

Bulletin

NUMBER: 2006-5

TO: All Freddie Mac Sellers and Servicers

December 15, 2006

SUBJECTS

Both Selling and Servicing requirements are amended in this Bulletin.

With this *Single-Family Seller/Servicer Guide* (Guide) Bulletin, we are making the following changes to our selling requirements:

- Updating the Guide to reflect the maximum original loan amounts for Mortgages eligible for sale to Freddie Mac effective January 1, 2007
- Introducing more flexible minimum Borrower Contribution requirements for Freddie Mac 100 Mortgages
- Revising the Guide to permit Borrowers to use credit cards or cash advances on a revolving charge account or unsecured line of credit to pay certain Mortgage origination fees and costs; requiring the delivery of SCC 921 when these Mortgages are sold to Freddie Mac
- Updating our requirements for the treatment of a gift, including a gift of Equity, provided by a Related Person who is also the property seller
- Reminding Sellers that Mortgages with interested party contributions must meet our appraisal and underwriting requirements, and advising them of our intent to monitor these Mortgages more closely
- Expanding on our July 21, 2006 Industry Letter to provide further guidance regarding ineligible Condominium Projects
- Making minor changes to Condominium Project review requirements
- Providing additional direction regarding which secondary financing terms must be provided to appraisers
- Updating LTV, TLTV and HTLTV ratio limits for streamlined refinance 40-year fixed-rate Mortgages
- Making minor changes to the scope of our antipredatory lending provisions
- Providing additional instructions relating to Borrower reserve requirements for Investment Property Mortgages
- Revising contact information on Form 996, Warehouse Lender Release of Security Interest

We are making the following changes to our selling and Servicing requirements:

- Updating existing Seller/Servicer obligations to comply with all applicable laws and regulations by adding a specific reference to compliance with Office of Foreign Assets Control (OFAC) regulations

We are making the following changes to our Servicing requirements:

- Revising the default management section of the Servicer Performance Profile
- Eliminating our technology incentive compensation for electronic foreclosure referrals
- Increasing Servicer compensation for repayment plans
- Requiring Servicers to obtain Freddie Mac approval before advancing payment of tax, insurance and property preservation expenses for delinquent low balance Mortgages
- Eliminating the Borrower's Social Security Number as a required data element on Form 1066, SCRA Accounting Data Form
- Emphasizing that, unless a Servicer is instructed otherwise, Freddie Mac will conduct eviction proceedings on Real Estate Owned (REO) properties
- Adding a new expense code to Exhibit 74, Expense and Income Codes for Form 104SF, and Exhibit 57, 1- to 4- Unit Property Approved Expense Amounts, to facilitate the reimbursement of Servicers for inspection fees paid by the mortgage insurer
- Updating contact information for several designated counsel firms listed in our Designated Counsel List, formerly Guide Exhibit 79

EFFECTIVE DATES

All of these changes are effective immediately except:

- **January 1, 2007**
 - Seller/Servicers may deliver Mortgages up to the 2007 loan limits to Freddie Mac on and after this date. Mortgages up to the 2007 loan limits that are sold through the Selling System may have Funding and Settlement Dates on and after this date.
 - The changes to the scope of our antipredatory lending provisions that more accurately reflect regulatory requirements are effective for Mortgages sold to Freddie Mac on or after this date
 - The revised default management section of the Servicer Performance Profile becomes effective on this date
 - Our technology incentive compensation for electronic foreclosure referral is eliminated and our Servicer repayment plan compensation is increased on this date
 - Servicers must obtain Freddie Mac approval before advancing payment of tax, insurance or property preservation expenses on Mortgages with unpaid principal balances of \$5,000 or less that are 120 days or more delinquent effective as of this date
- **January 31, 2007**—The updated LTV/TLTV/HTLTV limits announced in this Bulletin apply to Manually Underwritten 40-year fixed-rate streamlined refinance Mortgages with Settlement Dates on and after this date

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

Selling Changes

2007 Freddie Mac conforming loan limits

Increases in Freddie Mac's loan limits are tied to the October-to-October increase in the national average one-family house price as reported by the Federal Housing Finance Board (FHFB). This year, the FHFB reported a 0.16 percent decrease in the average price of homes sold between October 2005 and October 2006. In light of the decline in home values as reported by the FHFB and Supervisory Guidance issued by the Office of Federal Housing Enterprise Oversight, we are maintaining our loan limits at 2006 levels to foster stability and liquidity in the home financing system for our Sellers and for Borrowers.

Guide Chapter 23 has been updated to reflect the 2007 loan limits.

More flexible Borrower Contribution requirements for Freddie Mac 100 Mortgages

To help you approve more Borrowers with excellent credit history but limited liquid assets, we are introducing more flexible minimum Borrower Contribution requirements for Freddie Mac 100 Mortgages. Borrowers are now required to make a minimum contribution of the lesser of 3% of the subject property's sale price or \$500 from Borrower Funds into the purchase transaction. The contribution may also include a gift from a Related Person.

As a reminder, there is no minimum Borrower Contribution requirement for "no cash-out" refinance transactions on Freddie Mac 100 Mortgages.

Chapter G33 has been updated to reflect this change.

Using credit cards and unsecured lines of credit to pay fees and costs

To better align with market-accepted standards of the Mortgage origination process, we are revising the Guide to permit Borrowers to use credit cards or cash advances on a revolving charge account or unsecured line of credit to pay certain fees. Eligible fees must be associated with the Mortgage application process and may include the cost of credit and appraisal reports.

Sellers must deliver Special Characteristics Code 921 on Form 11, Mortgage Submission Schedule, and Form 13SF, Mortgage Submission Voucher, when selling these Mortgages to Freddie Mac.

We have revised Guide Chapter 26, added new Section 17.43, and updated Forms 11 and 13SF to reflect these changes.

Interested party contributions

We are making a change to the Guide to interested party contribution requirements and reminding Sellers that Mortgages with interested party contributions must meet our appraisal and underwriting requirements.

Gift of Equity from a Related Person

We are updating Chapter 25 to provide that a gift, including a gift of Equity, from a Related Person who is also the seller of the property is not subject to the interested party contributions requirements, provided that:

- The Related Person is not, and has no affiliation with, the builder, developer, real estate agent or any other interested party to the transaction, and
- Gift requirements in Sections 26.2 and 37.20 are met.

In addition, Chapter 37 is being revised to require that the gift of Equity be reflected on the HUD-1 form.

Maximum financing concessions

As the housing market continues to show signs of slowing, interested party contributions in the form of financing and sales concessions are becoming more prevalent in the market. At the same time, Mortgages with secondary financing and lower down payments are becoming more popular.

Because of the increase in Mortgages with maximum financing concessions, particularly on transactions with secondary financing, we are reminding Sellers of our requirements for these types of Mortgages. In our October 6, 2006 Guide Bulletin (2006-4), we revised Section 44.15 of the Guide to provide additional guidance and requirements regarding how appraisers must treat these concessions. In this Bulletin, we are reminding Sellers of the importance of ensuring that Mortgages with financing and sales concessions meet our requirements for interested party contributions as set forth in Section 25.3.

We will be closely monitoring Mortgages with financing and sales concessions to ensure that they meet our current appraisal and underwriting guidelines and to determine whether any changes to our requirements may be warranted.

Condominium Mortgage eligibility requirements

Identifying Condominium Hotels

In our July 21, 2006 Industry Letter, we reminded you that Mortgages secured by units in Condominium Hotels are not eligible for sale to Freddie Mac. With this Bulletin, we are providing a comprehensive definition of “Condominium Hotel,” as well as a list of red flag characteristics that indicate the project may meet our definition of an ineligible Condominium Hotel.

If, in your underwriting of a Condominium Mortgage, you determine that a particular project has any of the red flag characteristics, you must perform a more thorough review of the project to determine whether it meets our Condominium Hotel definition. To assist you in this review, we have provided you with a list of possible resources that will help you determine whether the project is a Condominium Hotel that meets our definition.

Enhancing Condominium Project reviews

We are making the following additional changes to Chapter 42:

- Units in Detached Condominium Projects are eligible for streamlined reviews. This includes units being purchased for investment that meet the requirements of Section 42.4.
- Condominium Units must be 1-unit properties. We are changing our description of units in 2-to 4-unit Condominium Projects to indicate that each unit in the project must be a 1-unit property with a separate legal description.
- We are removing the requirement that contracts for professional management of Class I Condominium Projects may not exceed three years. The contract must still allow either party to terminate without cause and without a fee upon notice of up to 90 days.

We have also moved the existing Guide requirement for review of the Condominium Project documentation from Section 42.1 to Section 42.2. Regardless of the type of project review (e.g., Class I, II or III, streamlined, 2- to-4 unit, detached, reciprocal), a Seller must review the appropriate project documentation to ensure that it can make the required warranties for that review type.

Appraisal-related changes

Revising terms provided to the appraiser

With our continuing effort to support appraiser independence, we have added language to Chapter 25 to indicate that Sellers may not provide the appraiser with the value needed to support the transaction or any information about the expected LTV ratio. We have also updated Chapter 25 requirements for disclosure of secondary financing to specify that at a minimum, Sellers must provide the appraiser with the institution or individual providing secondary financing and the Note Rate.

User-friendly appraisal/inspection requirement tables

Chapter 44 contains several tables that provide quick access to appraisal, inspection and Property Inspection Alternative (PIA) requirements. We have updated these tables to make them easier to use, helping you to get the information you need more quickly.

LTV/TLTV/HTLTV ratio limits for Manually Underwritten streamlined refinance 40-year fixed-rate Mortgages

We have updated the Guide to add LTV, TLTV and HTLTV ratio limits for Manually Underwritten streamlined refinance 40-year fixed-rate Mortgages. These ratio limits apply to Manually Underwritten 40-year fixed-rate streamlined refinance Mortgages with Settlement Dates on or after January 31, 2007.

Chapter 23 has been updated to reflect this change.

Antipredatory lending provisions

We are making minor changes to the scope of our antipredatory lending provisions in order to more accurately reflect regulatory requirements.

In particular, we are narrowing the scope of the Guide eligibility requirements in three Guide sections, so that they will no longer apply to Mortgages secured by second homes or Investment Properties:

- Section 22.32, concerning the 5% points and fees requirement; and
- The provisions of Section B33.4.1, that require that a Prepayment Penalty Mortgage provided a benefit to the Borrower and that a Mortgage without a prepayment penalty was offered to the Borrower, and
- Section 22.33, concerning the purchase-money Home Ownership Equity Protection Act of 1994 (HOEPA) provision.

None of the changes affects the requirements applicable to a Mortgage secured by a Borrower's "Primary Residence," which the Glossary defines as "the residential property physically occupied by an owner as the principal home domicile." The term "Primary Residence" includes owner-occupied 2- to 4-unit properties, which will continue to be covered by Sections 22.32 and 22.33, and by all the provisions of Section B33.4.1.

All Prepayment Penalty Mortgages will continue to be subject to the requirements that the terms of the prepayment penalty were adequately disclosed to the Borrower and the prohibition on assessing the prepayment penalty in the event of a Borrower default.

Chapters 22 and B33 have been updated to reflect these changes.

Reserve requirements for Investment Property Mortgages

To provide additional instructions regarding the origination of Investment Property Mortgages, we are revising the Guide to require reserves regardless of whether rental income is used to qualify the Borrower. Borrower reserves must equal six monthly payments of principal, interest, taxes and insurance (PITI), which may be used to supplement payments during vacancies or make repairs to the subject property.

Chapters 22 and 37 have been updated to include this change.

Updating Form 996, Warehouse Lender Release of Security Interest

As a result of a Freddie Mac department's relocation, we have revised the fax instructions on Form 996, Warehouse Lender Release of Security Interest.

We have also revised Directories 3 and 8 to reflect this change.

Selling and Servicing Changes

Ensuring OFAC compliance

Sellers and Servicers must make certain that they are aware of and comply with the requirements of the foreign assets control regulations of the United States Treasury Department administered by the Office of Foreign Assets Control. These restrictions generally prohibit U.S. parties (including Sellers and Servicers) from engaging in financial transactions (including the receipt of mortgage loan payments) with third parties identified on any available lists of known or suspected terrorists, terrorist organizations, narcotics traffickers or other sanctioned and restricted parties issued by the United States Government (including the Treasury Department's List of Specially Designated Nationals and Blocked Persons) or otherwise the target of economic sanctions administered by the United States. The lists of prohibited persons are maintained by OFAC and can be found on the Treasury Department's Web site.

Chapters 6 and 53, which require Seller/Servicers to comply with all applicable federal, State and local laws, ordinances, regulations and orders, have been updated to align with OFAC regulations. These changes do not impose any additional compliance obligations on Sellers and Servicers due to an existing obligation to comply with the OFAC regulations administered by the United States Treasury Department.

Servicing Changes

Changes to the Servicer Performance Profile

We continually work with our Default Advisory Group to review the default management section of the Servicer Performance Profile to ensure that it appropriately measures default performance and correctly aligns with industry best practices and standards. As a result of our review, and as announced in our Single-Family Advisory on November 8, 2006, we are making the following changes to the default management section of the Profile that will be effective on January 1, 2007:

Workout-to-REO Ratio

To reward Servicers for completing workouts on Mortgages that typically require additional work, we will increase the weighting of the Workout/REO numerator from 1 to 1.5 for loan modifications and short payoffs on affordable Mortgages to account for the increased complexities of servicing these Mortgages. The following Guide-eligible affordable Mortgages, as well as affordable Mortgages purchased by Freddie Mac under negotiated terms, are included in this measurement:

- Home Possible® Mortgages
- Freddie Mac 100 Mortgages
- Affordable Gold Mortgages
- Affordable Merit Rate Mortgages

Foreclosures

■ **Foreclosure Timeline Measure Metric**

- ❑ Points for this metric will be reduced from 30 to 25

■ **Foreclosure Sale Reporting Metric**

- ❑ Points will stay the same for this metric
- ❑ Number of days to report this calculation will now be based on the first Business Day after the foreclosure sale occurs, and then includes calendar days thereafter

As an example, when a foreclosure sale occurs on a Friday, the calculation will start on the next Business Day (Monday, assuming Monday is not a holiday) and then the calculation will be based on the number of calendar days going forward.

■ **Inventory Past Standard Severity Metric**

The measure for the Inventory Past Standard Severity Metric will include Mortgages starting at 90+ inventory.

- ❑ Increase weighting of this metric from 5 points to 10 points
- ❑ A maximum of 10 points will be awarded if performance is 10 days or fewer
- ❑ Deduct .167 points for every day performance is greater than 10 days up to a maximum of 70 days past standard
- ❑ Calculation:

Total days past standard for loans that are 90+ days delinquent

Total number of loans 90+ days delinquent

Freddie Mac has always required that Sellers deliver complete and accurate Mortgage data. We depend on the accuracy of this data for many purposes. Because we use the Mortgage data in our Servicer Performance Profile measurements, we are reminding Seller/Servicers of the importance of providing us with complete and accurate Mortgage data.

For more information regarding these changes to the Servicer Performance Profile, please contact your Freddie Mac Customer Management Representative or (800) FREDDIE or refer to the Default Management Performance Impact Page available now on GoldWorks®.

Increasing compensation for repayment plans

Effective January 1, 2007, we are eliminating our technology compensation for electronic referrals to foreclosure attorneys. However, to recognize Servicers' increased use of technology in all aspects of servicing Mortgages, we are increasing our repayment plan compensation to \$250. This compensation increase recognizes the use and the costs of Early Indicator® and other default Servicing and scoring software that you employ to manage delinquent Mortgages.

As a reminder, repayment plan compensation is awarded for successful repayment plans on Mortgages that are 60 days or more delinquent at inception of the plan.

Chapters B65 and 66 are being updated to reflect this change.

Expenses on delinquent low balance Mortgages

Effective January 1, 2007, Servicers must not advance payment of tax, insurance or property preservation expenses on Mortgages with unpaid principal balances of \$5,000 or less that are 120 days or more delinquent without Freddie Mac's prior approval. Currently, we instruct Servicers to obtain Freddie Mac approval before incurring the legal fees associated with foreclosure on such low balance delinquent Mortgages. With this update, we are instructing Servicers to also obtain pre-approval for Servicing advances that Servicers would otherwise be expected to make.

Chapters 59, 65, B65 and 66 have been updated to reflect this change.

Form 1066, SCRA Accounting Data Form

We are revising Form 1066, SCRA Accounting Data Form, to eliminate the Borrower's Social Security Number as a required data element that must be provided when submitting notification to us that a Borrower has requested interest rate cap relief under the Servicemembers' Civil Relief Act (SCRA). This data is not currently needed by Freddie Mac in order to process an SCRA interest rate cap request. Removing this data element helps to safeguard Borrowers' confidential information.

Conducting eviction proceedings

We have revised Chapter 70 to emphasize that, unless we instruct a Servicer otherwise, Freddie Mac will conduct eviction proceedings on REO properties.

Property inspection expense reimbursement

To facilitate reimbursement to Servicers for the property inspection fees paid by the mortgage insurer, we are adding expense code 404006 to Exhibit 74, Expense and Income Codes for Form 104SF.

Expense code 404006, Inspection Fees Payable by MI, is also being added to Exhibit 57, 1- to 4- Unit Property Approved Expense Amounts.

Designated counsel/trustee

We have recently updated contact information for several designated counsel firms. Updates included new contact names, phone numbers and fax numbers.

The Designated Counsel/Trustee List (formerly Guide Exhibit 79) is located on FreddieMac.com at http://www.freddiemac.com/service/msp/desig_counsel.html.

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 6, 17, 22, 23, 25, 26, B33, G33, 37, 42, 44, 53, 59, 65, B65, 66 and 70
- Exhibits 17, 57 and 74
- Forms 11, 13SF, 996 and 1066
- Glossary
- Directory 3, 5 and 8

CONCLUSION

The changes included in this Bulletin support our commitment to making the mortgage finance process simpler and more efficient for you, our Seller/Serviceers. If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call (800) FREDDIE.

Sincerely



Patricia J. McClung
Vice President
Offerings Development

Exhibit A

Highlights of Revisions in this Package

Bulletin 2006-5 incorporates changes to the following documents of the *Single-Family Seller/Servicer Guide* (Guide):

Chapters

- **Chapter 6**—General Warranties and Responsibilities of the Seller/Servicer—Updating the existing Seller and Servicer obligation to comply with all applicable laws and regulations by adding a specific reference to compliance with the Office of Foreign Assets Control (OFAC) regulations.
- **Chapter 17**—Mortgage Delivery and Settlement Processing—Adding a new Section with delivery requirements for Mortgages using credit cards or cash advances on a revolving charge account or unsecured line of credit to pay certain Mortgage origination fees.
- **Chapter 22**—General Mortgage Eligibility—Revising language to more accurately reflect regulatory requirements. Adding language to provide that Mortgages secured by second homes must not be ineligible properties such as a unit in a Condominium Hotel or be subject to revenue sharing; and adding further guidance regarding the Borrower reserves requirement for Investment Property Mortgages.
- **Chapter 23**—Maximum Loan Amounts and LTV, TLTV and HTLTV Ratios—Updating the Guide to provide the maximum original Freddie Mac loan amounts for 2007; and adding LTV, TLTV and HTLTV ratio limits for streamlined refinance 40-year fixed-rate Mortgages.
- **Chapter 25**—Secondary Financing and Other Financing Agreements—Providing additional direction regarding which secondary financing terms must be provided to appraisers and adding language that prohibits providing a value needed to support a transaction; and updating our requirements for the treatment of a gift of Equity provided by a Related Person who is also the property seller.
- **Chapter 26**—Equity and Cash—Revising the Guide to permit the use of credit cards or cash advances on a revolving charge account or unsecured line of credit to pay certain Mortgage origination fees.
- **Chapter B33**—Prepayment Penalty Mortgages—Revising language to more accurately reflect regulatory requirements.
- **Chapter G33**—Freddie Mac 100 Mortgages—Updating language to include more flexible minimum Borrower Contribution requirements for Freddie Mac 100 Mortgages.
- **Chapter 37**—Underwriting the Borrower—Adding further guidance regarding the Borrower reserves requirement for Investment Property Mortgages; and adding requirement that any gift of Equity must be reflected on the HUD-1 form.
- **Chapter 42**—Special Warranties for Condominiums—Revising and updating language to emphasize and provide further guidance regarding ineligible Condominium Projects, specifically Condominium Hotels; and making changes regarding Condominium Project reviews which affect streamlined review, 2- to 4-unit properties and Class I Condominium Projects.
- **Chapter 44**—Appraisal Reports, Inspection Reports and the Property Inspection Alternative (PIA)—Updating appraisal, inspection and PIA requirement tables to make them easier to use.

- **Chapter 53**—Servicer Agreements—Updating the existing Seller and Servicer obligation to comply with all applicable laws and regulations by adding a specific reference to compliance with OFAC regulations.
- **Chapter 59**—Escrow and Prepayments—Directing Servicers to contact Freddie Mac before advancing funds for taxes and/or insurance on delinquent low balance Mortgages.
- **Chapter 65**—Loss Mitigation—Directing Servicers to contact Freddie Mac before advancing funds for taxes, insurance and/or property preservation on delinquent low balance Mortgages.
- **Chapter B65**—Workout Options—Increasing our repayment plan compensation to \$250; and directing Servicers to contact Freddie Mac before advancing funds for taxes, insurance and/or property preservation on delinquent low balance Mortgages.
- **Chapter 66**—Foreclosure—Directing Servicers to contact Freddie Mac before advancing funds for taxes, insurance and/or property preservation on delinquent low balance Mortgages; and eliminating our technology incentive for electronic foreclosure referrals.
- **Chapter 70**—REO—Adding language emphasizing that, unless we instruct a Servicer otherwise, Freddie Mac will conduct eviction proceedings on REO properties.

Exhibits

We've revised the following exhibits:

- **Exhibit 17**—Offer Product and Offer Program Numbers
- **Exhibit 57**—1- to 4- Unit Property Approved Expense Amounts
- **Exhibit 74**—Expense and Income Codes for Form 104SF

Forms

We've revised the following Forms:

- **Form 11**—Mortgage Submission Schedule
- **Form 13SF**—Mortgage Submission Voucher
- **Form 996**—Warehouse Lender Release of Security Interest
- **Form 1066**—SCRA Accounting Data Form

Glossary

We've added the following Glossary terms:

- **Condominium Hotel**
- **Master Association**

Directory

We've revised the following Directories:

- **Directory 3, 5 and 8**