
TO: All Freddie Mac Sellers and Servicers

May 30, 2006

SUBJECT: Revised property and flood insurance deductibles for Mortgages sold to and serviced for Freddie Mac

As announced at the Mortgage Bankers Association's National Secondary Conference and Expo on May 8, Freddie Mac is increasing property insurance deductibles for 1- to 4-unit properties; changing property insurance deductibles for Planned Unit Developments (PUDs), ground lease communities and condominiums; and changing the flood insurance deductible for condominiums.

EFFECTIVE DATE

These changes are effective immediately.

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

Seven of the 12 costliest insured disasters in United States history have occurred in the past two years. With the 2006 hurricane season now upon us, home insurers have been reevaluating and, in many cases, reducing their exposure in coastal areas. To help more Borrowers qualify for access to lower Mortgage rates through the Mortgages we purchase, Freddie Mac is revising its deductible requirements as described in this Bulletin.

With this Bulletin, we are announcing the following changes:

- **For 1- to 4-unit properties, the deductible for fire, water (not caused by flooding) or wind loss may not exceed 5% of the limit maintained for dwelling coverage.** If there is a single deductible under a Borrower's homeowner policy for all of these perils, then the deductible for that policy is subject to the 5% limitation. If there are separate deductibles for loss from named perils such as fire, water (not caused by flooding) or wind, each such deductible may not exceed 5% of the limit maintained for dwelling coverage. This is an increase from our existing requirement that the deductibles not exceed the higher of \$2,000 or 2% of the policy's insurance limit for windstorm or hail losses, or \$1,000 or 1% of the policy's insurance limit for all other covered losses, respectively. We are also identifying, in *Single-Family Seller/Servicer Guide* (Guide) Section 58.2, the perils we expect to be included in extended coverage, which is the minimum insurance coverage we require in addition to fire coverage. Extended coverage includes coverage for loss from any of the following perils: windstorm, hail, explosion, riot, civil commotion, damage by aircraft, damage by vehicles and damage by smoke. If any of the preceding perils (e.g., windstorm) is excluded from the primary insurance policy, coverage of the excluded peril must be picked up through a secondary insurance policy such as may be written by a state insurance pool under Guide Section 58.1(c) (number 4).
- **For PUDs, ground lease communities and condominiums, there may be a separate deductible for fire, water (not caused by flooding) or wind loss and each such deductible may not exceed 5% of the limit maintained for building coverage.** If there is a single deductible for all of these perils, that deductible is subject to the 5% limitation. Effective immediately, Freddie Mac no longer requires that there be a single, all-risk deductible prefunded by reserves that is equal to the lower of \$10,000 or 1% of the building coverage limit.

- **For condominiums, the deductible under a condominium owners association's flood insurance policy may not exceed the maximum deductible amount currently allowed under the National Flood Insurance Program (NFIP).** We have removed the provision allowing the flood insurance deductible to be as high as the association can fully prefund by deductible-dedicated reserves or any other financing method that is documented in the governing documents and budget.

The insurance requirements set forth in the Guide, as modified by this Bulletin, must be met at the time a Mortgage is sold to Freddie Mac and continually thereafter for as long as Freddie Mac owns an interest in the Mortgage.

REVISIONS TO THE GUIDE

The changes in this Bulletin affect Guide Chapter 58, which will be updated in a future Bulletin.

CONCLUSION

The revised Guide requirements are the result of requests from our Seller/Serviceicers, changes in the market and recent natural disasters. We encourage our Seller/Serviceicers to work with Borrowers to ensure that they fully understand their options and the effect of deductibles on their potential insurance recoveries.

For answers to questions about the requirements contained in this Bulletin, Freddie Mac Seller/Serviceicers should call their Freddie Mac Account Manager or (800) FREDDIE.

Sincerely,



James J. Cotton
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Single-Family Marketing