

Bulletin

TO: All Freddie Mac Sellers and Servicers

October 7, 2005

SUBJECT: Servicing Relief Measures for Mortgages Affected by Hurricane Katrina and Hurricane Rita, and a change to Selling Requirements for Mortgages Affected by Hurricane Rita

As the effects of Hurricane Katrina and Hurricane Rita continue to unfold, Freddie Mac Sellers and Servicers are working hard to meet the challenges presented by these unprecedented events. Freddie Mac has been working with its Sellers and Servicers to determine the most effective solutions to meet the needs of Borrowers who have been affected by these disasters.

On September 30, 2005, we issued a Bulletin that announced temporary origination requirements for Freddie Mac Sellers to assist Borrowers whose lives have been devastated by these disasters. This Bulletin outlines temporary relief measures to help Servicers assist Borrowers with Mortgages secured by properties located in “an eligible Disaster Area.” These areas are comprised of counties or municipalities, including parishes, that have been declared by the President of the United States to be Major Disaster Areas where federal aid in the form of individual assistance is being made available. These areas are named by the Federal Emergency Management Agency (FEMA) on its web site.

With this Bulletin we are:

- **For Mortgages secured by properties located in eligible Disaster Areas**
 1. Streamlining the underwriting requirements for loan modifications
 2. Revising our requirements for short payoff approvals
 3. Requiring an initial distressed property inspection on all delinquent Mortgages
 4. Excluding certain criteria from the default management category of the Servicer Performance Profile
- **Adjusting our requirements for Electronic Default Reporting (EDR)**

We are also reminding Servicers of the special relief measures Freddie Mac previously announced for Borrowers affected by these disasters. These measures include suspension of Borrower payments, forbearance and the release of insurance proceeds. We also announced that we are extending the same Mortgage obligation relief and protections provided under the Servicemembers Civil Relief Act of 2003 (SCRA) and Chapter 82 of our *Single-Family Seller/Servicer Guide* (Guide) to Borrowers who are members of the National Guard deployed for Hurricane Katrina and Hurricane Rita relief operations.

For Freddie Mac Sellers, we are removing the LTV/TLTV/HTLTV ratio limitations for properties affected by Hurricane Rita announced in our Bulletin dated September 30, 2005 (the “September 30th Bulletin”).

Replacement pages to the Guide will not be issued to include the requirements of this Bulletin. Seller/Servicers should retain a copy of this Bulletin to ensure compliance with our requirements.

SERVICING REQUIREMENTS

Mortgages secured by properties located in eligible Disaster Areas

1. Streamlined underwriting requirements for loan modifications—Hurricane Katrina and Hurricane Rita

To assist Servicers with the increased volume of relief and workout option requests, and in an effort to enable Borrowers to keep their homes, Freddie Mac is streamlining the loan modification process described in our Guide for Mortgages secured by properties located in eligible Disaster Areas.

Mortgages that were delinquent or in foreclosure prior to Hurricane Katrina or Hurricane Rita are also eligible for these streamlined underwriting requirements for loan modifications. Before considering a loan modification, a Servicer must first make every effort to determine if the Borrower wishes to retain ownership of their home.

To recommend a Borrower for a loan modification, a Servicer must ensure that all of the following eligibility requirements are met:

- **Documentation of income**
A Servicer must document, on the Workout ProspectorSM notes screen, the Borrower's stated income and source, and his or her commitment to retain ownership of the property.
- **Determination of property value**
Servicers do not need to determine the value and condition of the property in accordance with the requirements in Guide Section 65.25; instead, Servicers need only use the unpaid principal balance (UPB) of the Mortgage as the value of the property.
- **Retention of existing credit enhancements**
A Servicer may approve loan modifications on Mortgages with in-place credit enhancements provided, however, that if the Servicer is not the credit enhancement provider, the Servicer first obtains written approval from the entity providing the enhancement. For example, if the Mortgage has mortgage insurance, the Servicer must first receive approval from the mortgage insurer.
- **Extension of the Mortgage term**
Servicers may extend the term of the modified Mortgage up to a maximum of 480 months.
- **Servicer workout compensation**
Freddie Mac will compensate Servicers for each loan modification in accordance with Guide Section 65.42(c). We encourage Servicers to waive the \$300 processing fee they currently charge Borrowers.
- **Servicing fee**
The Servicing fee will remain the same as it was prior to the loan modification.
- **Previously modified Mortgages**
 - Mortgages that were previously modified are eligible for a second modification under the streamlined provisions above, if the first modification was settled prior to October 1, 2005
 - For Mortgages with first modifications settled between October 1, 2005, and November 1, 2006, any subsequent loan modification must be evaluated in accordance with the existing requirements in Guide Chapter B65

Servicers who want to recommend an interest rate reduction must consult their Freddie Mac Loss Mitigation Specialist for guidance.

Servicers must not decline a loan modification until they contact their Freddie Mac Loss Mitigation Specialist for guidance.

All other requirements for loan modifications detailed in Guide Chapter B65 remain in effect.

2. Revising requirements for short payoff approval

Servicers can approve a short payoff of a Mortgage secured by a property in an eligible Disaster Area if all of the following requirements are met:

- At least 95% of the total debt is paid off,
- The source of funds for the payoff is proceeds from the Borrower's homeowners insurance or flood insurance or from a government agency and
- The Servicer has verified that all available insurance claims have been filed and proceeds from these claims have been received and will be applied toward the payoff

A Servicer may approve short payoffs of Mortgages with in-place credit enhancements provided, however, that if the Servicer is not the credit enhancement provider, the Servicer first obtains written approval from the entity providing the enhancement. For example, if the Mortgage has mortgage insurance, the Servicer must receive approval from the mortgage insurer.

If the above requirements are not met, Servicers must contact their Freddie Mac Loss Mitigation Specialist for direction.

Servicers must comply with all other requirements in Guide Sections B65.35 and B65.41.

3. Requiring an initial distressed property inspection on all delinquent Mortgages in eligible Disaster Areas

After any natural or man-made disaster, Servicers are required to determine the extent of losses or damages suffered by properties as a result of the disaster. Due to the widespread devastation caused by Hurricane Katrina and Hurricane Rita, Borrowers and insurance providers are having difficulty providing Servicers with property condition information. Therefore, Freddie Mac is amending its requirements to require Servicers to complete an initial distressed property inspection on properties located in eligible Disaster Areas if the property is accessible and:

- The Mortgage is delinquent, including in forbearance, and there has been no contact with the Borrower or
- The Mortgage is delinquent, including in forbearance, there has been contact with the Borrower and the Borrower has no information about the condition of the property

The distressed property inspection must be completed between October 15, 2005, and December 31, 2005.

A distressed property inspection includes:

- Assessing the levels of damage to the areas and the specific properties
- Providing a full description of wind, water, flood, fire, mold and other damages
- Making a determination as to whether the property is currently flooded or has experienced flood damage
- Making a determination as to whether the roof is intact
- If allowed by applicable law, leaving a door hanger at the property with the Servicer's contact information on it. If contact is made with occupants or Borrowers, property inspectors should obtain the following information:
 - Whether the occupant or Borrower plans to continue to occupy the property
 - Whether the Borrower has filed an insurance claim

The Servicer does not need to submit the inspection report to Freddie Mac unless:

- The insured improvements have suffered a total or near total loss
- The Borrower wishes to apply insurance proceeds to the Mortgage debt instead of repairing the property and the proceeds are not sufficient to pay off the existing Mortgage debt, except as provided in section 2, above, for short payoffs

If either of the above conditions exist, the Servicer must submit the report and any recommendation along with the appropriate documentation to us via Form 105, Multipurpose Loan Servicing Transmittal, within five Business Days of learning of the situation.

Servicer reimbursement

Freddie Mac will reimburse Servicers for inspections of properties in an eligible Disaster Area as follows:

- For properties affected by Hurricane Katrina—Servicers will be reimbursed for the cost of the initial distressed property inspection up to a maximum of \$25, and up to three regular monthly delinquent property inspections if performed in the months of October, November and/or December 2005, up to a maximum of \$24 for each eligible Mortgage regardless of whether the Mortgage subsequently becomes current or goes to foreclosure
- For properties affected by Hurricane Rita—Servicers will be reimbursed for the cost of the initial distressed property inspection up to a maximum of \$25, and up to two regular delinquent property inspections if performed in the months of November and December 2005, up to a maximum of \$16 for each eligible Mortgage regardless of whether the Mortgage subsequently becomes current or goes to foreclosure

We will communicate the instructions for filing for reimbursement when the process is finalized.

Servicers must continue to conduct regular monthly inspections as required in Section 64.7 of the Guide on all delinquent Mortgages, even if a distressed property inspection is conducted.

4. Excluding certain criteria from the default management category of the Servicer Performance Profile

- Accurate EDR using the correct Default Action Codes and Reason for Default Codes described below will allow Freddie Mac to exclude Mortgages secured by properties located in eligible Disaster Areas from the Servicer Performance Profile. This exclusion will affect the Early Collections, Late Collections, Inventory Past Standard Severity and any impacted days from the Foreclosure Timeline metrics for all delinquent Mortgages secured by property located in the eligible Disaster Areas from September 30, 2005, through December 31, 2005. The exclusion will continue for up to eight additional months if the Mortgage remains in forbearance and the Servicer continues to report the Default Action Code “09-Forbearance” and Reason for Default Code “019-Casualty Loss.”

Adjusting our requirements for EDR

Accurate default reporting is critical, particularly for Mortgages in forbearance secured by properties located in any of the Major Disaster Areas as designated by FEMA as a result of Hurricane Katrina and Hurricane Rita.

If a Mortgage is in a designated Major Disaster Area and payments are suspended, the Servicer must report Default Action Code “09-Forbearance” and Reason for Default Code “019-Casualty Loss.” These codes apply for:

- Borrowers with whom you have not had contact and
- Borrowers with whom you have had contact and who want the special suspension of payments

If a Mortgage is not secured by property located in a designated Major Disaster Area but the Borrower is indirectly affected by Hurricane Katrina or Hurricane Rita (e.g., is experiencing loss of employment, or is caring for additional family members) and the Servicer has granted forbearance, the Servicer must report Default Action Code “09-Forbearance” and Reason for Default Code “011-Property Problem.”

Servicers must continue to report these codes each month until the Delinquency is resolved. If you have questions about EDR codes, please contact your Freddie Mac Loss Mitigation Specialist.

Previously announced Servicing requirements

In our August 30 and September 7 Single-Family Advisories, Freddie Mac announced temporary relief for Borrowers who suffered property damage from Hurricane Katrina. In our September 27 Single-Family Advisory, we announced that we are expanding temporary relief to Borrowers who suffered property damage from Hurricane Rita. The previously announced requirements include the following and are summarized below:

- Release of insurance loss proceeds—Hurricane Katrina and Hurricane Rita
- Forbearance for Mortgages secured by properties in eligible Disaster Areas as a result of Hurricane Katrina
- Forbearance for Mortgages secured by properties in eligible Disaster Areas as a result of Hurricane Rita
- Special relief for all other Borrowers negatively affected by Hurricane Katrina or Hurricane Rita
- Relief for Borrowers who are members of the National Guard deployed for Hurricane relief efforts

Release of insurance loss proceeds—Hurricane Katrina and Hurricane Rita

To help Borrowers who suffered property damage from Hurricane Katrina and Hurricane Rita and need upfront insurance proceeds to repair or rebuild their homes, Freddie Mac has temporarily revised its insurance guidelines to expedite getting insurance money into the hands of Borrowers. Under this temporary exception, in locations declared Major Disaster Areas due to Hurricane Katrina and Hurricane Rita, Freddie Mac Servicers can immediately release insurance funds as follows:

- For Mortgages that are **current**, the Servicer, at its discretion, may release insurance proceeds without limitation for the repair of damaged properties, provided that when the amount of the insurance proceeds to be released is:
 - \$20,000 or less, the Servicer may release the proceeds directly to the Borrower
 - Greater than \$20,000, the Servicer must release the proceeds payable jointly to the Borrower and the contractor
- For Mortgages that are 30 to 90 days delinquent, the Servicer, at its discretion, may release up to \$40,000 of the total insurance loss proceeds for the repair of damaged properties, provided that when the amount of the insurance proceeds to be released is:
 - \$20,000 or less, the Servicer may release the proceeds directly to the Borrower
 - Greater than \$20,000, the Servicer may release the proceeds up to a maximum of \$40,000 payable jointly to the Borrower and the contractor

At the Servicer’s option, rather than disburse the funds jointly to the Borrower and the contractor, the Servicer may choose to maintain the funds in an interest-bearing account and disburse the proceeds in accordance with the requirements for disbursement in Section 58.10(b) of the Guide.

Other than as provided above, Servicers are expected to comply with all other provisions of Sections 58.10, 58.11 and 67.29 of the Guide including, but not limited to, requirements for reviewing the qualifications of the contractor, monitoring repairs to the property and compliance with all applicable building codes and regulations governing residential repair or reconstruction.

While we are not requiring that the Borrower provide an affidavit to receive insurance proceeds, insurance proceeds must be used specifically to repair hurricane damage to the Borrower's home to ensure that the property is returned to its prior condition. Borrowers should be reminded that insurance proceeds are not designed for other general use.

As always, if Servicers have a unique situation that warrants special relief consideration, Freddie Mac will review individual circumstances on a case-by-case basis. Servicers may contact their Freddie Mac Loss Mitigation Specialist or Servicer Account Manager if they have questions.

Forbearance for Mortgages secured by properties in eligible Disaster Areas as a result of Hurricane Katrina

We are suspending Mortgage payments for three months for all Borrowers whose properties are located in eligible Disaster Areas. As a result, effective September 7, 2005, for single-family Mortgages secured by property located in a Hurricane Katrina eligible Disaster Area, Freddie Mac Servicers:

- Must have suspended the Automated Clearing House (ACH) process for payments due for September, if not yet drafted, and also for October and November.
 - If a Borrower notifies a Servicer not to suspend ACH drafting, the Servicer must comply with the Borrower's request
 - By the end of September, Servicers must have made a reasonable attempt to contact Borrowers to determine if any Borrower wishes to have the ACH drafting resumed
- At their discretion, may reverse September payments already made via ACH and credit the payment back to the Borrower's draft account. If the payment has already been reported to Freddie Mac, Servicers should contact us for further guidance. Servicers must return the payments to a Borrower when contacted by the Borrower and specifically requested to return the payment. In addition, unless a Borrower contacts the Servicer to make other arrangements, the Servicer must consider the Borrower to have accepted a forbearance of the September payment.
- At their discretion, may return to a Borrower any non-ACH monthly payments (as well as partial prepayments of principal) received, from the Borrower and not yet reported to Freddie Mac for September, October and November. This is provided that the Servicer has confirmed directly with the Borrower that the Borrower is in hardship and desires to have the payment returned. If the payment has already been reported to Freddie Mac, Servicers should contact us for further guidance.
- Must return to the Borrower non-ACH monthly payments (as well as partial prepayments of principal) received, if the Borrower contacts the Servicer and specifically requests the payment be returned. If the payment has already been reported to Freddie Mac, Servicers should contact us for further guidance.
- Must report and remit full prepayments of principal to Freddie Mac in accordance with current Guide requirements. Full prepayments of principal may not be returned to the Borrower.
- Must suspend all payment collection activities, including automated dialers and collections calls through November 2005. Instead, Servicers should focus efforts on ascertaining Borrowers' current situations and the extent of property damage. In addition, Servicers should suspend all foreclosure proceedings, including foreclosure referrals and eviction proceedings, during September, October and November, even if the Mortgage was in default prior to Hurricane Katrina.
- Must not assess late charges or report Borrowers to credit repositories for payments suspended or reversed for September, October and November.

At the end of the three-month suspension of payments, Servicers should perform an individual assessment of each Mortgage to determine if forbearance in the form of a suspension or reduction of payments should be extended for an additional nine months. If the Servicer believes forbearance beyond a total of 12 months is warranted, the Servicer should make that recommendation to us for consideration. Servicers may also use existing workout options to reinstate Borrowers ready to resume Mortgage responsibilities.

Forbearance for Mortgages secured by properties in an eligible Disaster Area as a result of Hurricane Rita

We are suspending Mortgage payments for two months for all Borrowers whose properties are located in eligible Disaster Areas. As a result, effective September 27, for single-family Mortgages secured by property located in a Hurricane Rita eligible Disaster Area, Freddie Mac Servicers:

- Must suspend the ACH process for payments due for October and November.
 - If a Borrower notifies a Servicer not to suspend ACH drafting, the Servicer must comply with the Borrower's request
 - By the end of October, Servicers must make a reasonable attempt to contact Borrowers to determine if any Borrower wishes to have the ACH drafting resumed.
- At their discretion, may reverse October payments already made via ACH and credit the payment back to the Borrower's draft account. If the payment has already been reported to Freddie Mac, Servicers should contact us for further guidance. Servicers must return the payments to Borrowers when contacted by the Borrower and specifically requested to return the payment. In addition, unless the Borrower contacts the Servicer to make other arrangements, the Servicer must consider the Borrower to have accepted a forbearance of the October payment.
- May return to a Borrower, at their discretion, any non-ACH monthly payments (as well as partial prepayments of principal) received, from the Borrower and not yet reported to Freddie Mac for October and November. This is provided that the Servicer has confirmed directly with the Borrower that the Borrower is in hardship and desires to have the payment returned. If the payment has already been reported to Freddie Mac, Servicers should contact us for further guidance.
- Must return to the Borrower non-ACH monthly payments (as well as partial prepayments of principal) received, if the Borrower contacts the Servicer and specifically requests the payment to be returned. If the payment has already been reported to Freddie Mac, Servicers should contact us for further guidance.
- Must report and remit full prepayments of principal to Freddie Mac in accordance with current Guide requirements. Full prepayments of principal may not be returned to the Borrower.
- Must suspend all payment collection activities, including automated dialers and collections calls through November 2005. Instead, Servicers should focus efforts on ascertaining Borrowers' current situations and extent of property damage. In addition, Servicers should suspend all foreclosure proceedings, including foreclosure referrals and eviction proceedings, through November, even if the Mortgage was in default prior to Hurricane Rita.
- Must not assess late charges or report Borrowers to credit repositories for payments suspended or reversed for October and November.

At the end of the two-month suspension of payments, Servicers should perform an individual assessment of each Mortgage to determine if forbearance in the form of a suspension or reduction of payments for up to an additional 10 months should be extended. If the Servicer believes forbearance beyond a total of 12 months is warranted, the Servicer should make that recommendation to us for consideration. Servicers may also use existing workout options to reinstate Borrowers ready to resume Mortgage responsibilities.

Special relief for all other Borrowers negatively affected by Hurricane Katrina or Hurricane Rita

Freddie Mac strongly encourages Servicers to provide the following additional relief to Borrowers affected by Hurricane Katrina and Hurricane Rita who are in Major Disaster Areas other than those qualifying for "individual assistance" as designated by FEMA, or who are **outside** of a Major Disaster Area and have been negatively affected by Hurricane Katrina or Hurricane Rita (i.e., loss of employment, additional dependants in household, etc.):

- Waive the assessment of penalties or late fees against Borrowers
- Not report forbearance or Delinquencies to the credit repositories

Affected Borrowers may qualify to have their Mortgage payments reduced or suspended for up to 12 months. Each case must be individually assessed to determine which alternative best fits the Borrower's circumstances.

Relief for Borrowers who are members of the National Guard

To help mitigate the challenging circumstances facing many in the wake of Hurricane Katrina and Hurricane Rita, we are extending Mortgage relief options to all National Guard members on active State duty involved in Hurricane Katrina or Hurricane Rita response efforts. Currently, Borrowers who are members of the National Guard on active State duty deployed for Hurricane Katrina or Hurricane Rita response efforts are not eligible for Mortgage relief under the SCRA. Freddie Mac is extending the same type of Mortgage obligation relief and protections provided under SCRA and Guide Chapter 82 to National Guard members on active State duty deployed for Hurricane Katrina or Hurricane Rita response efforts.

To take advantage of these relief options, Borrowers must request the interest rate relief from their Servicer and provide their Servicer with copies of the applicable documentation evidencing the Borrower/National Guard member's deployment for Hurricane Katrina or Hurricane Rita. Additionally, Servicers must comply with all other requirements set forth in Guide Chapter 82. For complete requirements on our special servicing and reporting requirements, we encourage you to review Guide Chapter 82.

Additional reporting information and guidance for Servicers

- Specific information on areas declared Major Disaster Areas are listed on FEMA's web site at www.fema.gov/.
- For all affected Mortgages, Servicers must ensure that all applicable FHA, VA, RHS and MI requirements are satisfied so Freddie Mac receives full benefit of the FHA insurance, VA guaranty or RHS guaranty or mortgage insurance, as applicable.
- Servicers are also required to assist Borrowers in applying for federal and State disaster relief and filing insurance claims as currently outlined in Sections 58.11 and 67.29 of the Guide.

SELLING REQUIREMENTS

After further review of the counties located in the Hurricane Rita eligible Disaster Area, Freddie Mac is lifting the LTV/TLTV/HTLTV ratio limitations as stated in Section 1(g) of the September 30th Bulletin, for properties located in the Hurricane Rita eligible Disaster Area. If a property is located in both the Hurricane Rita and Hurricane Katrina eligible Disaster Areas, then the LTV/TLTV/HTLTV requirements of the September 30th Bulletin still apply. We expect Sellers to take appropriate steps to address property damage issues and determine the value, condition and marketability of severely damaged properties located in the Hurricane Rita eligible Disaster Area. All other requirements in the September 30th Bulletin remain unchanged.

Freddie Mac encourages its Sellers to carefully evaluate each Borrower and property securing Mortgages contemplated for sale to Freddie Mac from all areas impacted by Hurricane Katrina and Hurricane Rita.

CONCLUSION

We believe the temporary relief offered under this Bulletin will help Freddie Mac Seller/Service providers meet the needs of Borrowers in the aftermath of these unprecedented natural disasters. We again request that Seller/Service providers extend the highest level of understanding to Borrowers coping with Hurricane Katrina- and Hurricane Rita-related hardships.

Both Selling and Servicing requirements for Hurricane Katrina and Hurricane Rita are available at www.FreddieMac.com/corporate/about/how_we_help/katrina.html.

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

Sincerely,



James J. Cotton
Vice President
Single-Family Marketing