

Bulletin

NUMBER: 2006-1

TO: All Freddie Mac Sellers and Servicers

February 17, 2006

SUBJECTS

Both Selling and Servicing requirements are amended in this Bulletin.

We are:

- Increasing the maximum LTV/TLTV/HTLTV ratios for Initial InterestSM adjustable-rate Mortgages (ARMs)
- Updating Chapter 22 to reflect additional required lending practice representations and warranties for Mortgages sold to us on and after January 1, 2006, as announced in our *Single-Family Seller/Servicer Guide* (Guide) Bulletin dated December 14, 2005
- Updating requirements for the sale of Class I and Class III Condominium Unit Mortgages to Freddie Mac
- Removing the requirement for specific and express approval to use specific functionality in the Freddie Mac Selling System (Selling System)
- Updating the delivery instructions for nonindividual Borrowers under Section 184 Native American Mortgages
- Announcing a revised Uniform Security Instrument for the State of North Dakota
- Providing additional detail related to use of powers of attorney
- Increasing the frequency of payment of Servicer workout compensation from quarterly to monthly
- Revising and adding information to assist Servicers in managing properties we have acquired as Real Estate Owned (REO)
- Adding two adjustment codes to Exhibit 75, Adjustment Codes for Form 104SF

EFFECTIVE DATES

All of these changes are effective immediately except:

- **April 1, 2006**—For Class I and Class III Condominium Unit Mortgages with applications dated on or after this date, the Freddie Mac Settlement Date must be no more than six months after the Seller's determination that the Condominium Project meets Freddie Mac requirements.

- **July 1, 2006**—The revised North Dakota Uniform Security Instrument must be used for Mortgages originated on or after this date.

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

Selling Changes

Increased maximum LTV/TLTV/HTLTV ratios for Initial Interest ARMs

We are pleased to announce a further enhancement to our Initial Interest ARM product. Effective immediately, we are increasing the maximum LTV/TLTV/HTLTV ratios for Initial Interest ARMs as follows:

- For purchase transaction and “no cash-out” refinance Initial Interest ARMs:
 - ❑ The maximum LTV ratio without secondary financing is increased from 90% to 95%
 - ❑ The maximum LTV ratio with secondary financing is increased from 85% to 90%
 - ❑ The maximum TLTV ratio is increased from 90% to 95%
 - ❑ The maximum HTLTV ratio is increased from 95% to 100%
- For cash-out refinance Initial Interest ARMs:
 - ❑ The maximum LTV ratio without secondary financing is increased from 70% to 75%
 - ❑ The maximum LTV ratio with secondary financing is increased from 65% to 70%
 - ❑ The maximum TLTV ratio is increased from 70% to 75%
 - ❑ The maximum HTLTV ratio is increased from 75% to 80%

Loan Prospector[®] feedback messages will be updated to reflect the increased maximum LTV/TLTV/HTLTV ratios at a later time. Until Loan Prospector is enhanced to support these changes, Sellers may ignore the message in Loan Prospector regarding maximum LTV ratios and may sell the Initial Interest ARM to Freddie Mac as long as the Mortgage meets the requirements in Chapter J33.

Initial Interest ARMs with LTV ratios greater than 90% will be subject to the Adjustable-Rate Mortgage delivery fee and the Initial Interest Mortgage delivery fee. Initial Interest ARMs that are cash-out refinance Mortgages with LTV ratios greater than 70% will be subject to the Cash-Out Refinance Mortgage delivery fees. These delivery fees and all other applicable delivery fees are found in Exhibit 19, Postsettlement Delivery Fees.

We've updated Chapter J33 to reflect these changes. The postsettlement delivery fees stated in Exhibit 19 remain in effect with no changes.

Lending practice representations and warranties

As announced in our Guide Bulletin dated December 14, 2005, we require additional lending practice representations and warranties for Mortgages sold to us on and after January 1, 2006. We have updated Chapter 22 to add new sections reflecting these additional representations and warranties and the requirement that purchase transaction Mortgages with points and fees exceeding the maximums established under the Home Ownership Equity Protection Act of 1994 (HOEPA) are not eligible for purchase by Freddie Mac.

Mortgages secured by units in Class I and Class III Condominium Projects

We have updated the Guide to require that, for a Mortgage secured by a unit in a Class I or a Class III Condominium Project with an application dated on or after April 1, 2006, the Freddie Mac Settlement Date of the Mortgage must be no more than six months after the Seller's determination of project eligibility.

Chapter 42 has been revised to reflect this requirement.

Selling System*Freddie Mac 100 Mortgages*

We are pleased to announce that, effective immediately, Freddie Mac 100 Mortgages are eligible for sale under Best Efforts Contracts (in addition to Mandatory Contracts) under fixed-rate Cash through the Selling System. We have updated Chapter 17 to reflect this change.

Use of Selling System functionality

We have updated the Guide to remove the requirement that the Seller must receive Freddie Mac's specific and express approval in order to use specific functionality in the Selling System. A Seller selling Mortgages to Freddie Mac through the Selling System may use whatever functionality Freddie Mac makes available to that Seller. Chapters 12, 15, A15, B15, C15 and D15 have been revised to reflect this change.

Nonindividual Borrowers

We've updated the Form 11, Mortgage Submission Schedule, delivery instructions for nonindividual Borrowers under Section 184 Native American Mortgages to require that loans originated to nonindividual Borrowers be coded "purchase (investment property)" in the Purpose of Loan code field and that the First-Time Homebuyer code field be left blank. We've revised Chapter 17 to include these changes.

Revised North Dakota Uniform Security Instrument

The Fannie Mae/Freddie Mac Uniform Security Instrument for North Dakota, Form 3035 dated 1/01 (rev. 12/05), has been revised to reflect the recent repeal of the Short-Term Mortgage Redemption Act. The revised North Dakota Uniform Security Instrument may be used immediately; however, the revised form must be used with Mortgages originated on or after July 1, 2006.

Powers of attorney

We have provided more detail regarding when a power of attorney may be used. We will also now require that if a power of attorney is used, the Mortgage must be covered by a title insurance policy.

We've revised Chapters 16 and 39 to reflect this information.

Servicing Changes

Compensation program

We're pleased to announce that we will now pay Servicer workout compensation more frequently—on a monthly, rather than a quarterly, basis. Chapter 65 has been revised to reflect this change.

REO properties

We've revised and added information in Chapter 70 to assist Servicers in managing properties that are in REO.

Adjustment codes for Form 104SF

We've added two adjustment codes to Exhibit 75, Adjustment Codes for Form 104SF, to reflect current practices and updates made to the Expense Reimbursement System.

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


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

- Chapters 12, 15, A15, B15, C15, D15, 16, 17, 22, 26, J33, 39, 42, 44, 46, 48, 55, 65, B65 and 70
- Exhibits 4, 5, 11, 74 and 75

CONCLUSION

We believe that these changes support Freddie Mac's commitment to making the mortgage finance process simpler and more efficient. If you have any questions about the changes announced in this Bulletin, please call your Freddie Mac Account Manager or (800) FREDDIE.

Sincerely



James J. Cotton
Vice President
Single-Family Marketing

Exhibit A

Highlights of Revisions in this Package

Bulletin 2006-1 incorporates changes to the following documents of the *Single-Family Seller/Servicer Guide* (Guide):

Chapters

- **Chapter 12**—Master Agreements and Master Commitment Contracts—Removes the requirement that the Seller obtain Freddie Mac’s specific and express approval to use specific Selling System functionality.
- **Chapter 15**—Special Requirements for Selling Mortgages Through the Freddie Mac Selling System—Removes the requirement that the Seller obtain Freddie Mac’s specific and express approval to use specific Selling System functionality.
- **Chapter A15**—WAC ARM Cash—Removes the requirement that the Seller obtain Freddie Mac’s specific and express approval to submit offers under WAC ARM Cash through the Selling System.
- **Chapter B15**—Fixed-Rate Guarantor Program Through the Selling System—Removes the requirement that the Seller obtain Freddie Mac’s specific and express approval to submit offers under the fixed-rate Guarantor program through the Selling System.
- **Chapter C15**—WAC ARM Guarantor Program Through the Selling System—Removes the requirement that the Seller obtain Freddie Mac’s specific and express approval to submit offers under the WAC ARM Guarantor program through the Selling System.
- **Chapter D15**—MultiLender Swap Program Through the Selling System—Removes the requirement that the Seller obtain Freddie Mac’s specific and express approval to submit offers under the MultiLender Swap program through the Selling System.
- **Chapter 16**—Documentation Delivery—Adds language (i) to state that a Note, Security Instrument and other closing documents may be executed under a power of attorney in a hardship or emergency situation and (ii) to require that, if a power of attorney is used, the Mortgage be covered by a title insurance policy.
- **Chapter 17**—Mortgage Delivery and Settlement Processing—Updates delivery instructions for nonindividual Borrowers under Section 184 Native American Mortgages to require (i) loan purpose code 3, indicating purchase (investment property), and (ii) code “blank” for a First-Time Homebuyer. Revises a cross-reference to Chapter 44. Updates language to delete the requirement that Freddie Mac 100 Mortgages be sold only under Mandatory Cash Contracts under fixed-rate Cash through the Selling System.

- **Chapter 22**—General Mortgage Eligibility—Updates language to reflect the additional required lending practice representations and warranties for Mortgages sold to Freddie Mac on and after January 1, 2006. Adds language regarding ineligibility for sale of purchase transaction Mortgages with points and fees exceeding Home Ownership Equity Protection Act of 1994 (HOEPA) maximums.
- **Chapter J33**—Initial InterestSM Mortgages—Increases the maximum LTV/TLTV/HTLTV ratios for Initial Interest adjustable-rate Mortgages.
- **Chapter 39**—Title Insurance—Revises language to require a title insurance policy for Mortgages executed using a power of attorney.
- **Chapter 42**—Special Warranties for Condominiums—Updates language to require that, for a Mortgage secured by a unit in a Class I or Class III Condominium Project with an application dated on or after April 1, 2006, the Freddie Mac Settlement Date must be no more than six months after the Seller's determination that the Condominium Project meets Freddie Mac requirements.
- **Chapter 65**—Loss Mitigation—Revises language to reflect the increased frequency with which Freddie Mac will pay workout compensation to Servicers.
- **Chapter 70**—REO—Revises and adds information to assist Servicers in managing properties that are in REO.

Exhibits

We've revised the following exhibits:

- **Exhibit 4**—Single-Family Uniform Instruments
- **Exhibit 5**—Authorized Changes to Notes, Riders, Security Instruments and the Uniform Residential Loan Application
- **Exhibit 74**—Expense and Income Codes for Form 104SF
- **Exhibit 75**—Adjustment Codes for Form 104SF

We've deleted the following exhibit:

- **Exhibit 11**—Condo Warranty Certification