

Bulletin

NUMBER: 2002-3

TO: All Freddie Mac Sellers and Servicers

April 5, 2002

The Freddie Mac logo consists of the words "Freddie" and "Mac" stacked vertically. To the left of the text is a thick black horizontal bar. Below the text are five thin horizontal lines of varying lengths, creating a stylized graphic element.

SUBJECTS

Requirements amended in this Bulletin:

- Selling and Servicing

Freddie Mac is:

- Revising Balloon/Reset Mortgage documentation requirements to permit a Seller to modify the “no other liens” reset condition for Balloon/Reset Mortgages originated with secondary financing meeting *Single-Family Seller/Servicer Guide* (Guide) requirements
- Revising the Loan Prospector billing payment process to change the payment cycle and require remittance of payment via Automated Clearing House (ACH) drafting
- Reducing the amount of documentation required from a Borrower who received a loan modification under our loan modification program and subsequently becomes delinquent on the modified Mortgage
- Updating and relocating our ARM conversion process requirements
- Revising requirements regarding REO Manager and Custodial Account remittances

EFFECTIVE DATES

All of these changes are effective immediately with the following exceptions:

- August, 2002 - the change to the Loan Prospector payment cycle will be effective for fees and reimbursable expenses incurred in July, 2002 and billed in August, 2002
- January, 2003 - the requirement for remitting payment of the Loan Prospector bill via ACH is mandatory for Loan Prospector billing statements mailed in January, 2003.

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

Balloon/Reset Mortgages Changes

As part of the expansion of the Guide announced in March, 2000, we revised Section 33.2 to permit Sellers to originate 5- and 7-year Balloon/Reset Mortgages with secondary financing meeting certain conditions. We are now updating Section 33.3 of the Guide to allow Sellers to modify the "no other liens" reset condition in the Balloon Note Addendum and Balloon Rider for Balloon/Reset Mortgages originated with secondary financing meeting the requirements of Section 33.2 of the Guide.

Servicing requirements for Balloon/Reset Mortgages remain unchanged, except that if secondary financing still exists at the time of reset, the Borrower will be considered an Eligible Borrower if the secondary financing met the Section 33.2 requirements. We will update Chapter 83 to reflect this change later this year.

In addition, we are revising Section 33.3 to state that Balloon/Reset Mortgages originated using the Fannie Mae Balloon Note Addendum and the Balloon Rider with tagline 1/01 (rev. 9/01) are *not* eligible for delivery to Freddie Mac. Freddie Mac will continue to purchase Balloon/Reset Mortgages originated on Fannie Mae instruments with the 1/01 (no revision date) tagline as provided in Section 33.3.

Changes to Loan Prospector Billing Payment Process and Loan Prospector User Agreement

Payment Cycle Change

We are making some changes to our Loan Prospector billing payment process. Effective with July 2002 billing activity, Loan Prospector fees and reimbursable expenses will be due and payable on the last Business Day of the month following the month in which the fees are incurred, reflecting a 30-day payment cycle. We will continue to send you a billing statement by the 10th day of each month for charges incurred the preceding month. The amount of the bill will be due on the last Business Day of the month in which the billing statement is sent.

As noted above, this change is effective with the Loan Prospector fees and expenses incurred during the month of July ,2002 and billed in August.This means that the payment for June fees and charges will be due August 15th and the payment for July fees and charges will be due August 30th. Depending on when you pay your June bill, you may be remitting two payments in the month of August.

ACH Drafting

We are also changing the way you must remit payment of your Loan Prospector bill to us. Effective January, 2003, we will require you to remit payment of your monthly Loan Prospector bill via an Automated Clearing House (ACH) draft. When you receive your billing statement, you should review it immediately and promptly contact us at 800-FREDDIE if you have any questions. We will submit an ACH draft on the last Business Day of each month for the amount of your statement. You must ensure there are sufficient funds in the draft account to cover the amount due.

To establish your ACH draft account you must:

- Complete new Form 1132LP, Authorization for Automatic Transfer of Funds for Loan Prospector Billing Statement, and return it to us no later than December 16, 2002.
- Designate a Demand Deposit Account other than a Custodial Account as your ACH draft account.

Existing Loan Prospector Users

If you are not already remitting via ACH, we encourage you to submit the necessary documentation to establish your ACH draft account as soon as possible. Upon receipt of the documentation, we will notify you of the first month in which we will begin processing your payment via an ACH draft, which will be no earlier than 15 Business Days after we receive the Form 1132LP. By January 31, 2003, Freddie Mac will draft all Loan Prospector Users via ACH for payment of Loan Prospector fees and reimbursable expenses.

New Loan Prospector Users

If you are not already a Loan Prospector User, but begin using Loan Prospector after April 5, 2002, you will be required to remit via ACH draft effective the first month in which you incur Loan Prospector fees and expenses.

Background

We are implementing this change in order to make the payment process more efficient for you and us. The ACH payment method lowers the overall cost of paying fees, reduces the payment cycle time and eliminates the risk of lost checks and finance charges for late or lost checks. Many of you have already taken advantage of the ACH payment option and have enjoyed the benefits and convenience of having your payments automatically drafted by us each month.

In conjunction with these changes, effective immediately, we are moving the provisions relating to payment terms for Loan Prospector fees and expenses to Exhibit 15, "Loan Prospector User Agreement", from Exhibit 18, "Loan Prospector Price Structure", and revising those provisions to reflect the new payment cycle and ACH requirements.

Loan Purpose Code 4

To avoid error messages during delivery, we're reminding Seller/Servicers delivering a refinance Mortgage secured by a second home (indicated by Loan Purpose Code 4 on the Form 11-Mortgage Submission Schedule, or Form 13SF- Mortgage Submission Voucher, as applicable) to also indicate whether the refinance is a "no cash-out" or "cash-out" transaction by inserting special characteristics code "007" or "003," as applicable. We have updated Forms 11 and 13SF to add this reminder.

Loan Modification Change

A Borrower who has received a loan modification under our loan modification program and subsequently becomes delinquent on the modified Mortgage may be eligible for another alternative to foreclosure. The Borrower does not have to provide you with evidence of his or her involuntary inability to pay the Mortgage as long as

1. The reason for default you reported to us via Electronic Default Reporting (EDR) has not changed and
2. 12 months have not elapsed since the date the Mortgage was modified.

All other requirements remain unchanged. We will be updating related Guide sections to reflect this change later this year.

Convertible ARMs

For Convertible ARMs owned by Freddie Mac, the telephone number you use to notify us that a Borrower has exercised his or her option to convert to a fixed rate has been changed to 703-760-2181. In addition, our requirements for the conversion process are being updated and relocated from Chapter 31 of Volume 1 to Chapter 80 of Volume 2 of the Guide. Directories 11 and 20 are being updated to reflect the change.

Custodial Account Remittances

The Guide currently instructs Servicers to send Custodial Account remittances to their Investor Accounting Analyst until they receive confirmation from us that they must begin using the telephonic cash remittance system. Effective immediately, you must now send such remittances to our lockbox address found in Directory 19. Also, as a reminder, Servicers must insert their Seller/Servicer number on the check to ensure proper application of funds.

We have updated Chapter 77 and Directory 19 to reflect this change.

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

Descriptions of all new or revised Guide chapters are located in Exhibit A of this Bulletin. The revisions include:

- Chapters 2, 4, 8, 18, 31, 33, 44, 46, 70, 71, 77, 78, 80
- Exhibits 4, 5, 15, 18, 28, 79
- Forms 11, 13SF, 15, 16SF, 1107SF and new Form 1132LP
- Directory

We've highlighted the changes on these pages by placing an arrow in the margin and double underscoring the revised text. Please follow the instructions on the page before the replacement pages so that you can update your Guide correctly.

CHANGE OF ADDRESS

We want to ensure that our Guide Bulletins and Industry Letters are being received by those who need them and that you are receiving the correct amount of copies. If there has been a change in your address, Guide point of contact or in the number of copies you need, please visit our website at: <http://www.freddiemac.com/sell/single/getguide.htm> or call (800) FREDDIE.

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,



Paul T. Peterson
Executive Vice President, Single-Family Group

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Exhibit A

Highlights of the Revisions in this Package

Bulletin 2002-3 incorporates changes to the following Chapters, Exhibits, Forms, Glossary and the Directory of the *Single-Family Seller/Servicer Guide* (Guide).

- **Chapter 2 - General Freddie Mac Policies**– Adds language regarding the payment of Loan Prospector fees.
- **Chapter 8 – General Purchase Program Requirements and Characteristics** – Adds language regarding the payment of Loan Prospector fees as not being subject to the general provisions of Section 8.8.2 regarding ACH drafting.
- **Chapter 31 – Special Eligibility Requirements for Convertible ARMs** – Removes Sections 31.6 through 31.8 and moves them to Chapter 80.
- **Chapter 33 – Special Eligibility Requirements for Balloon/Reset Mortgages** – Adds language to permit modification of the “no other liens” reset condition for Balloon/Reset Mortgages originated with secondary financing meeting certain conditions.
- **Chapter 46 – Freddie Mac’s Postfunding Quality Control Review** – Revises a cross-reference.
- **Chapter 70 – REO** – Adds language regarding keeping abreast of REO status.
- **Chapter 71 – Reimbursement of Expenses** – Adds language regarding keeping abreast of REO status.
- **Chapter 78 – Reporting and Remitting Requirements** – Adds language regarding the inclusion of the Seller/Servicer number on checks that are sent to Freddie Mac.
- **Chapter 80 – Special Reporting Requirements for Adjustable Mortgages** – Adds and revises language that was previously in Chapter 31 regarding the conversion process for Convertible ARMs.

Exhibits

We have revised the following exhibits:

- **Exhibit 4 – Currently Acceptable Single-Family Mortgage Documents**
- **Exhibit 5 – Authorized Changes to Notes, Riders and Security Instruments**
- **Exhibit 15 – Loan Prospector User Agreement**

- **Exhibit 18 – Loan Prospector Price Structure**
- **Exhibit 28 – Loan Servicing Purchase and Sale Agreement**
- **Exhibit 79 – Designated Litigation Counsel/Trustee**

Forms

We have revised the following forms:

- **Form 11– Mortgage Submission Schedule**
- **Form 13SF – Mortgage Submission Voucher**
- **Form 16SF – Annual Eligibility Certification Report**
- **Form 1107SF – Seller/Servicer Change Notification Form**

We've added the following form:

- **Form 1132LP – Authorization for Automatic Transfer of Funds Through Automated Clearing House (ACH) for Loan Prospector**

Directory

We've revised the following Directories:

- **Directory 11**
- **Directory 17**
- **Directory 19**
- **Directory 20**