### ***When will I receive my CAR Request?***

We send letters every month to selected Servicers, on a random basis, to request a CAR. Therefore, you will not be informed in advance when you will receive a request letter.

### ***How will I know what to send in?***

Our request letter specifies which accounting cycle's custodial account reconciliation to send in, and gives details as to what additional information we need to perform our review. We also include a customer profile, a matrix of suggested documentation, and a checklist of our *Single-Family Seller/Servicer Guide* (Guide) requirements.

### ***What if I don't have enough time to comply with the request?***

We request reconciliations that you should already have completed. Therefore complying with our request should simply be a matter of copying the reconciliations and sending them in. Remember, your custodial accounts must be reconciled within 45 days of the accounting cutoff.

### ***When will I receive the results of the review?***

We review reconciliation packages upon receipt. You will receive a letter detailing our findings and overall evaluation assessment within 60 days of receipt.

### ***What if I am not satisfied with the results?***

If you have any questions concerning your review, contact the Freddie Mac representative identified in the request letter.

# Custodial Account Review

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## Maximizing Your CAR Evaluation Assessment

Below is an example of a list of checkpoints to help ensure your custodial account reconciliations and cash management practices are in compliance with Freddie Mac requirements. This list is not all-inclusive and should not be the only control measure used to ensure proper performance. Please refer to Guide Chapters 8301 through 8304 for detailed information.

### **Example:**

### **Required Documentation for P/I & Escrow Custodial Account Reconciliation Checklist**

*All documentation must be submitted with your original package, failure to properly document your entries on forms 59 and 59E will impact your final assessment.*

Is your institution meeting the following requirements?

<b>Principal and Interest Custodial Account:</b>	
<input type="checkbox"/>	Completed Form 59, all sections must be filled out
<input type="checkbox"/>	Copies of bank statements for the two cycles being reviewed
<input type="checkbox"/>	All bank statement that cover the accounting cycle cutoff period between 15 <sup>th</sup> of the month through the 16 <sup>th</sup> of the following month for deposits in transit and outstanding debits
<input type="checkbox"/>	Final <i>Monthly Account Statement</i> for the two cycles requested
<input type="checkbox"/>	Delinquent interest and delinquent principal reports or spreadsheets for active and inactive mortgages if applicable as of the accounting cutoff (dated)
<input type="checkbox"/>	Prepaid interest and prepaid principal reports or spreadsheets as of the accounting cutoff (dated)
<input type="checkbox"/>	Freddie Mac's minority principal and interest report if applicable
<input type="checkbox"/>	Completed Cumulative variance log for shortages and overages
<input type="checkbox"/>	Verification of variance corrections if there is a shortage or overage: bank statements or screen prints showing verification of the deposit or withdrawal correcting the variance within 90 days of the accounting cycle cutoff.

## Custodial Account Review

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Escrow Custodial Account:	
<input type="checkbox"/>	Completed Form 59E, all sections must be filled out, if applicable
<input type="checkbox"/>	Copies of bank statements for the two cycles being reviewed
<input type="checkbox"/>	All bank statement that cover the accounting cycle cutoff period between 15 <sup>th</sup> of the month through the 16th of the following month for deposits in transit and outstanding debits
<input type="checkbox"/>	Trial Balance Report that displays all Freddie Mac escrow liabilities and must include the following elements: <ul style="list-style-type: none"> <li>▪ Titled Escrow Trial Balance</li> <li>▪ Accounting cutoff</li> <li>▪ Freddie Mac loan numbers</li> <li>▪ Breakdown of the positive balances and negative balances</li> <li>▪ Suspense or partial payment amounts, if applicable</li> </ul>
<input type="checkbox"/>	Verification of variance corrections if there is a shortage or overage: bank statements or screen prints showing verification of the deposit or withdrawal correcting the variance within 90 days of the accounting cycle cutoff.
<input type="checkbox"/>	Completed Cumulative variance log for shortages and overages

**Supply adequate supporting documentation for every line item listed on forms 59 and 59E for the two cycles as of the accounting cycle cutoff.**

# Custodial Account Review

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## ***Request letter***

Below is an example of a CAR Request Letter

RE: Custodial Account Reconciliation Review  
RESPONSE REQUIRED FROM YOUR INSTITUTION

Dear Servicer,

Your institution has been selected for a custodial account review. Freddie Mac conducts monthly reviews of Servicers' custodial account records in order to verify compliance with the requirements detailed in Chapters 8301 through 8304 of the *Single-Family Seller/Servicer Guide*. This review also serves to evaluate your overall performance of cash and custodial account management practices.

**Please send us copies of your Freddie Mac custodial account reconciliation packages for accounting cycles XX/15/20XX and XX/15/20XX.** We are specifically looking for your Principal and Interest and Escrow custodial account reconciliation worksheets, along with all supporting documentation. If you do not collect escrow funds, please send us a copy of your bank statement and reconciliation worksheet. You are required to open an escrow custodial account in the event that you receive funds such as insurance claims proceeds, partial payments, or buydown funds.

We have attached a checklist of required documentation, and a servicer profile questionnaire. **Please forward all requested information to the following address below by XX/01/20XX.**

Freddie Mac  
8100 Jones Branch Drive  
McLean, VA 22102-3110  
Attn.: *Reviewer name*, MS-B13

Our process covers a broad range of review activities. Upon receipt of your completed package, your materials will be reviewed for an acceptable level of compliance. You will receive a letter detailing our findings and your overall compliance evaluation assessment. Periodically, we review any one of several services you provide for us.

This request is specific to "Custodial Account Reconciliations and Compliance" only. **Your final Custodial Account evaluation assessment will be based on the initial documentations received.** Therefore, it is imperative for you to send us all the required documents by the requested date stated above.

Thank you in advance for your cooperation. Our review will help us to ensure that your process is aligned with our mutual goals of reducing errors, increasing the level of data management and compliance, while maintaining quality servicing.

Please contact *Reviewer's name* via email at [custodial\\_account\\_review@freddiemac.com](mailto:custodial_account_review@freddiemac.com) or by phone at 703-714-3233, if you have any questions about this letter or require additional assistance.

Sincerely,

Freddie Mac

# Custodial Account Review

## ***Custodial Account Review Customer Profile***

Below is an example of a Custodial Account Review Customer Profile (you must return this profile)

SELLER / SERVICER NAME
SELLER / SERVICER NUMBER
NAME AND NUMBER OF CONTACT/PREPARER
EMAIL ADDRESS
DATE BANK ACCOUNT ADJUSTED
AMOUNT OF LAST CUMULATIVE P&I VARIANCE (Line 6A of the most current P/I worksheet provided)
NAME OF INVESTOR REPORTING SOFTWARE OR SERVICE BUREAU
<b>PRINCIPAL &amp; INTEREST</b>
1. Do you keep funds for other investors in the Freddie Mac P/I account?
2. How often do you deposit payments to the P/I account?
3. Are the majority of your borrowers set up on automatic draft payments? If so, what are the drafting dates?
4. Are you accounting for outstanding drafts on Form 59? If so, explain the nature of the adjustment.
5. Where do you deposit partial payments?
6. When do you deposit the interest on newly funded loans to the custodial account?
7. Do you have more than one P/I bank account for Freddie Mac loans? If so, are you completing a consolidated reconciliation of all bank accounts?
<b>LIABILITY</b>
8. Do you write checks from the custodial account? For what purpose?
9. Do you use a lockbox or a clearing account before moving funds to the Freddie Mac custodial account?
10. Do you calculate prepaid and delinquent interest on a cumulative basis?
11. Do you service odd due date loans?
12. Do you service minority principal and interest loans?

# Custodial Account Review

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13. When was the last time you repurchased a loan from Freddie Mac?
14. Do you deposit your P/I payments net of service fees?
15. You must also supply the variance log along with your Form 59. Is your variance identified?
16. Have you made a deposit/withdrawal to adjust the custodial account for the variance? If so, when and how much?
<b>ESCROW</b>
1. Do you keep escrow funds for other investors in the Freddie Mac account?
2. Are you reconciling your escrow account to the positive escrow balance?
3. Are the majority of your borrowers on automatic draft payment? If so, what are the drafting dates?
4. How often do you fund the custodial account for negative escrow?
<b>LIABILITY</b>
5. How many escrow loans do you service?
6. Does your loan level trial balance net the negative and positive escrow balances? If so, how do you account for negative escrow balances?
7. How do you account for partial payments?
8. How do you reconcile your buy-down funds? (Answer if applicable)
9. How do you account for escrow payments received on newly funded loans?
10. When do you deposit escrow payments on newly funded loans to the custodial account?
11. How often do you deposit escrow payments in the custodial account?
12. Do you have more than one escrow bank account for Freddie Mac loans?
13. You must also attach the Variance Log with your Form 59E. Is your variance identified?
14. Have you made a deposit/withdrawal to adjust the custodial account for the variance? If so, when and how much?

# Custodial Account Review

## Documentation Matrix

A documentation matrix for both principal and interest and escrow custodial accounts will also be enclosed with your CAR Request letter. The matrix contains suggested documentation to support each line item on your custodial account reconciliation worksheets. In order to complete your custodial account review we must be able to see where you obtain the numbers used on your reconciliation worksheets.

Please refer below for examples of the documentation matrix.

### Principal and Interest Custodial Account Documentation Matrix

Suggested Documentation for the Principal and Interest Custodial Account Reconciliation Worksheet		
P&I Worksheet Section	Item	Required Documentation
Adjusted Bank Balance	Bank Balance	Bank Statement (Disclose all bank accounts where Freddie Mac has an interest.)
	Deposits in Transit	The following month's bank statement or the monthly collections report showing collections as of the cutoff that are deposited the first business day after the cycle being reconciled (two business days if you are using a lock box).
	Outstanding Debits	The following month's bank statement or the monthly collections report showing withdrawals initiated as of the cutoff that are debited the first business day after the cycle being reconciled.
Total Liability	Total Amount Due Freddie Mac	Ending balance of <i>Monthly Account Statement</i> . Include a copy of the final <i>Monthly Account Statement</i> for the cycle you are reconciling.
	Delinquencies (Cumulative total)	Delinquent Interest on Active/Inactive Mortgages - Last page from delinquent report showing totals. Indicate if the values are net or gross of servicing.
		Delinquent Principal - Last page from delinquent report showing totals.

## Custodial Account Review

Suggested Documentation for the Principal and Interest Custodial Account Reconciliation Worksheet		
P&I Worksheet Section	Item	Required Documentation
Total Liability	Prepays (Cumulative total)	Prepaid Interest - Last page from Prepaid report showing totals.
		Prepaid Principal - Last page from Prepaid report showing totals.
	RTC Minority P&I	Minority Principal and Interest - Copy of minority principal and interest bill for the cycle being reconciled.
Variance (not all inclusive)	Repurchases	Copy of the cycle's payoff report with the loan highlighted.
	Newly Funded Loans	<i>Funding Detail Report</i>
	Investment Interest	Copy of bank statement with amount highlighted.
	Amortization differences	Last page of schedule/report reflecting amortization differences.
	Unidentified Variances	Provide a bank statement showing verification of deposit/withdrawal correcting the variances. Any variance, even if unidentified, must be funded within 90 days.

# Custodial Account Review

## Escrow Custodial Account Documentation Matrix

Suggested Documentation for the Escrow Custodial Account Reconciliation Worksheet		
Escrow Worksheet Section	Item	Required Documentation
Adjusted Bank Balance	Bank Balance	Bank Statement (Disclose all bank accounts where Freddie Mac has an interest.)
	Deposits in Transit	The following month's bank statement or the monthly collections report showing collections as of the cutoff that are deposited the first business day after the cycle being reconciled (two business days if you are using a lock box).
	Outstanding Debits	The following month's bank statement or the monthly collections report showing withdrawals initiated as of the cutoff that are debited after the cycle being reconciled.
Total Liability	Escrow Balance	Last page of the trial balance that supports the total escrow liability.
	Negative Escrow Balance (If applicable)	You are required to advance funds to maintain a positive escrow balance at all times. Please provide supporting documentation for this activity such as the escrow trial balance or calculator tape of negative escrow balances with loans highlighted.
	Suspense	Last page of the trial balance that supports the total suspense liability.
	Loans not included in the trial balance total	Screen print of the loan history that verifies the escrow balance at time of cutoff.
	Adjustments for other accounts	Any other funds held on behalf of the borrower (for example, buydowns or replacement reserves). Last page of the trial balance that supports the amount itemized.

# Custodial Account Review

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Suggested Documentation for the Escrow Custodial Account Reconciliation Worksheet		
Escrow Worksheet Section	Item	Required Documentation
Variance (not all inclusive)	Posting error	Copy of the transaction that was made in error with the documentation for the correcting entry.
	Unidentified variances	Provide a bank statement showing verification of deposit/withdrawal correcting the variances. Any variance, even if unidentified, must be funded within 90 days.

# Custodial Account Review

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## Review

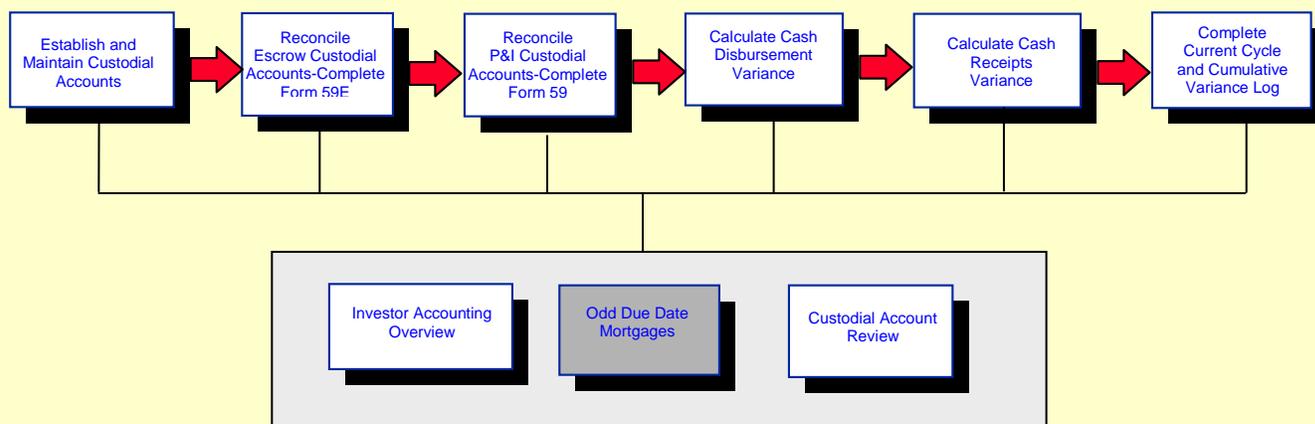
- The Custodial Account Review (CAR) is an analysis Freddie Mac performs of your principal and interest and escrow custodial account reconciliations to determine compliance with our requirements.
- We send letters every month to selected Servicers, on a random basis, to request a CAR.
- We request reconciliations that you should already have completed.
- We review reconciliation packages upon receipt. You will receive a letter detailing our findings and overall CAR evaluation assessment within 60 days of receipt.
- If you have any questions concerning your review, contact the Freddie Mac representative identified in the request letter.

# Accounting for Odd Due Date Mortgages

# 9

## Introduction

This chapter explains why there are issues with odd due date mortgages and how to account for them on your custodial account reconciliation. A mortgage with a payment due on any day other than the first of the month is referred to as an odd due date mortgage.



## Objectives

After completing this section, you will:

- Have a general understanding of odd due date mortgages
- Be able to calculate the following for odd due date mortgages:
  - Prepaid interest collected
  - Monthly interest
  - Prepaid and delinquent interest adjustments
  - Daily interest for payoffs

# Accounting for Odd Due Date Mortgages

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## Understanding Odd Due Date Mortgages

A mortgage with payments due on the first day of the month is referred to as a *first-of-the-month due date mortgage*. The majority of mortgages originated have a payment due date on the first of the month. For example, if a mortgage has a payment due date of the 1<sup>st</sup> day of each month, then the April payment is due on April 1.

A mortgage with payments that are due on any day other than the first day of the month is referred to as an odd due date mortgage. For example, if a mortgage has a payment due date on the 10th day of each month, then the April payment is due on April 10. Thus an odd due date mortgage, because the payment due date is not on the 1st day of each month.

### **Definitions: Payment Due Date and Payment-Received Date**

It is the *payment due date*, not the *payment received date* that determines a first-of-the-month or odd due date mortgage.

- The payment due date is the effective date stated on the note on which the payment is due every month.
- The payment-received date is the date on which the payment is actually received from the borrower.

### **Example: Due and Received Dates for a First-of-the-Month Mortgage**

The following example explains the payment due date and payment received date for a mortgage with a first-of-the-month due date.

*A mortgage has a payment due date of the 1<sup>st</sup> day of each month. You automatically draft the payment from the borrower's account each month. The April payment is due on April 1, but you collect and apply the payment after the 1<sup>st</sup>. This is a first-of-the-month due date, even though the payment received date is after the 1<sup>st</sup> of every month.*

### **Example: Due and Received Dates for an Odd Due Date Mortgage**

The following example explains the payment due date and payment received date for a mortgage with an odd due date.

*A mortgage has a payment due date of the 25<sup>th</sup>. You automatically draft the payment from the borrower's account after the 25<sup>th</sup> of the month. The April payment is due on April 25, but you collect and apply the payment on May 1. This is an odd due date even though the payment received date is the 1<sup>st</sup> of May.*

### **Why do Odd Due Date Mortgages Cause a Cash Flow Variance?**

A cash flow variance is created by odd due date mortgages since the interest due period is different than for a first-of-the-month mortgage. The interest due Freddie Mac is based on the same time period as a first-of-the-month mortgage.

# Accounting for Odd Due Date Mortgages

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## ***Determining Interest Due Freddie Mac***

When reporting to Freddie Mac, we assume a first-of-the-month due date. Interest due Freddie Mac is determined the same way for both first-of-the-month and odd due date mortgages. The following are some general rules:

- Monthly interest is calculated based on the previous month's ending balance (UPB).
- The interest in arrears method is used.
- The monthly interest calculation is based on a 12-month calendar and 360-day year. The monthly interest always corresponds to the interest due for the previous calendar month.
- Daily interest due for payoffs is calculated from the first of the month up to, but not including, the payoff date.

## ***Determining Interest Due from the Borrower***

While reporting and remitting to Freddie Mac is not affected by the payment due date, the corresponding cash flow from the mortgage is. Interest due from the borrower is determined the same way for both first-of-the-month and odd due date mortgages. The difference is the time period covered.

- Monthly interest is calculated based on the previous month's ending balance.
- The interest in arrears method is used.
- The monthly interest calculation is based on a 12-month calendar and 360-day year. The interest will only correspond to the previous calendar month for a first of the month due date.
- Daily interest due for payoffs is calculated from the due date of last paid installment (DDLPI) up to, but not including, the payoff date. For a first of the month mortgage the DDLPI would be the first of the month.

## ***Principal and Interest Adjustments***

Since you report to Freddie Mac as if a loan had a first-of-the-month due date, but calculate the amount due from the borrower based on the actual due date, you need to make adjustments to the principal and interest (P&I) custodial account for interest due on odd due date mortgages when:

- Interest is deposited for new fundings
- Delinquent and prepaid interest are calculated
- Interest is deposited for payoffs

# Accounting for Odd Due Date Mortgages

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## New Funding and Adjustments for Odd Due Date Mortgages

When there is a new funding that is an odd due date mortgage, you must calculate an amount of adjustment to make to your principal and interest custodial account.

### ***Interest Deposit Required for Odd Due Date Mortgages***

For a first-of-the-month due date mortgage, you need to fund the custodial account for a month's interest if the mortgage originates with the borrower in the same calendar month as you sell the mortgage to Freddie Mac ("funding").

For an odd due date mortgage, you need to fund the custodial account if the first payment is due in the calendar month after we purchase the loan. If there is a scheduled payment in the month of funding, you need to withdraw funds. For more information, refer to the examples provided later in this chapter.

<b>If the first payment is due</b>	<b>Then you</b>
The same month the mortgage funded,	Withdraw the portion of the first payment that represents interest for the previous calendar month.
The month after funding	Deposit interest to cover the number of days from the first day of the month of funding to the first day covered by interest by a scheduled payment.

### ***Source of Funds for Adjustment***

The sources of funds used to make a deposit for an interest adjustment for an odd due date mortgage are the same as for a first-of-the-month due date mortgage. The sources are as follows:

- The interest we paid to you when you sold the mortgage to Freddie Mac
- The prepaid interest you collected from the borrower at origination (you need to advance for calculated differences)

# Accounting for Odd Due Date Mortgages

## ***Interest Collected from Freddie Mac at Funding***

When you sell a mortgage to Freddie Mac, we pay you interest from the first of the month through the day prior to funding, regardless of the actual payment due date or interest-paid-to-date.

We do this because in the following calendar month you will report a full month's interest to us for the calendar month of funding. The interest payment to you at funding reimburses you for the number of days in the calendar month we did not own the mortgage. Interest is calculated on a 365-day year. Following are examples of interest we pay for new fundings.

<b>If a mortgage funds on the</b>	<b>Then we pay you</b>
14 <sup>th</sup>	13 days interest
1 <sup>st</sup>	No interest
31 <sup>st</sup>	30 days interest

## ***Prepaid Interest Collected from the Borrower***

The first payment will include the interest due starting one month prior to the first payment due date. You collect interest from the borrower from the day of closing through the day prior to one month before the first payment due date. Examples are provided below.

For a more detailed understanding of interest collected at closing, please refer to Determining Prepaid Interest Collected in this chapter.

<b>If a mortgage settles on</b>	<b>And the first payment is due</b>	<b>Then you collect interest from</b>	<b>And the first payment is for</b>
4/5	6/1	4/5 - 4/30	6/1 includes interest for 5/1 - 5/31.
4/5	5/5	None	5/5 includes interest for 4/5 - 5/4.
4/5	5/10	4/5 - 4/9	5/10 includes interest for 4/10 - 5/9.

# Accounting for Odd Due Date Mortgages

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## ***Adjustments to the Custodial Account***

Deposits to the principal and interest custodial account are necessary to cover the amount of interest due Freddie Mac that will not be included in the borrower's next payment.

Withdrawals are necessary to cover the amount of interest that is NOT due Freddie Mac, which will be included in the borrower's next payment.

## ***Odd Due Date Mortgage with First Payment Due the Month of Funding***

If a payment is due the same month we fund a loan, part of that scheduled payment will be for the previous calendar month and will need to be withdrawn.

- Calculate the share of the interest for the current calendar month by subtracting 1 from the payment due date and dividing by 30. For example, if the payment due date is the 10<sup>th</sup>, then 9/30ths of the payment is for the current month's interest.
- Subtract the results of Step 1 from 30/30 to get the share of the interest for the previous calendar month. For example, a loan with a payment due date on the 10<sup>th</sup> would have 21/30th (30/30 less 9/30) of the interest for the previous calendar month.
- Withdraw from the custodial account the share of interest for the previous calendar month.

## ***Adjustments for a First-of-the-Month Due Date Mortgage***

You must deposit 30 days of interest into the custodial account for a first-of-the-month due date mortgage if it settles and funds in the same calendar month.

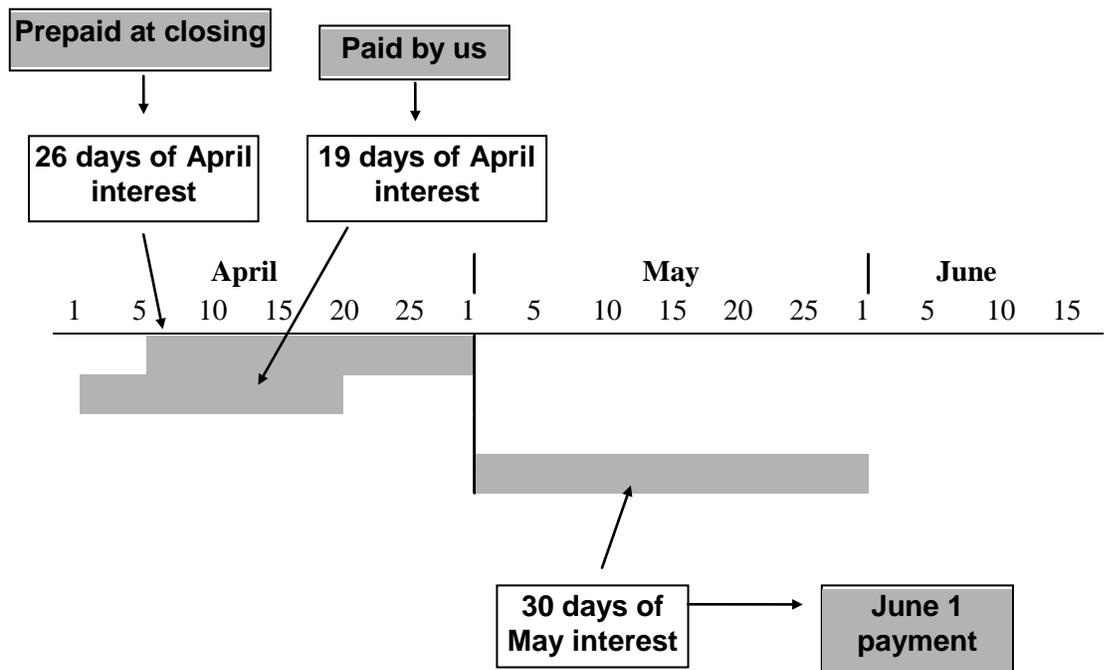
However, when a mortgage originates on the first day of the month and the first payment is due on the first day of the following month, then the first payment will provide the interest for the calendar month of funding and no adjustment is necessary.

## Accounting for Odd Due Date Mortgages

### **Example: Same Month Origination and Funding for First-of-the-Month Due Date Mortgage**

Shown below is an example of adjustments that are required to the principal and interest custodial account for a first-of-the-month mortgage that originates and funds in the same calendar month. Statistics for this example are:

- The mortgage originated on April 5
- We funded the mortgage on April 20
- The first payment due date is June 1



26 days of April interest collected at closing from the borrower  
 + 19 days of April interest collected from us at funding  
 = 45 days of April interest collected

30 days of April interest due to us at the May accounting cycle  
 + 0 days of April interest will be due with the first payment  
 = 0 days of April interest must be deposited into the principal and interest account

45 days of April interest collected  
 - 30 days of April interest must be deposited into the principal and interest account  
 = **15 days interest income to you**

## Accounting for Odd Due Date Mortgages

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### ***Adjustments for Odd Due Date Mortgages with the First Payment Due the Month After Funding***

If the first payment is due in the calendar month after we purchase the loan, part of the first scheduled payment will be for the calendar month of funding, but it will not cover the entire month. The difference needs to be deposited. To calculate how much to deposit perform the following steps.

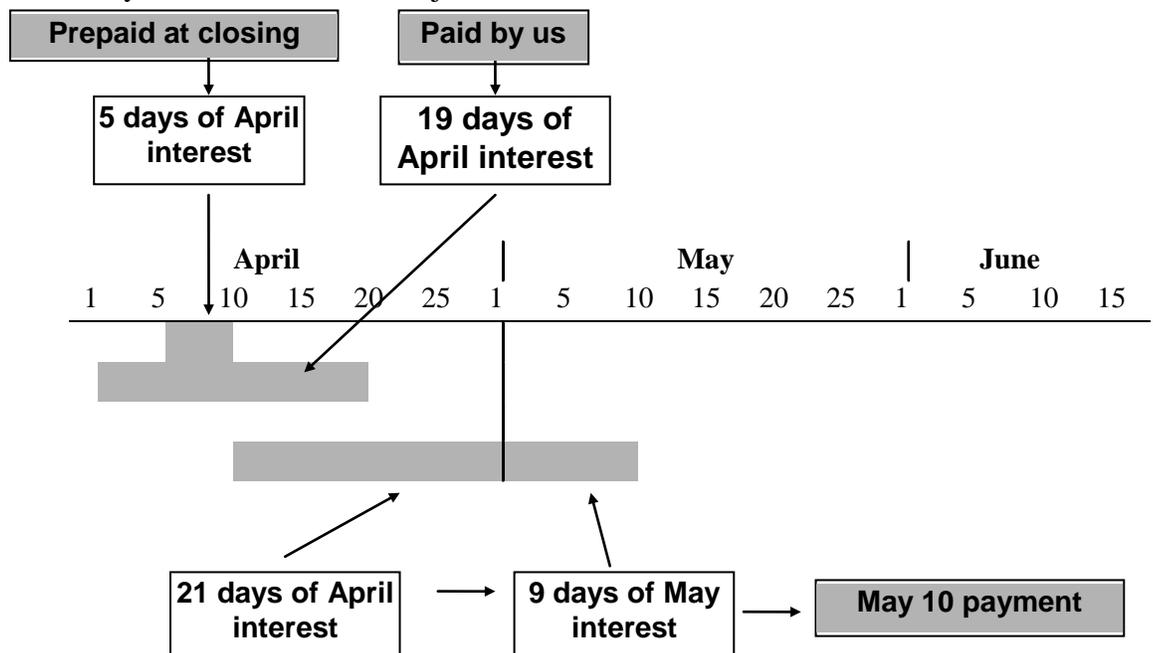
- Calculate the share of the interest not covered by the first payment by subtracting 1 from the payment due date and dividing by 30. For example, if the payment due date is the 10<sup>th</sup> then 9/30ths of the month's interest will not be covered by the first payment, and 21/30ths will.
- The amount correlating to the percentage not covered by the first payment needs to be deposited into the custodial account (9/30ths of the monthly interest in this example).

# Accounting for Odd Due Date Mortgages

## **Example: Odd Due Date Mortgage with Payment Due the Month Following Funding**

Shown below is an example of an odd due date mortgage with a first payment due the month following funding. Statistics for this example are

- The mortgage funded on April 20 and the first payment is due May 10.
- The mortgage originated April 5.
- Nine days of interest must be deposited into the principal and interest account.
- The May 10 mortgage payment includes 9 days of May interest and 21 days of April interest.
- Nine days of interest must be adjusted.



5 days of April interest collected at closing from the borrower  
 + 19 days of April interest collected from us at funding  
 = 24 days of April interest collected

30 days of April interest due to us at the May accounting cycle  
 - 21 days of April interest will be due with the first payment  
 = 9 days of April interest must be deposited into the principal and interest account

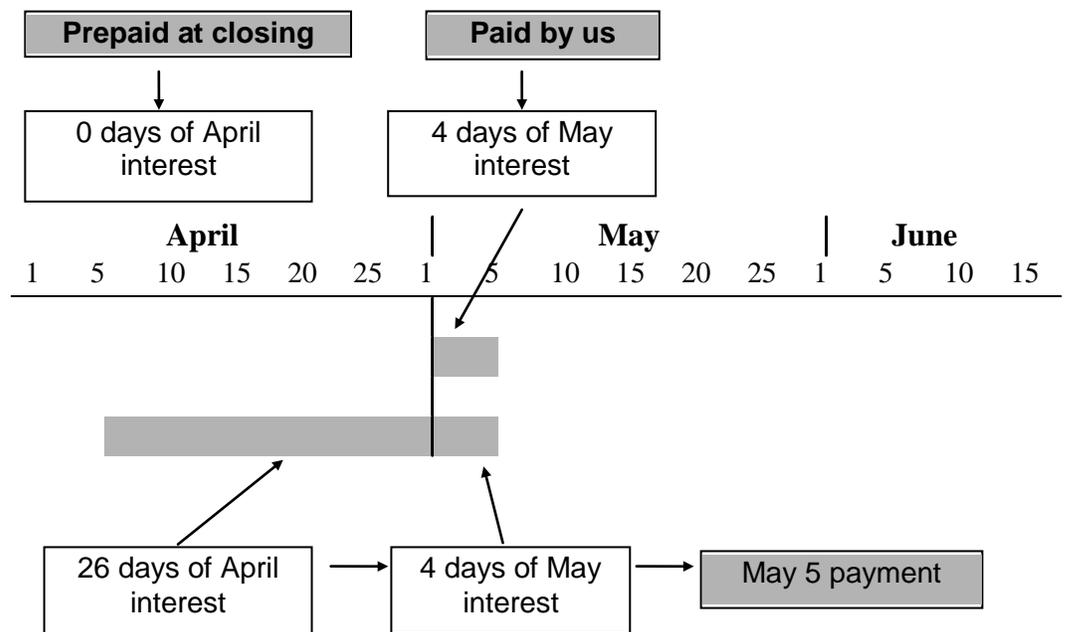
24 days of April interest collected  
 - 9 days of April interest must be deposited into the principal and interest account  
 = **15 days interest income to you**

# Accounting for Odd Due Date Mortgages

## **Example: Odd Due Date Mortgage with First Payment and Funding in the Same Month**

Shown below is an example of an odd due date mortgage for which the first payment and funding occur in the same month. Statistics for this example are:

- The mortgage funded on May 5.
- The first payment is due May 5.
- 26 days of interest must be withdrawn from the principal and interest account (if the May payment is deposited in full).
- The May 5 payment includes 4 days of May interest and 26 days of April interest.
- 26 days of April interest must be adjusted.



4 days of May interest is collected at funding  
+ 4 days of May interest is collected with the May payment  
 = 8 days of May interest collected  
- 4 days of May interest deposited with the May payment  
 = 4 days of interest income to the Servicer

0 days of April interest is due to us  
- 26 days of April interest is due with the May payment  
 = **26 days of April interest must be withdrawn (if the May 5 payment is deposited in full) from the principal and interest account**

# Accounting for Odd Due Date Mortgages

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## Determining Prepaid Interest Collected

The following compares the calculations and time periods for the prepaid interest you collect from the borrower at the time of mortgage origination (settlement) for both first-of-the-month and odd due date mortgages.

### ***Prepaid Interest***

At mortgage origination, interest is collected for the time period beginning with the settlement date up to, but not including, the first payment due date. This is often called prepaid or per diem interest collected at closing. The settlement date and the first payment due dates are used to determine prepaid per diem interest.

### ***Definitions: Settlement Date and First Payment Due Date***

The definitions for settlement date and first payment due date are provided below:

- The settlement date is the date of the mortgage note, also known as the origination date.
- The first payment due date is the date that the borrower's first monthly installment of principal, interest, and, if applicable, escrow is due. This date is documented on the mortgage.

### ***First Payment Due Date for First-of-the-Month Mortgages***

The maximum number of days allowed between mortgage origination and the first payment due date is 62.

First-of-the-month mortgages usually have the first payment due on the first day of the calendar month two months after the origination month.

- Mortgages that originate in April have the first payment due June 1.
- Mortgages that originate in May have the first payment due on July 1.

# Accounting for Odd Due Date Mortgages

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## ***First Payment Due Date for Odd Due Date Mortgages***

The first payment due date for an odd due date mortgage is determined differently than for a first-of-the-month due date mortgage. The first payment due date is based on either the settlement date or a specific calendar date.

If the first payment due date will be on the same calendar date in the following month as the settlement date, the borrower does not have to pay prepaid interest at settlement. The following table provides examples of first payment due dates based on the settlement date.

<b>If a mortgage settles on</b>	<b>Then the first payment is due on</b>
April 5	May 5
April 16	May 16

The following tables provide examples of first payment due dates based on specific calendar dates.

<b>If a mortgage will have payments due on the 10<sup>th</sup> of the month and the mortgage settles on</b>	<b>Then the first payment is due on</b>
April 5	May 10 (June 10 will be past the 62 day maximum)
April 11	June 10
April 21	June 10

<b>If a mortgage will have payments due on the 20<sup>th</sup> of the month and the mortgage settles on</b>	<b>Then the first payment is due on</b>
April 5	May 20
April 11	May 20
April 21	June 20

## Accounting for Odd Due Date Mortgages

### ***Calculating the Amount of Prepaid Interest Collected from the Borrower***

The settlement sheet provided at settlement will list the actual dollar amount of prepaid interest collected from the borrower and the exact dates the interest covers.

Following is the calculation for the amount of prepaid interest to collect from a borrower.

Unpaid principal balance x Note Rate x Number of actual days from settlement to the end of the month (or period not covered by the first payment) ÷ 365

- For a refinance, the calculation uses the number of actual days from settlement to after the rescission date.
- The number of days of prepaid interest should be the number of days from (and including) the settlement date through (and including) the date that is one month and one day before the due date of the first monthly payment, up to but not including the first payment due date.

### ***Prepaid Interest Collected for a First-of-the-Month Due Date Mortgage***

The table below provides examples of the number of days of prepaid interest that are collected for first-of-the-month due date mortgages.

<b>If a loan originates on</b>	<b>And the first payment is due on</b>	<b>Collect interest for</b>	<b>For the period of</b>
April 5	June 1	26 days	April 5 - 30
April 29	June 1	2 days	April 29 - 30
May 5	July 1	27 days	May 5 - 31

### ***Prepaid Interest Collected for an Odd Due Date Mortgage***

The table below provides examples of the number of days of prepaid interest that are collected from the borrower for odd due date mortgages.

<b>If a loan originates on</b>	<b>And the first payment is due on</b>	<b>Collect interest for</b>	<b>For the period of</b>
April 5	May 5	0 days	N/A
April 5	May 19	14 days	April 5 - 18
May 5	July 10	5 days	May 5 - 9

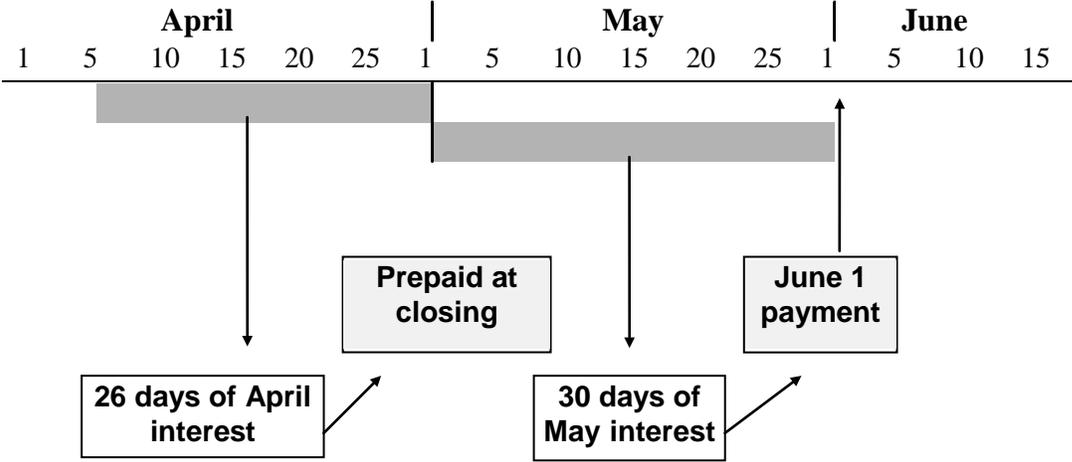
# Accounting for Odd Due Date Mortgages

## Summary

The actual number of days of interest collected will vary depending on the settlement date and the first payment due date.

## Example: First-of-the Month Due Date Mortgage

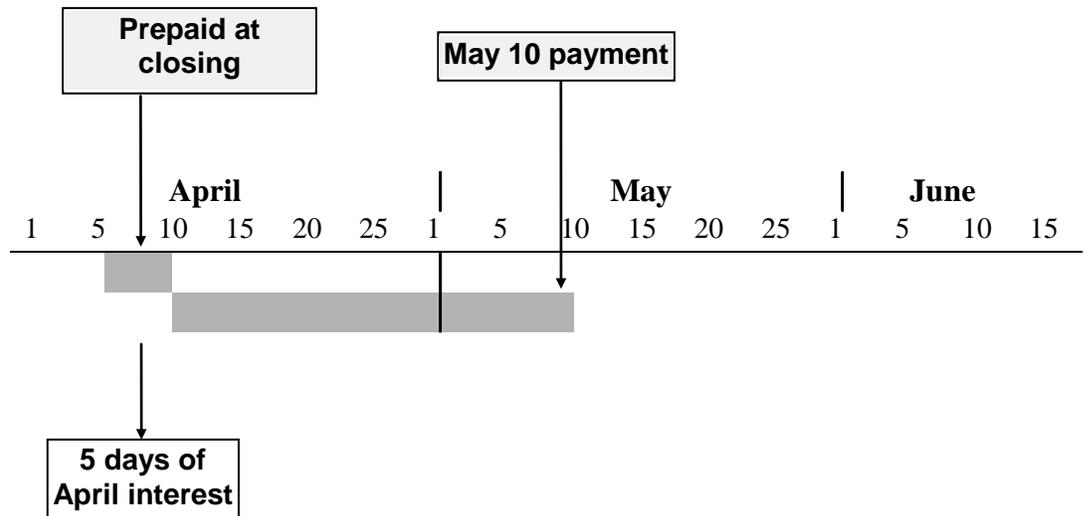
The timeline below shows a first-of-the-month due date mortgage that settles on April 5, with a first payment due on June 1.



# Accounting for Odd Due Date Mortgages

## Example: Odd Due Date Mortgage

The timeline below shows an odd due date payment date that originates on April 5 with a first payment due on May 10<sup>th</sup>.



- Five days of interest were prepaid at closing (April 5 through April 9).
- The May 10 payment includes 30 days of interest from April 10 through May 9.

# Accounting for Odd Due Date Mortgages

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## Determining Monthly Interest

There are differences between the time periods covered by the monthly interest payment and the corresponding interest-paid-to-date for both first-of-the-month due date and odd due date mortgages.

### *Monthly Interest Due from the Borrower*

You calculate monthly interest due from the borrower the same way for both first-of-the-month due date mortgages and odd due date mortgages.

- Monthly interest is calculated based on the balance after applying the previous month's payment.
- The interest in arrears method is used.
- The monthly interest calculation is based on a 360-day year.

The monthly interest calculation is:

$$\text{Unpaid principal balance} \times \text{Interest rate} \div 12$$

### *Time Period Covered by the Monthly Payment*

For both first-of-the-month due date mortgages and odd due date mortgages, monthly interest is calculated using 30 days, regardless of the number of actual days in the time period. For example, monthly interest for February, March, and April is for 30 days each, even though the actual numbers of calendar days are different.

### *Interest Included in the Payment*

The monthly payment includes interest for the calendar month through the day prior to the payment due date.

A payment due on

- May 1 includes interest from April 1 through April 30
- June 1 includes interest from May 1 through May 31
- June 10 includes interest from May 10 through June 9

### *Interest-Paid-Through Date*

The interest-paid-through date on first-of-the-month and odd due date mortgages is the day prior to the due date of the last paid installment. For a first-of-the-month due date mortgage, the interest-paid-through date is the last day of the previous calendar month. For a mortgage with a payment due date of the 10th of the month, the interest-paid-through date is the 9th. For a mortgage with a payment due on the 20th of the month, the interest-paid-through date is the 19th.

# Accounting for Odd Due Date Mortgages

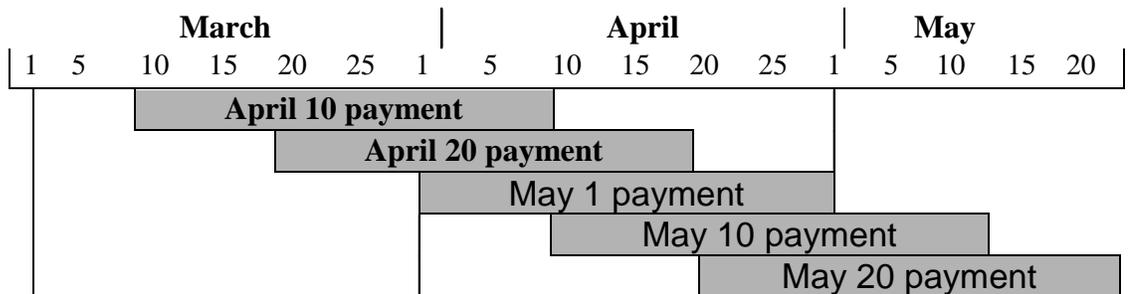
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## **Examples: Differences**

Following are two examples of monthly interest collected for odd due date mortgages. Both mortgages calculate interest for a 30-day period, however one due date is the 10th and one is the 20th of the month. Since interest includes a total of 30 days, some for the previous calendar month and some for the current calendar month, the total monthly interest for a calendar month will be in two payments.

## **Timeline Example**

The following timeline illustrates the different time periods covered by payments with different due dates. The timeline shows the time periods covered for the April and May payments for mortgages with due dates on the 1<sup>st</sup>, 10th and 20th of the month.

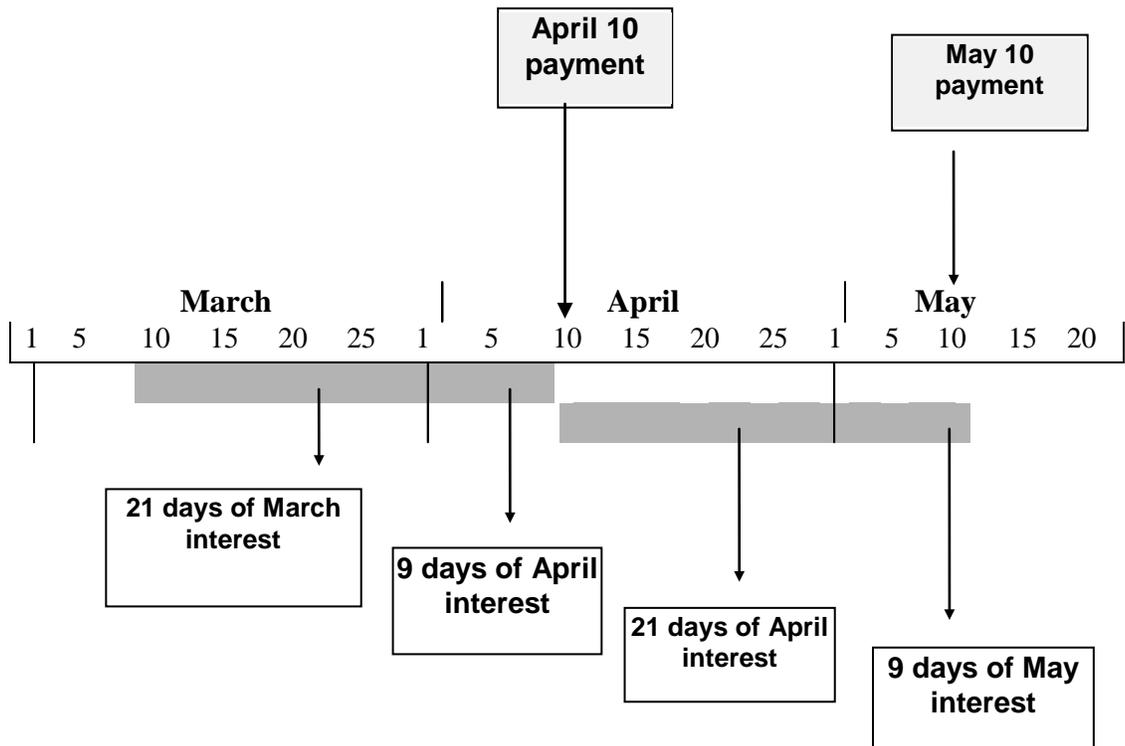


# Accounting for Odd Due Date Mortgages

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## Example: Payment Due on the 10th of the Month

Shown below is a timeline illustrating the time period covered by a borrower's April and May mortgage payments due on the 10<sup>th</sup> of the month.

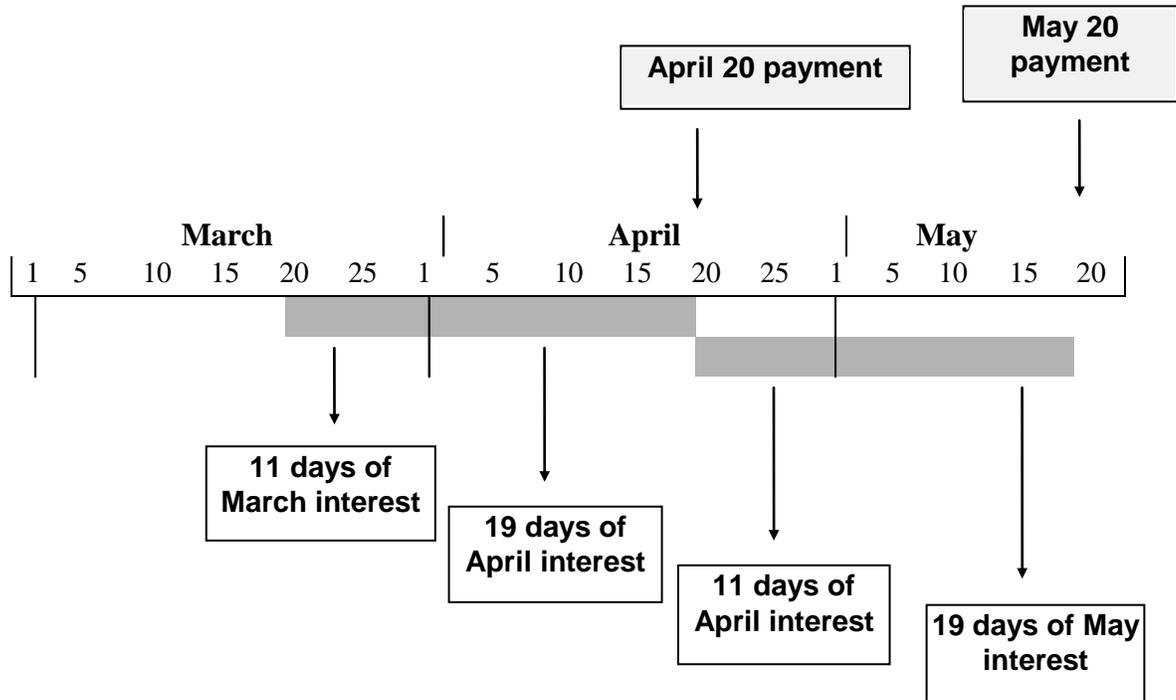


- The April 10 payment includes 21 days of March interest and 9 days of April interest.
- The May 10 payment includes 21 days of April interest and 9 days of May interest.

# Accounting for Odd Due Date Mortgages

## Example: Payment Due on the 20th of the Month

Shown below is a timeline illustrating the time period covered by April and May mortgage payments due on the 20<sup>th</sup> of the month.



- The April 20 payment includes 11 days of March interest and 19 days of April interest.
- The May 20 payment includes 11 days of April interest and 19 days of May interest.

# Accounting for Odd Due Date Mortgages

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## Prepaid and Delinquent Interest Adjustments

This following explains how odd due date mortgages impact delinquent and prepaid interest calculations. Principal is not impacted regardless of the accounting method you use.

### Overview

When you complete the *Principal and Interest Custodial Account Reconciliation Worksheet* you make an adjustment for delinquent and prepaid interest. The adjustment for delinquent interest is necessary because you reported interest that has not been collected. The adjustment for prepaid interest is necessary because you collected interest that has not been reported.

Since the interest due reported to Freddie Mac is based on a first-of-the-month due date, there is a different time period for interest on an odd due date mortgage. This difference requires an adjustment to your account for delinquent and prepaid interest on your *Principal and Interest Custodial Account Reconciliation Worksheet*.

### Two Methods

Listed below are the two ways to account for odd due date mortgages when calculating delinquent and prepaid interest. The first bullet is recommended.

- Splitting the interest between calendar months.
- Assigning the interest to a calendar month.

### Interest Splitting Method

The interest splitting method involves splitting the interest portion of a payment to allocate part of the interest to the previous calendar month and part to the current calendar month. Every odd due date mortgage will always have some delinquent or prepaid interest, even when it is current.

Following is the interest allocation ratio for the current month.

$$(\text{The due date} - 1) \div 30$$

Following is the interest allocation ratio allocated to the previous calendar month.

$$(1 - \text{The current month ratio})$$

## Accounting for Odd Due Date Mortgages

### **Example: Interest Splitting Method**

The table below shows the interest split for payments with due dates of April 10 and April 20. Each portion of the interest is allocated to the applicable month it accrued.

<b>If the due date is</b>	<b>The current month allocation ratio is</b>	<b>The previous month allocation ratio is</b>	<b>The interest split is</b>
April 10	9 days (10-1) divided by 30 $(10-1)/30=9/30$	21 days $1-(9/30)=30/30-9/30=21/30$	9/30ths of the interest is April interest and 21/30ths of the interest is March interest
April 20	19 days (20-1) divided by 30 $(20-1)/30=19/30$	11 days $1-(19/30)=30/30-19/30=11/30$	19/30ths of the interest is April interest and 11/30ths of the interest is March interest

### **Delinquent and Prepaid Adjustment**

The interest portion of a payment received that is allocated to the month of the current cycle cutoff is carried as prepaid interest. The interest portion of a payment not received, that is allocated to the previous calendar month is carried as delinquent interest.

For example, in the April cycle you are reporting March interest. For a first-of-the-month due date mortgage, the entire interest amount is either prepaid or delinquent. When you split the interest for an odd due date mortgage, you have to account for each part of the split according to the calendar month it is for.

### **Example: Payment Received**

Shown below is an example of a payment due in the April cycle with interest received as of the April cutoff.

<b>If the due date of last paid installment is</b>	<b>And, as of the April accounting cutoff, the amount of March Interest received is</b>	<b>Ten the amount of prepaid interest is</b>
April 1	All 30 days	Zero.
April 10	All 30 days, plus 9 days of April interest	9 days. (April interest is not reported until the May cutoff.)

## Accounting for Odd Due Date Mortgages

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### ***Example: Payment not Received***

Shown below is an example of a payment due in the April cycle with all or most of the interest not received as of the April cutoff.

<b>If the due date of last paid installment is</b>	<b>And, as of the April accounting cutoff, the amount of March interest received is</b>	<b>Then the amount of delinquent interest is</b>
March 1	0	30 days. (March interest was reported at the April cutoff.)
March 10	21 days	21 days. (March interest was reported at the April cutoff.)

## Accounting for Odd Due Date Mortgages

### **Example: Next Reporting Cycle's Payment Received as of Cutoff**

Shown below is an example of the interest from the next reporting cycle's payment is received as of the April cutoff.

<b>If the due date of last paid installment is</b>	<b>And interest collected by the April 15th cutoff is</b>	<b>Then the amount of prepaid interest is</b>
May 1	one month of April interest	30 days. (April interest is reported at May cutoff.)
May 10	30 days of April interest, plus 9 days of May interest	39 days. (April interest is reported at May cutoff and May interest is reported at June cutoff.)

### **Field Explanations for Interest Splitting Chart**

The chart below provides explanations for the due date of last paid installment (DDLPI) fields in the Example Interest Splitting Chart shown on the next page.

<b>Field</b>	<b>Explanation</b>
DDLPI is for previous cycle	The payment due in the current cycle was not received as of the accounting cutoff. For example, if it is the April cycle and the due date is the 1 <sup>st</sup> , then the DDLPI is March 1. If the due date is the 10 <sup>th</sup> , the DDLPI is March 10; and if the due date is the 20 <sup>th</sup> , the DDLPI is February 20.
DDLPI is for current cycle	The payment due in the current cycle was received as of the accounting cutoff. For example, if it is the April cycle and the due date is the 1 <sup>st</sup> , then the DDLPI is April 1. If the due date is the 10 <sup>th</sup> , the DDLPI is April 10; and if the due date is the 20 <sup>th</sup> , the DDLPI is March 20.
DDLPI is for next cycle	Payment due in the following cycle was received as of the accounting cutoff. For example, if it is April cycle and the due date is the 1 <sup>st</sup> , then the DDLPI is May 1. If the due date is the 10 <sup>th</sup> , the DDLPI is May 10; and if the due date is the 20 <sup>th</sup> , the DDLPI is April 20.

## Accounting for Odd Due Date Mortgages

### *Interest Splitting Chart Based on DDLPI as of the Accounting Cutoff*

The following chart specifies what the delinquent or prepaid interest due to Freddie Mac would be for each mortgage based on the DDLPI as of the accounting cutoff being reconciled. The monthly interest for each mortgage is based on 30 days.

Due Date	April payment split is		DDLPI is for previous cycle		DDLPI is for current cycle		DDLPI is for next cycle	
	March	April	DI	PPI	DI	PPI	DI	PPI
1	30	0	30	0	0	0	0	30
2	29	1	29	0	0	1	0	31
3	28	2	28	0	0	2	0	32
4	27	3	27	0	0	3	0	33
5	26	4	26	0	0	4	0	34
6	25	5	25	0	0	5	0	35
7	24	6	24	0	0	6	0	36
8	23	7	23	0	0	7	0	37
9	22	8	22	0	0	8	0	38
10	21	9	21	0	0	9	0	39
11	20	10	20	0	0	10	0	40
12	19	11	19	0	0	11	0	41
13	18	12	18	0	0	12	0	42
14	17	13	17	0	0	13	0	43
15	16	14	16	0	0	14	0	44
16	15	15	45	0	15	0	0	15
17	14	16	44	0	14	0	0	16
18	13	17	43	0	13	0	0	17
19	12	18	42	0	12	0	0	18
20	11	19	41	0	11	0	0	19
21	10	20	40	0	10	0	0	20
22	9	21	39	0	9	0	0	21
23	8	22	38	0	8	0	0	22
24	7	23	37	0	7	0	0	23
25	6	24	36	0	6	0	0	24

# Accounting for Odd Due Date Mortgages

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## ***Interest Assigning Method***

The interest assigning method treats a payment due within an accounting cycle as if it were due the first of the month of the accounting cycle cutoff, with the interest for the previous calendar month. When an odd due date mortgage is current, it will not have any delinquent or prepaid interest. The difference in the amount deposited at funding for an odd due date mortgage will not be accounted for with the delinquent and prepaid interest using this method, and must be accounted for separately.

## ***Assigning Interest to a Calendar Month***

When accounting for odd due date mortgages by assigning interest to a calendar month, a payment due within a cycle is treated as being due on the first day of the month of the accounting cycle.

## ***Loans with Payments Due Between the 2<sup>nd</sup> and 15<sup>th</sup>***

For a mortgage with a payment due date between the 2<sup>nd</sup> and the 15<sup>th</sup>, the mortgage is reported as if the due date is the 1<sup>st</sup> of the same month and the interest is for the previous calendar cycle.

### ***Example: April cycle mortgages with payments due between the 2<sup>nd</sup> and 15<sup>th</sup>***

In the April cycle, March interest is reported. A payment due April 10 is treated as a payment due April 1 and is accounted for as March interest.

- For the custodial reconciliation, the interest is considered delinquent if the payment is not collected by the cutoff, and is considered prepaid if the payment due the following month is received by the accounting cutoff.
- A payment due April 10 is treated as delinquent if it is not received by April 15. A payment due May 10 is treated as prepaid if it is received by April 15.

## ***Loans with Payments Due Between the 16<sup>th</sup> and the End of the Month***

For a mortgage with a payment due date between the 16<sup>th</sup> and the end of the month, the mortgage is reported as if the due date is the 1<sup>st</sup> of the following month and the interest is for the same calendar month that the payment is due.

### ***Example: April Cycle - Mortgages with Payments Due Between the 16<sup>th</sup> and the End of the Month***

In the April cycle, March interest is reported. A payment due April 20 is treated as a payment due May 1, and is accounted for as April interest. This is not reported to Freddie Mac until the May cutoff. The payment that was due March 20 was for March interest and is reported to us in April.

## Accounting for Odd Due Date Mortgages

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- For the custodial reconciliation, the interest is considered delinquent if the payment is not collected by the cutoff, and is considered prepaid if the payment due the following month is received by the accounting cutoff.
- A payment due March 20 is treated as delinquent if it is not received by April 15. A payment due April 20 is treated as prepaid if it is received by April 15.

### ***Custodial Account Discrepancies***

The custodial account will stay in balance until a mortgage pays off. The amount of interest collected from a borrower at the time of payoff may be different than the amount of interest due to us. The amount of interest collected depends on the timing of the payment date and the payoff date.

- For mortgages with a payment due date of the 2nd through the 15th, less interest is collected from the borrower than is due to Freddie Mac.
- For mortgages with a payment due date from the 16th through the end of the month more interest will be collected from the borrower than is due to Freddie Mac.

<b>If the previous calendar month includes</b>	<b>Then</b>
30 days	There will be no difference.
31 days	An extra day's interest must be collected.
29 days (leap year)	You will be short one day's interest.
28 days	You will be short 2 day's interest.

## Accounting for Odd Due Date Mortgages

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### ***Determining Interest Collected***

To determine differences in the amount of interest collected, use the calculations provided in the following table.

<b>If the payment due date is</b>	<b>Then use this formula to calculate the interest collected difference:</b>
Between the 2 <sup>nd</sup> - 15 <sup>th</sup> and the payoff is in on or after the due date	<b>1 - Due date = Number of days of difference in collected interest</b>  Note: There will be a shortage.
Between the 2 <sup>nd</sup> - 15 <sup>th</sup> and the payoff is before the due date	<b>1 - Due date + Number of days in previous month - 30 = Number of days of difference in collected interest</b>  Note: There will be a shortage.
After the 15 <sup>th</sup> and the payoff is after the 15 <sup>th</sup>	<b>31 - Due date = Number of days of difference in collected interest</b>  Note: There will be an overage.
After the 15 <sup>th</sup> and the payoff is before the 15 <sup>th</sup>	<b>31 - Due date + Number of days in previous month - 30 = Number of days of difference in collected interest</b>  Note: There will be an overage.

## Accounting for Odd Due Date Mortgages

### Examples: Differences in Interest for Mortgages Due the 2nd - 15th

Refer to the following tables for examples of determining differences in interest collected for mortgages with a due date between the 2<sup>nd</sup> and the 15<sup>th</sup>.

Due date between the 2 <sup>nd</sup> and the 15 <sup>th</sup>	Payoff date on or after the due date	Calculation for the difference in interest collected is: 1 - The due date	Difference in days of interest collected
5 <sup>th</sup>	7 <sup>th</sup>	1-5	(4)
10 <sup>th</sup>	12 <sup>th</sup>	1-10	(9)
15 <sup>th</sup>	15 <sup>th</sup>	1-15	(14)

Due date between the 2 <sup>nd</sup> and the 15 <sup>th</sup>	Payoff date before the due date	Calculation for the difference in interest collected is: (1 - The due date) + (Number of days in the previous month - 30)	Difference in days of interest collected
5 <sup>th</sup>	In March	(1-5) + (28-30)	(4) + (2) = (6)
10 <sup>th</sup>	In March	(1-10) + (28-30)	(9) + (2) = (11)
15 <sup>th</sup>	In March	(1-15) + (28-30)	(14) + (2) = (16)
5 <sup>th</sup>	In March in leap years	(1-5) + (29-30)	(4) + (1) = (5)
10 <sup>th</sup>	In March in leap years	(1-10) + (29-30)	(9) + (1) = (10)
15 <sup>th</sup>	In March in leap years	(1-15) + (29-30)	(14) + (1) = (15)
5 <sup>th</sup>	In Jan., Feb., Apr., June, Aug., Sept., Nov.	(1-5) + (31-30)	(4) + 1 = (5)
10 <sup>th</sup>	In Jan., Feb., Apr., June, Aug., Sept., Nov.	(1-10) + (31-30)	(9) + 1 = (10)
15 <sup>th</sup>	In Jan., Feb., Apr., June, Aug., Sept., Nov.	(1-15) + (31-30)	(14) + 1 = (15)
5 <sup>th</sup>	In May, July, Oct., Dec.	(1-5) + (30-30)	(4) + 0 = (4)

## Accounting for Odd Due Date Mortgages

Due date between the 2 <sup>nd</sup> and the 15 <sup>th</sup>	Payoff date before the due date	Calculation for the difference in interest collected is:  (1 - The due date) + (Number of days in the previous month - 30)	Difference in days of interest collected
10 <sup>th</sup>	In May, July, Oct., Dec.	(1-10) + (30-30)	(9) + 0=(9)
15 <sup>th</sup>	In May, July, Oct., Dec.	(1-15) + (30-30)	(14)+ 0=(14)

### **Examples: Differences in Interest for Mortgages Due After the 15<sup>th</sup>**

Refer to the following tables for examples of determining differences in interest collected for mortgages with a due date after the 15<sup>th</sup>.

Due date after the 15 <sup>th</sup>	Payoff date after the 15 <sup>th</sup>	Calculation for the difference in interest collected is:  31 - The due date	Difference in days of interest collected
16 <sup>th</sup>	17 <sup>th</sup>	31-16	15
20 <sup>th</sup>	22 <sup>nd</sup>	11	(9)
25 <sup>th</sup>	25 <sup>th</sup>	31-25	6

Due date after the 15 <sup>th</sup>	Payoff date is before the 15 <sup>th</sup>	Calculation for the difference in interest collected is:  (31 - The due date) + (Number of days in the previous month - 30)	Difference in days of interest collected
16 <sup>th</sup>	In March	(31-16) + (28-30)	15 + (2) = 13
20 <sup>th</sup>	In March	(31-20) + (28-30)	11 + (2) = 9
25 <sup>th</sup>	In March	(31-25) + (28-30)	6 + (2) = 4
16 <sup>th</sup>	In March in leap years	(31-16) + (29-30)	15 + (1) = 14
20 <sup>th</sup>	In March in leap years	(31-20) + (29-30)	11 + (1) = (10)

## Accounting for Odd Due Date Mortgages

<b>Due date after the 15<sup>th</sup></b>	<b>Payoff date is before the 15<sup>th</sup></b>	<b>Calculation for the difference in interest collected is: (31 - The due date) + (Number of days in the previous month - 30)</b>	<b>Difference in days of interest collected</b>
25 <sup>th</sup>	In March in leap years	$(31-25) + (29-30)$	$6 + (1) = 5$
16 <sup>th</sup>	In Jan., Feb., Apr., June, Aug., Sept, Nov.	$(31-16) + (31-30)$	$15 + 1 = 16$
20 <sup>th</sup>	In Jan., Feb., Apr., June, Aug., Sept, Nov.	$(31-20) + (31-30)$	$11 + 1 = 12$
25 <sup>th</sup>	In Jan., Feb., Apr., June, Aug., Sept, Nov.	$(31-25) + (31-30)$	$6 + 1 = 7$
16 <sup>th</sup>	In May, July, Oct., Dec.	$(31-16) + (30-30)$	$15 + 0 = 15$
20 <sup>th</sup>	In May, July, Oct., Dec.	$(31-20) + (30-30)$	$11 + 0 = 11$
25 <sup>th</sup>	In May, July, Oct., Dec.	$(31-25) + (30-30)$	$6 + 0 = 6$

# Accounting for Odd Due Date Mortgages

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## Determining Daily Interest for Payoffs

This section explains how to identify custodial account differences due to the amount of payoff interest collected for first-of-the-month due date mortgages and odd due date mortgages.

### ***Daily Interest Due from the Borrower***

When a mortgage pays off, interest is collected from, and including, the due date of last paid installment (DDLPI) through the day prior to payoff. Monthly interest is brought current so that the DDLPI is the most recent one before the payoff date. Daily interest is collected from and including the DDLPI to the day prior to the payoff date.

<b>If the time period between the DDLPI and the payoff date is</b>	<b>Then you collect</b>
Less than one month	Daily interest.
Equal to one month (e.g., mortgage pays off on the due date)	Monthly interest.
Greater than one month	Monthly and daily interest.

### ***Time Period of Daily Interest Collected***

You collect interest from the DDLPI through the day prior to the payoff regardless of the payment due date. In turn, the amount of daily interest collected from the borrower will be different for mortgages that have the same payoff date but have different payment due dates.

### ***Daily Interest Collected for Payoffs on or After their Payment Due Date***

For mortgages that pay off on or after their payment due date in the same calendar month, you collect the same number of days of interest for the month of payoff (regardless of the payment due date). For odd due date mortgages, some of the interest for that month will be accounted for as monthly interest instead of daily interest.

The only time you collect a different amount of total interest for an odd due date mortgage is when the mortgage pays off before the due date in the same calendar month, and the previous month did not have 30 days.

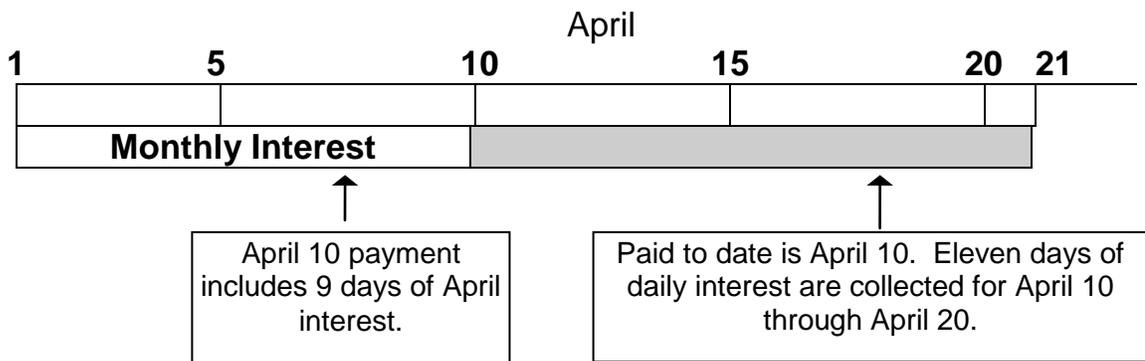
# Accounting for Odd Due Date Mortgages

## Examples: Interest Collected After the Payment Due Date

Shown below are two examples of timelines showing the interest collected for mortgages that pay off after the payment due date.

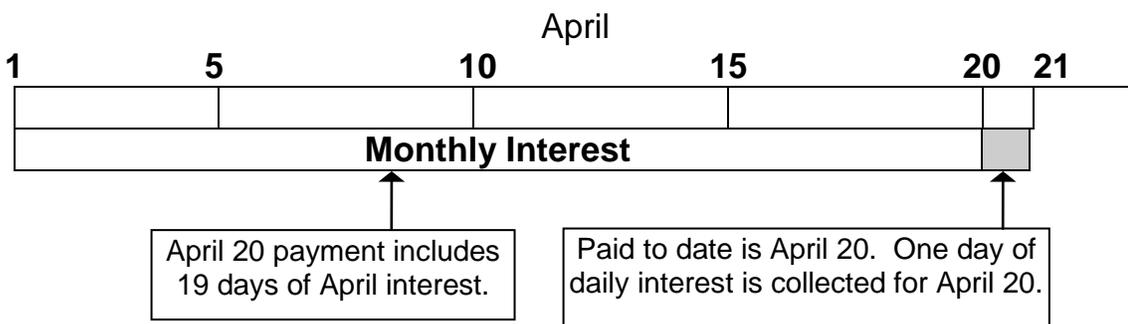
**Example 1** is an odd due date mortgage with payments due on the 10<sup>th</sup> of the month. The mortgage paid off on April 21.

- 9 days of March interest were collected as monthly interest with the March 10 payment.
- 9 days of April interest were collected as monthly interest with the April 10 payment.
- 50 days of total interest were collected for March and April.



**Example 2** is an odd due date mortgage with payments due on the 20<sup>th</sup> of the month. The mortgage paid off on April 21.

- 19 days of March interest were collected as monthly interest with the March 20 payment.
- 19 days of April interest were collected as monthly interest with the April 10 payment.



## Accounting for Odd Due Date Mortgages

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### ***Daily Interest Collected for Mortgages with a Payoff Date Before the Payment Due Date***

When the payoff date for an odd due date mortgage is before the payment due date in the same calendar month, the total amount of interest collected for the preceding calendar month may be different than for a first-of-the-month due date mortgage with the same payoff date. There will always be a difference if the preceding calendar month does not have 30 days. This is because monthly interest is always based on a 30-day month for first-of-the-month due date mortgages, regardless of the actual number of days in the calendar month. For an odd due date mortgage, the part of the preceding calendar month after the payment due date is treated as daily interest instead of monthly interest. So, instead of collecting 30 days of interest for the month, you may collect 31, 29, or 28 days. The number of days of daily interest collected for the payoff month will be the same regardless of the payment due date.

- When an odd due date mortgage pays off before its due date in January, April, June, August, September, or November, the amounts collected for monthly and daily interest for the preceding calendar month will total 31 days, one day more than if it were all monthly interest.
- When an odd due date mortgage pays off before its due date in March, the amounts collected for monthly and daily interest for the preceding calendar month (February) will be 28 days (29 in a leap year), 2 days less than if it were all monthly interest (1 day less in a leap year).

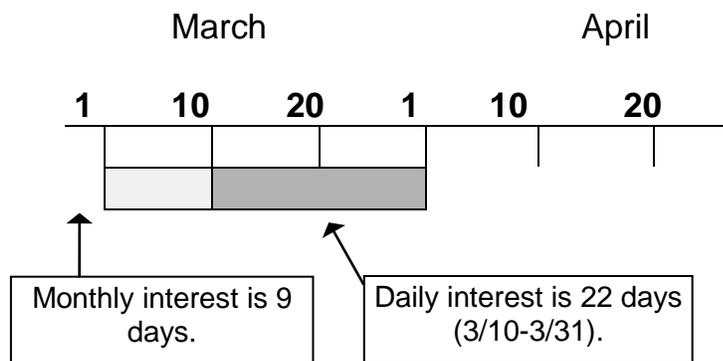
# Accounting for Odd Due Date Mortgages

## Examples: April 1 Payoffs

Shown below are two examples of timelines showing mortgages that paid off on April 1, for which no interest was collected.

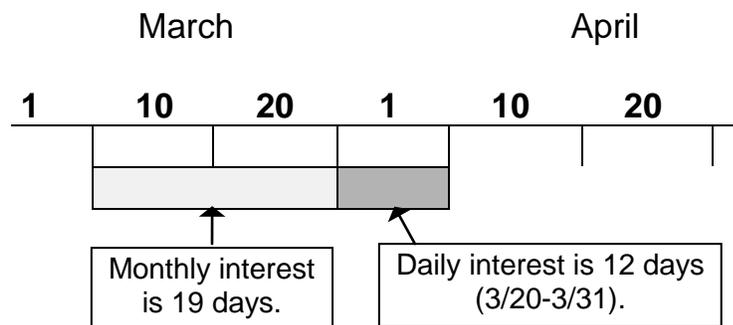
**Example 1** is an odd due date mortgage with payments due on the 10<sup>th</sup> of the month, which paid off on April 1, before the payment due date.

- 9 days of March interest was collected as monthly interest with the March 10 payment.
- 22 days of March interest, collected as payoff daily interest (March 10 - March 31).
- A total of 31 days of March interest was collected.



**Example 2** is an odd due date mortgage with payments due on the 20<sup>th</sup> of the month, which paid off on April 1, before the payment due date.

- 19 days of March interest were collected as monthly interest with the March 20 payment.
- 12 days of March interest were collected as payoff daily interest (March 20-March 31).
- A total of 31 days of March interest was collected.



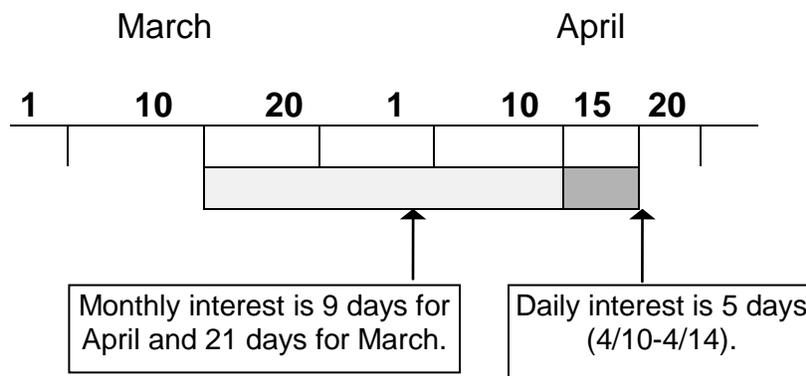
# Accounting for Odd Due Date Mortgages

## Examples: Mortgages that Pay Off on April 15<sup>th</sup>

Shown below are two examples timelines showing mortgages that paid off on April 15<sup>th</sup>, for which 14 days of interest were collected.

**Example 1** is an odd due date mortgage with payments due on the 10<sup>th</sup> of the month. The mortgage paid off on April 15 (after the payment due date), for which 14 days of interest were collected.

- 9 days of March interest were collected as monthly interest with the April 10 payment.
- 21 days of March interest were collected as monthly interest with the March 10 payment.
- A total of 30 days of March interest was collected.
- 9 days of April interest were collected as monthly interest with the April 10 payment.
- 5 days of April interest were collected as payoff daily interest (April 10-April 14).
- A total of 14 days of April interest were collected.
- 44 days of total interest were collected for March and April.

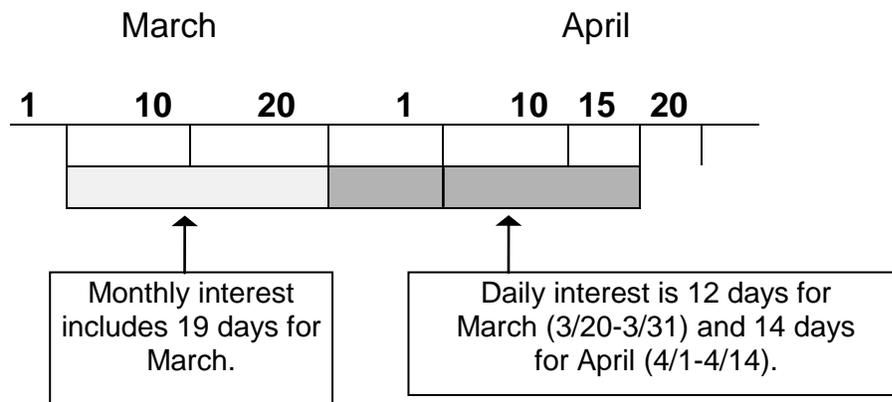


# Accounting for Odd Due Date Mortgages

## Examples, Continued: Mortgages that Pay Off on April 15th

**Example 2** is an odd due date mortgage with payments due on the 20<sup>th</sup> of the month. The mortgage paid off on April 15<sup>th</sup> (after the payment due date), for which 14 days of interest were collected.

- 19 days of March interest were collected as monthly interest with the March 20 payment.
- 12 days of March interest were collected as payoff daily interest (March 20-March 31).
- A total of 31 days of March interest were collected.
- 14 days of April interest were collected as payoff daily interest (April 1-April 14).
- A total of 14 days of April interest was collected.
- 45 days of total interest were collected for March and April.



# Accounting for Odd Due Date Mortgages

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## Review

- A mortgage with payments that are due on any day other than the first day of the month is referred to as an odd due date mortgage.
- A cash flow variance is created by odd due date mortgages since the interest due period is different than for a first-of-the-month mortgage.
- When there is a new funding that is an odd due date mortgage, you must calculate an amount of adjustment to make to your principal and interest custodial account.
- Deposits to the principal and interest custodial account are necessary to cover the amount of interest due Freddie Mac that will not be included in the borrower's next payment.
- Withdrawals are necessary to cover the amount of interest that is NOT due Freddie Mac, which will be included in the borrower's next payment.
- When a mortgage pays off, interest is collected from, and including, the due date of last paid installment (DDLPI) through the day prior to payoff. Monthly interest is brought current so that the DDLPI is the most recent one before the payoff date. Daily interest is collected from and including the DDLPI to the day prior to the payoff date.
- The only time you collect a different amount of total interest for an odd due date mortgage is when the mortgage pays off before the due date in the same calendar month, and the previous month did not have 30 days.

## Accounting for Odd Due Date Mortgages

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# Appendix: Sample Worksheets and Instructions

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# Sample Worksheets and Instructions



## Form 59

		As of	00/15/00
<b>Principal and Interest Custodial Account Reconciliation Worksheet - <i>Monthly Account Statement</i></b>			
Note: Do not enter any data in shaded fields. Values will automatically calculate based on information entered in other fields.			
<b>Seller/Service Number:</b>		<b>Seller/Service Name:</b>	
<b>Section 1 - Adjusted Bank Balance</b>			
1a)	Bank balance as of	(00/15/00)	
	1b) Outstanding debits		
	1c) Deposits in transit		
1)	Adjusted bank balance (lines 1a - 1b + 1c)		0.00
<b>Section 2 - Total Liability</b>			
2)	Ending Balance from the	Monthly Account Statement	
		(Month/Yr)	
<b>Subtract cumulative totals for:</b>			
	3a)	Delinquent interest on active Mortgages	
	3b)	Delinquent interest on inactive Mortgages	
	3c)	Delinquent principal on scheduled/scheduled Mortgages	
3)	Subtotal for delinquent principal and interest (lines 3a + 3b + 3c)		0.00
<b>Add cumulative totals for:</b>			
	4a)	Prepaid interest	
	4b)	Prepaid principal on scheduled/scheduled Mortgages	
	4c)	Minority principal and interest collected but not reported as of	
		(Month/Yr)	
4)	Subtotal for prepaid items (lines 4a + 4b + 4c)		0.00
5)	Total Liability (lines 2 - 3 + 4)		0.00
<b>Section 3 - Total Variance</b>			
6a)	Current cycle's total cumulative variance (line 1 - line 5)		0.00
6b)	Previous cycle's total cumulative variance (line 6a from previous cycle)		
6c)	Total variance for the current cycle (line 6a - line 6b)		0.00

Prepared by : \_\_\_\_\_ Date \_\_\_\_\_

Approved by: \_\_\_\_\_ Date \_\_\_\_\_

**The Principal and Interest Custodial Account Reconciliation Worksheet is a required document. See instructions worksheet for information on completing it. The additional worksheets in this workbook are optional tools to assist you in identifying variances.**

# Sample Worksheets and Instructions

## Instructions for Form 59, Principal and Interest Custodial Account Reconciliation Worksheet—Monthly Account Statement

**Note: This worksheet contains automatically calculating formulas.  
Do not enter any data in shaded fields.**

<b>Section 1 - Adjusted Bank Balance</b>	
1a	Bank Balance: Enter the balance from your Principal and Interest Custodial Account bank statement as of the accounting cycle cutoff. Example: If you are performing April's reconciliation and the April cutoff is the 15 <sup>th</sup> , use the bank balance as of 4/15/XX. Supporting documentation: The current cycle's bank statement to verify the bank balance as of the accounting cycle cutoff.
1b	Outstanding Debits: Enter any outstanding debits initiated as of the accounting cycle cutoff but not reflected on the bank statement until the next Business Day after the cutoff. Examples of valid outstanding debits may include payment reversals for checks returned for non-sufficient funds and recovery of advances. Generally, you should not include any call-in remittances to Freddie Mac initiated as of the accounting cycle cutoff. However, if your system automatically reflects call-in remittances as an outstanding debit, you may include those remittances on this line. This may cause a shortage variance that will clear the next Business Day. Note: You will rarely have an adjustment for outstanding debits. Supporting documentation: The bank statement with all outstanding debits clearly identified.
1c	Deposits in Transit: Enter any deposits made as of the accounting cycle cutoff but not reflected on the bank statement until the next Business Day after the cutoff (or two Business Days after the cutoff for lockbox transactions). Supporting documentation: The bank statement or the monthly collections report with all deposits in transit clearly identified on the statement.
1	Adjusted Bank Balance: Total of lines 1a–1b+1c.
<b>Section 2 - Total Liability</b>	
2	Ending Balance: Enter the ending balance (last line) from the Monthly Account Statement (MAS) for the month being reconciled. Example: If you are performing April's reconciliation, use the MAS for 4/15/XX. Supporting documentation: Final MAS for the month being reconciled.
3a	Delinquent Interest on Active Mortgages: Enter the total cumulative amount of delinquent interest for active Mortgages that has been reported to Freddie Mac and is included in the amount due to Freddie Mac on the MAS but not collected as of the cycle's cutoff. (Do not include repayment plans accounted for as partial reinstatements.) Supporting documentation: The last page of the delinquent interest report. If your system does not generate a delinquent interest report, you may substitute a spreadsheet or handwritten report.
3b	Delinquent Interest on Inactive Mortgages: Enter the total cumulative amount of delinquent interest for inactive Mortgages that has been reported to Freddie Mac and is included in the amount due to Freddie Mac on the MAS but not collected as of the cycle's cutoff. (Do not include repayment plans accounted for as partial reinstatements.) Supporting documentation: The last page of the delinquent interest report. If your system does not generate a delinquent interest report, you may substitute a spreadsheet or handwritten report. Note: If your delinquent interest report does not separate out the delinquent interest on inactive Mortgages, you may report the total amount of delinquent interest on active and inactive Mortgages on line 3a.
3c	Delinquent Principal: Enter the total cumulative amount of delinquent principal for Mortgages reported under the guaranteed Timely Principal and Interest and Super ARC products (scheduled/scheduled reporting methods). This is the amount of delinquent principal passed through to Freddie Mac but not collected as of the cycle's cutoff. Supporting documentation: The last page of the delinquent principal report. If your system does not generate a delinquent principal report, you may substitute a spreadsheet or handwritten report.
3	Subtotal for Delinquent Principal and Interest: Total of lines 3a+3b+3c.
4a	Prepaid Interest: Enter the total cumulative amount of prepaid interest payments collected from Borrowers but not yet reported to Freddie Mac or included in the amount due on the MAS. (Do not include repayment plans accounted for as partial reinstatements.) Supporting documentation: The last page of the prepaid interest report. If your system does not generate a prepaid interest report, you may substitute a spreadsheet or handwritten report.
4b	Prepaid Principal on Scheduled/Scheduled Mortgages: Enter the total cumulative amount of principal reduction prepaid by Borrowers but not yet reported for guaranteed Timely Principal and Interest and Super ARC products (scheduled/scheduled reporting methods). Supporting documentation: The last page of the prepaid principal report. If your system does not generate a prepaid principal report, you may substitute a spreadsheet or handwritten report.

## Sample Worksheets and Instructions

4c	Minority Principal and Interest: Enter the total cumulative amount of minority principal and interest payments collected but not yet posted to the adjustments line on the MAS. If we originally purchased a participation percentage and then later purchased the remaining minority percentage you must remit to us the majority and minority portions separately. The majority portion of the amount due Freddie Mac must be included in the current cycle's reporting and remitting. The minority portion of the funds you receive in the current cycle is not due to us until the last Business Day of the following month's accounting cycle. The funds received for the minority portion are carried as part of your prepaids in the current cycle. The minority billing amounts are sent to you via the Detailed Adjustment Report and the monthly RTC minority Principal and Interest billings. The date at the top of the report must match the cycle date you are reconciling. The amount you must enter appears on the following month's Detailed Adjustment Report. Supporting documentation: Freddie Mac minority principal and interest report.
4	Subtotal for Prepaid Items: Total of lines 4a+4b+4c.
5	Total Liability: The total liability is <u>calculated</u> as follows: line 2: MAS ending balance – line 3: subtotal for delinquent principal and interest + line 4: subtotal for prepaid items = line 5: total liability
<b>Section 3 - Total Variance</b>	
6a	Current Cycle's Total Cumulative Variance: The current cycle's total cumulative variance is calculated by subtracting the total liability in line 5 from the adjusted bank balance in line 1. This amount is the cumulative total of all variance items that have occurred up to the accounting cutoff. Supporting documentation: If there are any variances, you must provide a bank statement or screen print showing verification of the deposit or withdrawal correcting the variances. All variances must be cleared within 90 days of the accounting cycle cutoff, even if the source of the variance has not been identified.
6b	Previous Cycle's Total Cumulative Variance: Enter line 6a from the previous accounting cycle's Principal and Interest Custodial Account Reconciliation Worksheet for the MAS.
6c	Current Cycle's Variance: The total variance for the current is calculated as follows: line 6a: current cycle's total cumulative variance – line 6b: previous cycle's total cumulative variance = line 6c: current cycle's variance. The current cycle's total cumulative variance (line 6a) is the total of all variances that have occurred in the current cycle plus all unresolved previous cycle variances. The current cycle's variance (line 6c) represents how much variance occurred in the cycle being reconciled. Identifying the individual items causing the variance will help you resolve the variance. Publication 173, Understanding Custodial Accounts, provides worksheets and logs for that purpose. Refer to Exhibit 87 for additional Servicer educational materials and information on training courses. Supporting documentation: Variance logs.
<p>Note 1: If there are posting errors, you must attach a copy of the transaction that was made in error together with the documentation for the correcting entry.</p> <p>Note 2: In addition to the supporting documentation identified within this form, Freddie Mac reserves the right, at any time and at its sole discretion, to request copies of any other documentation that it deems necessary to ensure that the custodial account reconciliations are completed in accordance with the requirements set forth in Chapter 8302, Establishing Investor Accounting Functions, and Chapter 8304, Managing Custodial Accounts, of the Single-Family Seller/Servicer Guide.</p>	

# Sample Worksheets and Instructions



## Form 59E

		As of	00/15/00
<b>Escrow Custodial Reconciliation</b>			
<b>Worksheet - Monthly Account Statement</b>			
Note: Do not enter any data in shaded fields. Values will automatically calculate based on information entered in other fields.			
You must complete a consolidated reconciliation if you have more than one Escrow Custodial Account			
<b>Seller/Service Number:</b>		<b>Seller/Service Name:</b>	
<b>Section 1 - Adjusted Bank Balance</b>			
1a)	Bank Balance as of <u>00/15/00</u>		100.00
	1b) Subtract: Outstanding debits		
	1c) Add: Deposits in Transit		
1)	Adjusted bank balance (lines 1a-1b+1c)		100.00
<b>Section 2 - Total Liability</b>			
2a)	Escrow trial balance total as of <u>00/15/00</u>		75.00
<b>Enter cumulative totals for:</b>			
	2b) Negative escrow trial balance as of <u>00/15/00</u>	25.00	
	2c) Adjustments for suspense accounts		
	2d) Adjustments for Mortgages not included on trial		
	2e) Adjustments for other accounts (e.g. buydown subsidies)		
2)	Adjusted escrow balance (lines 2a+2b+2c+2d+2e)		100.00
<b>Section 3 - Total Variance</b>			
3a)	Current cycle's total cumulative variance (line 1 - line 2)		0.00
3b)	<u>Enter</u> previous cycle's cumulative variance (line 3a of previous cycle)		
3c)	Current cycle's variance (line 3a - 3b)		0.00
			overage/(shortage)

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Approved by: \_\_\_\_\_ Date \_\_\_\_\_

**The Escrow Custodial Reconciliation Worksheet is a required document. See Instructions tab for information on completing it. The additional tabs in this workbook are optional tools to assist you in identifying variances.**

# Sample Worksheets and Instructions

## Instructions for Form 59E, Escrow Custodial Account Reconciliation Worksheet

<b>Section 1 - Adjusted Bank Balance</b>	
1a	Bank Balance: Enter the balance from your Escrow Custodial Account bank statement as of the accounting cycle cutoff (usually the 15th day of the month). Example: If you are performing November's reconciliation, use the bank balance as of 11/15/XX. Supporting documentation: The current cycle's bank statement to verify the bank balance as of the accounting cycle cutoff.
1b	Outstanding Debits: Enter the total amount of funds disbursed from the Escrow Custodial Account as of the cutoff but not reflected on the bank statement until the next Business Day after the cutoff. Note: Any disbursement as of the accounting cycle cutoff that is not reflected on the bank statement must be included on this line. Supporting documentation: The bank statement, with all outstanding debits clearly identified.
1c	Deposits in Transit: Enter the total amount of Escrow funds that have been collected as of the accounting cycle cutoff but not reflected on the bank statement until the next Business Day after the cutoff (or two Business Days after the cutoff for lockbox transactions). Supporting documentation: The bank statement or the monthly collections report with all deposits in transit clearly identified.
1	Adjusted Bank Balance: Total of lines 1a–1b+1c.
<b>Section 2 - Total Liability</b>	
2a	Escrow Trial Balance Total: Enter the total of the Escrow balances as reflected on your investor loan trial balance. Ensure that the amount of total Escrow includes all positive balances and excludes negative balances. If your trial balance nets negative Escrow from positive Escrow you may add back the negative Escrow on line 2b. You, as the Servicer, must advance any negative amounts for each individual Borrower the same day the shortage occurs. Supporting documentation: The last page of the trial balance that supports the positive Escrow liability.
2b	Negative Escrow Trial Balance: Add the total amount of negative Escrow balances if your trial balance subtracts ( <u>nets</u> ) them from the total in line 2a. If the Escrow balance total on the trial balance is a "netted" figure, you must add the total amount of any negative Escrow back to the netted Escrow figure to capture the total positive Escrow liability. Supporting documentation: The totals page of the negative Escrow trial balance.
2c	Adjustments for Suspense Accounts: Add your suspense account balances if they are not included in trial balance totals on line 2a. Suspense funds are partial payments or unapplied funds held in the Escrow Custodial Account until the funds are applied to the Mortgage or returned to a Borrower. Supporting documentation: The last page of the trial balance that supports the total suspense liability.
2d	Adjustments for Mortgages Not Included on Trial Balance: Add the Escrow balances of any Mortgages funded by Freddie Mac as of the accounting cycle cutoff, but not included in your trial balance totals on line 2a. Supporting documentation: A screen print of the Mortgage history that verifies the Escrow balance at the time of cutoff, or a spreadsheet with a list of Mortgages and their respective ending positive Escrow balance.
2e	Adjustments for Other Accounts (e.g., Buydown Subsidies): Add the total of your buydown account balances if your trial balance subtracts them from the total on line 2a. The balance of a buydown account must equal the total of buydown funds deposited at the time we purchased the Mortgage, minus the monthly buydown amount, times the number of payments applied since we purchased the Mortgage. Note: If the amount of your buydown liability is negative, determine the reason before you account for a negative liability on Form 59E. Supporting documentation: The last page of the trial balance that supports the total liability for buydown subsidies.
2	Adjusted Escrow Balance: Total of lines 2a+2b+2c+2d+2e.
	Additional required documentation for total liability: For any other funds held on behalf of the Borrower (e.g., replacement reserves), attach the last page of the trial balance to support the itemized amount.
<b>Section 3 - Total Variance</b>	
3a	Current Cycle's Total Cumulative Variance <u>calculated by subtracting line 2 from line 1 (line 1 - line 2)</u> . This is your total cumulative variance for the current cycle. Supporting documentation: If there are any variances, you must provide a bank statement or screen print showing verification of the deposit or withdrawal correcting the variances. All variances must be cleared within 90 days of the accounting cycle cutoff, even if the source of the variance has not been identified.
3b	Previous Cycle's Total Cumulative Variance: Enter the total amount of cumulative variance (line 3a) from the previous cycle's Escrow Custodial Account Reconciliation Worksheet.
3c	Current Cycle's Variance <u>calculated by subtracting line 3b from line 3a (line 3a - 3b)</u> . This is your current cycle's variance (overage/shortage). Supporting documentation: Variance logs.
<p>Note 1: If there are posting errors, you must attach a copy of the transaction that was made in error together with the documentation for the correcting entry.</p> <p>Note 2: In addition to the supporting documentation identified within this form, Freddie Mac reserves the right, at any time and at its sole discretion, to request copies of any other documentation that it deems necessary to ensure that the custodial account reconciliations are completed in accordance with the requirements set forth in Chapter 8302, Establishing Investor Accounting Functions, and Chapter 8304, Managing Custodial Accounts, of the <i>Single-Family Seller/Servicer Guide</i>.</p>	