

Bulletin

NUMBER: 2007-3

TO: All Freddie Mac Sellers and Servicers

June 22, 2007

SUBJECTS

Both Selling and Servicing requirements are amended in this *Single-Family Seller/Servicer Guide* (Guide) Bulletin.

With this Bulletin, we are making the following changes to our [selling requirements](#):

- Modifying existing Guide sections to reflect our [Mortgages for Newly Constructed Homes](#) offering, announced in the November 20, 2006 Bulletin, and updating the Guide to provide further instructions on the underwriting and documentation requirements for Seasoned Mortgages for Newly Constructed Homes
- Announcing that [Home Possible[®] Mortgages that are 5/1 adjustable-rate Mortgages \(ARMs\)](#) with 2/2/5 cap structures may be originated with temporary subsidy buydowns
- Revising our [streamlined refinance Mortgage requirements](#) to allow payoff of a purchase money junior lien with Mortgage proceeds, remove the 2.5% proceeds cap for Closing Costs, Financing Costs and Prepays/Escrows, and allow removal of a Borrower due to death or divorce
- Reorganizing and adding additional guidance to several [appraisal-related sections](#) of the Guide
- Revising [Exhibit 22, Form of Additional Supplement - Prepayment Penalty Mortgages](#), and [Exhibit 22A, Form of Additional Supplement - Convertible Adjustable-Rate Mortgages \(ARMs\)](#), to replace the specific date of the current PC Offering Circular with a reference to Freddie Mac's web site where the most current PC Offering Circular can be found
- Changing the effective date when the [American Land Title Association \(ALTA\) 2006 Loan Policy](#) must be used from June 17, 2007, to January 1, 2008
- Updating contact information for submitting [Form 483, Wire Transfer Authorization](#)
- Requiring that Sellers make the [special warranties](#) regarding Seller mortgage lending or investing activities that assist low- and very-low income families for Seller-Owned Modified and Seller-Owned Converted Mortgages based on the time between the Note Date and the Settlement Date or Delivery Date, as applicable, rather than the modification or conversion date

We are making the following changes to our [selling and Servicing requirements](#):

- Including additional guidance regarding [flood zone determination requirements](#)

We are making the following changes to our [Servicing requirements](#):

- Allowing Servicers to use [automated valuations provided by BPOdirect®](#) to evaluate certain workout options
- Making several [changes regarding expense reimbursements](#), including:
 - Adding requirements for reimbursable utility expenses
 - Clarifying when tax penalties and insurance premiums are reimbursable
 - Providing additional detail for several expense codes in Exhibit 57, 1- to 4- Unit Property Approved Expense Amounts, and Exhibit 74, Expense and Income Codes for Form 104SF
 - Adding an income code for mortgage insurance premium refunds and introducing several new adjustment codes on Exhibit 75, Adjustment Codes for Forms 104SF and 104DC
- Effective September 1, 2007, changing our [reporting deadline](#) to require Servicers to report a short payoff, make whole and third-party foreclosure sale within two Business Days of receiving the proceeds and to report a charge-off within two Business Days of receiving Freddie Mac approval
- Clarifying that a Servicer must send the Borrower an [adverse action notice](#) when Freddie Mac has denied a Mortgage assumption request, whether or not the Borrower is delinquent at the time, and reminding Servicers that they must comply with applicable law in determining appropriate notices and disclosure to provide to an applicant
- Reminding Servicers that on May 16, 2007 we notified them by e-mail of the addition of [three new designated counsel and the removal of one designated counsel](#) firm for the State of Texas. The new designated counsel are identified in our Designated Counsel List, formerly Guide Exhibit 79.
- Redesigning [Form 104SF, Statement of Loan, Workout, REO Expenses and Income](#), to add new data elements and remove redundancies
- Informing Servicers that effective July 1, 2007, for any [Form 981, Agreement For Subsequent Transfer of Servicing of Single-Family Mortgages](#), submitted, Transferor Servicers will be billed the Subsequent Transfer of Servicing processing fee on the Performing Loans monthly Servicer Billing Statement and must remit payment of the fee in accordance with the remittance requirements for payment of fees billed on their monthly billing statement
- Making several changes to [contact information in Directory 5](#)

EFFECTIVE DATES

All of these changes are effective immediately except:

- **June 1, 2007** – The three new Texas designated counsel began accepting cases on this date. No files should be sent to the prior Texas counsel on or after this date.
- **July 1, 2007** – For any [Form 981](#) submitted on or after this date, Transferor Servicers will be billed the processing fee for Subsequent Transfers of Servicing on the Performing Loans monthly Servicer Billing Statement and must remit payment in accordance with the remittance requirements for payment of fees billed on their monthly billing statement
- **September 1, 2007** – Beginning on this date, Servicers are required to report a short payoff, make whole and third-party foreclosure sale within two Business Days of receiving the proceeds and to report a charge-off within two Business Days of receiving Freddie Mac approval
- **January 1, 2008**
 - Servicers must complete the “date paid” field for tax and insurance expenses on any [Form 104SF](#) submitted on or after this date
 - Sellers must use the ALTA 2006 Loan Policy for all Mortgages with Note Dates on or after this date, except in those States where State approval of the 2006 Loan Policy is required but has not yet been granted

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

The revisions include:

- [Chapters 2, 6, 9, B9, 10, A10, 11, 13, A13, B15, C15, D15, 16, 17, 23, 24, 25, 30, 32, J33, K33, A34, 36, 37, 39, 44, 56, 58, 60, 65, A65, B65, 66, 67, 70, 71](#) and [78](#)
- [Exhibits 4, 17S, 22, 22A, 53, 57, 74](#) and [75](#)
- [Forms 104SF, 483](#) and [981](#)
- [Glossary](#)
- [Directories 3, 4, 5, 6](#) 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/Servicers. 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 and Deployment

SELLING CHANGES

Mortgages for Newly Constructed Homes

In the [November 20, 2006 Bulletin](#), we introduced Mortgages for Newly Constructed Homes. This offering replaced our previous offerings for construction financing to permanent Mortgages, Mortgages where the Mortgaged Premises were completed after the loan application, and rehabilitation Mortgages (collectively our “previous construction/renovation offerings”).

The terms of the new offering were presented with new Glossary definitions and additions to several sections of the Guide:

- [Guide Chapter K33](#) – describing the requirements for origination, documentation and underwriting of Mortgages for Newly Constructed Homes
- [Guide Section 36.1.1](#) – describing provisions applicable to Seasoned Mortgages for Newly Constructed Homes
- [Section 17.38.1](#) – describing the delivery requirements for Mortgages for Newly Constructed Homes

Because Sellers could continue to originate Mortgages under our previous construction/renovation offerings until May 1, 2007, we did not delete or modify any existing Guide sections to incorporate our new offering. Since the origination deadline has now passed, with this Bulletin we are updating those affected sections of the Guide to incorporate the new offering and to remove or replace terms and conditions of the previous construction/renovation offerings.

In addition, we are providing further instructions on the underwriting and documentation requirements of Seasoned Mortgages for Newly Constructed Homes.

5/1 Home Possible ARMs with temporary subsidy buydowns now eligible for sale

In response to market trends, we are expanding benefits available from temporary subsidy buydown plans to more Home Possible and Home Possible Neighborhood Solution[®] Mortgage Borrowers. Effective immediately, Home Possible Mortgages that are 5/1 ARMs with 2/2/5 cap structures secured by 1-unit Primary Residences that are not Manufactured Homes may be originated with Limited Buydowns.

In addition, Neighborhood Solution Mortgages that are 5/1 ARMs with 2/2/5 cap structures secured by 1- and 2-unit Primary Residences that are not Manufactured Homes may be originated with Limited Buydowns and Extended Buydowns.

Sellers delivering Home Possible Mortgages and Home Possible Neighborhood Solution Mortgages with buydowns must deliver the applicable buydown Loan Feature Code and Special Characteristics Code (SCC) (see [Section 17.20](#)) for any such Mortgage in addition to complying with any Home Possible Mortgage delivery requirements.

[Sections 25.4](#), [A34.2](#), and [A34.5](#) have been updated to reflect this change.

Revised requirements for streamlined refinance Mortgages

Freddie Mac is revising its requirements for streamlined refinance Mortgages to:

- Allow payoff of a purchase money junior lien with Mortgage proceeds
- Remove the 2.5% proceeds cap for Closing Costs, Financing Costs and Prepaids/Escrows
- Allow removal of a Borrower due to death or divorce

We have also revised the Guide to provide that Initial InterestSM Mortgages are not eligible for streamlined refinancing under the terms of [Sections 24.3](#) and [24.4](#). Initial Interest Mortgages may be refinanced under the terms of [Sections 24.5](#) and [24.6](#) (as “no cash-out” and “cash-out” refinance Mortgages, respectively).

We have updated [Section 24.3](#) to reflect these changes.

In addition, we have revised [Section 23.4](#) to add maximum LTV/TLTV/HTLTV ratio requirements for streamlined refinance Mortgages with payoff of a purchase money junior lien and eliminated the separate charts containing maximum LTV/TLTV/HTLTV requirements for 40-year fixed-rate streamlined refinance Loan Prospector[®] Mortgages and Manually Underwritten Mortgages. The maximum LTV/TLTV/HTLTV ratio requirements charts for streamlined refinance Mortgages now include maximum requirements for 40-year Mortgages.

Delivery requirements for streamlined refinance Mortgages – Borrower monthly income

When delivering any streamlined refinance Mortgage, Sellers are required to deliver the Borrower's current monthly income from the [Form 65, Uniform Residential Loan Application](#), for the new refinance Mortgage on [Form 11, Mortgage Submission Schedule](#), and [Form 13SF, Mortgage Submission Voucher](#), as applicable. We are updating the Guide to move the delivery requirements related to Borrower monthly income for streamlined refinance Mortgages from [Chapter 24](#) to [Section 17.18](#), where our other special delivery requirements for these Mortgages appear.

Appraisal-related updates

We are reorganizing and adding additional guidance to several appraisal-related sections of the Guide. Changes include:

- Updating [Section 44.4](#) to emphasize that Sellers must warrant that the appraisal services provided by the appraiser comply with the Uniform Standards of Professional Appraisal Practice (USPAP)
- Reorganizing [Section 44.9](#), which refers to Property Inspection Alternative (PIA)
- Moving flood insurance determination requirements from [Section 44.15](#) to [Section 58.3](#), where our other flood insurance requirements are located

Revising Additional Supplements to remove specific date reference for the PC Offering Circular

In the [April 25, 2007 Bulletin](#), we updated [Exhibit 22, Form of Additional Supplement – Prepayment Penalty Mortgages](#), and [Exhibit 22A, Form of Additional Supplement – Convertible Adjustable-Rate Mortgages \(ARMs\)](#), to reflect the revised PC Offering Circular date of March 19, 2007.

To eliminate the need for similar updates in the future, we are revising [Exhibits 22](#) and [22A](#) to refer to Freddie Mac's Mortgage Securities web site for the most recent PC Offering Circular. The web site is located on FreddieMac.com at http://www.freddiemac.com/mbs/html/legal_doc.html.

Extending the effective date for mandatory use of the ALTA 2006 Loan Policy

In [Bulletin 2007-2](#), Freddie Mac announced that, for Mortgages sold to Freddie Mac with Note Dates on or after June 17, 2007, the title insurance policies must be written on the ALTA 2006 Loan Policy in those States where its use is permitted. Although the national title insurance companies have obtained approval for the use of the ALTA 2006 Loan Policy in almost all States where approval is required, we have become aware that there are operational system delays in distributing and integrating the new policy in both mortgage banking and title insurance distribution channels.

Accordingly, as previously announced via e-mail, Freddie Mac is extending the effective date for mandatory use of the ALTA 2006 Loan Policy until January 1, 2008. Freddie Mac, however, strongly encourages Sellers to use the ALTA 2006 Loan Policy before the extended mandatory use date, in States where the use of the new form is now permitted.

Contact information change for [Form 483, Wire Transfer Authorization](#)

As a result of departmental changes at Freddie Mac, the contact information for submitting [Form 483](#) has changed. We have updated the form and [Directories 3](#) and [8](#) to reflect these changes.

Revised time period for making special Seller warranties regarding mortgage lending or investing activities that assist low- and very low-income families when selling Seller-Owned Modified and Seller-Owned Converted Mortgages

We are changing the time period for determining when a Seller must provide the special warranties regarding mortgage lending or investing activities that assist low- and very low-income families for Seller-Owned Modified and Seller-Owned Converted Mortgages. We now require Sellers to make the special warranties in [Section 36.8\(b\)](#) for Seller-Owned Modified and Seller-Owned Converted Mortgages with a Settlement Date or Delivery Date, as applicable, which is more than 12 months after the original Note Date of the Mortgage (rather than the date of modification or conversion (mod/conv date)).

1-Year Weekly Constant Maturity Treasury (CMT)-indexed ARMs with First Business Day Lookback Periods ineligible for sale

Effective immediately, ARMs that adjust based on the 1-Year Weekly CMT index using a First Business Day Lookback Period are no longer eligible for sale to Freddie Mac. 1-Year Weekly CMT-indexed ARMs must have a 45-day Lookback Period to be eligible for sale to Freddie Mac.

[Chapters 30](#) and [J33](#); [Exhibit 4, Single-Family Uniform Instruments](#); and [Exhibit 17S, Mortgage Products Available Through the Selling System](#); have been updated to reflect this change.

SELLING AND SERVICING CHANGES

Guidance regarding flood zone determination requirements

We've updated the Guide to remind Sellers that a flood zone determination must be made for each Mortgage sold to Freddie Mac and we have included additional guidance regarding flood zone determination requirements. Highlights of the new guidance include:

- The “Date of Determination” on the [Exhibit 13, FEMA Form 81-93, Standard Flood Hazard Determination Form](#), must be a date that is no more than 120 days before the Note Date of the Mortgage or, in the case of a refinance Mortgage, the Note Date of the refinance Mortgage
- The loan number or other identifying information in the “Loan Identifier” field of [Exhibit 13](#) must pertain to the Mortgage or, if applicable, the refinance Mortgage

Additionally, please note that flood zone determination requirements have been moved from [Section 44.15](#) to [Sections 58.3](#) and [58.9](#), where our other flood insurance requirements are located.

SERVICING CHANGES

Using automated valuations for certain workout options

Servicers may now utilize our automated valuations provided by BPOdirect (“automated values”) for the evaluation of certain workout options. Servicers are no longer required to order an exterior Broker Price Opinion (BPO) if an automated value is available for the following workout options on Mortgages secured by 1-unit properties that are not Manufactured Homes:

- Long-term forbearances
- Loan modifications
- Workout Mortgage assumptions

If no automated value is available, the Servicer must order an exterior BPO for these workout options. We will continue to require an interior BPO for all workout types for Mortgages secured by 2- to 4-unit properties and Manufactured Homes.

[Chapters 65, A65, B65, 66](#) and [71](#) have been updated to reflect this change. [Directories 5](#) and [6](#), and the [Glossary](#) have also been updated.

Expense reimbursement changes

Utility expense reimbursement

We are updating our property preservation requirements to emphasize that Servicers may continue utilities on abandoned properties when it is necessary to protect the property from waste, damage and vandalism. While Guide requirements instructed Servicers to take steps when necessary to preserve and protect abandoned properties from waste and damage prior to foreclosure sale, there was previously no specific guidance for the continuation of utilities when necessary or for the reimbursement of utility expenses on abandoned properties during this time period.

To address this concern, we are making the following changes:

- [Sections 66.36](#) and [67.28](#) have been updated to indicate that Freddie Mac will reimburse utilities from the Due Date of the Last Paid Installment (DDLPI) through to the receipt of the Property Condition Certificate (PCC), and emphasize that utility services should be kept on where necessary to protect an abandoned property from waste, damage and vandalism
- [Exhibit 57, 1- to 4- Unit Property Approved Expense Amounts](#), has been updated to reflect utilities as an approved expense
- [Section 70.17](#) has been updated with the time period for which we will reimburse utility expenses for Real Estate Owned (REO) properties

Reimbursement of tax penalties

[Section 71.9](#) has been updated to specify that a reimbursable “first tax penalty” is the first penalty assessed for any tax, *not* the first penalty assessed on each type of tax.

Property insurance premiums reimbursement

[Section 71.10](#) has been updated to provide that after the DDLPI, property insurance premiums are reimbursable for a period of:

- Up to 14 days after the final non-REO activity, or
- Up to 14 days after the Servicer's receipt of a PCC from a broker indicating that the property has been inspected and is vacant.

Expense reimbursement process

[Exhibit 57](#) and [Exhibit 74, Expense and Income Codes for Form 104SF](#), have been updated with additional details to enhance the expense reimbursement process. These general updates were also made to provide more consistency between the two exhibits.

New adjustment codes in [Exhibit 75, Adjustment Codes for Forms 104SF and 104DC](#)

We have added new adjustment codes to [Exhibit 75](#) related to:

- Existing submission deadlines for [Form 104SF, Statement of Loan, Workout and REO Expenses and Income](#), and [Form 104DC, Designated Counsel/Trustee](#)
- Existing reimbursement requirements for property insurance

Reporting deadline change

Effective September 1, 2007, we are changing our reporting deadline to require Servicers to:

- Report a short payoff, make whole and third-party foreclosure sale within two Business Days of receiving the proceeds
- Report a charge-off within two Business Days of receiving Freddie Mac approval

Currently, we require Servicers to report prepaid and matured Mortgage payoffs to us within two Business Days of receiving the proceeds. This change will add consistency to the payoff reporting process by requiring all payoff reporting to be completed within the same timeframe.

[Directory 4](#), and [Chapters B65](#) and [78](#) have been updated to reflect this change.

Requirements regarding adverse action notice/compliance with law

We are updating [Section B65.31](#) to clarify that a Servicer must send the Borrower an adverse action notice when Freddie Mac has denied a Mortgage assumption, whether or not the Borrower is delinquent at the time.

We are removing [Exhibit 53, ECOA Form Letter Response to Loan Assumption Application](#), from the Guide and reminding Servicers that they must comply with applicable law in determining appropriate notices and disclosure to provide to an applicant.

Designated counsel/trustee

On May 16, 2007 we announced a change in designated counsel for the State of Texas via e-mail. As a reminder, as of June 1, 2007, we added three new firms. Also as of June 1, 2007, Michael J. Schroeder, P.C. is no longer accepting new referrals under the Designated Counsel Program. The Designated Counsel/Trustee List reflects the new counsel and updated contact information.

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

Redesign of Form 104SF

Guide [Form 104SF](#) has been redesigned to remove redundancies and add new data elements, which should result in more efficient claim processing. The Online 104SF Reimbursement System is also being updated to reflect these changes.

For example, we have added a “date paid” field to the Expense Section of the form to capture the dates on which the Servicer paid tax and insurance expenses. Currently, after receiving Freddie Mac's claim, mortgage insurers typically contact the Servicer to obtain the dates taxes and/or hazard insurance expenses were paid. By providing this information to us on the [Form 104SF](#), we can provide it directly to the mortgage insurer and eliminate the need for Servicers to spend time and effort researching these expenses later in the claim process.

The “date paid” field will be available for use by Servicers via the Online 104SF Reimbursement System on June 22, 2007; however, to give Servicers time to implement the data requirement into their systems, it will not be a required data field until January 1, 2008.

Other data elements added to the form and the Online Reimbursement System include:

- A new mortgage insurance premium refund income code, to capture any mortgage insurance refunds Servicers may receive from the mortgage insurer that they are remitting back to us. ([Exhibit 74](#) has also been updated to reflect the new mortgage insurance premium refund income code.)
- A Rural Housing Service (RHS) descriptor to indicate claims submitted for Mortgages guaranteed by the RHS
- An Escrowed Mortgage check box to identify if the Mortgage has escrows at DDLPI to be claimed as a credit to offset expenses
- A separate mailing address for cash remittances and FHA/VA/RHS claim submissions

We have eliminated required data fields that consist of information already available to us via our internal systems (such as DDLPI, REO settlement date, redemption date, etc.).

Transfer of Servicing processing fee

Currently Transferor Servicers must remit with the [Form 981, Agreement for Subsequent Transfer of Servicing](#), a \$500 nonrefundable processing fee in the form of a check. Effective July 1, 2007, for any Form 981 submitted to Freddie Mac, Transferor Servicers will be billed the processing fee on the Performing Loans monthly Servicer Billing Statement and must remit payment in accordance with the requirements for remitting payment of fees billed on their monthly billing statement. We are eliminating the process for remittance via check. This change should streamline and create a more efficient process for the payment of this fee.

[Section 56.3](#) and [Form 981](#) have been updated to reflect this change.

Form 104DC submission deadline

We have updated [Section 71.20](#) to include the submission deadline for Form 104DC. As a reminder, Servicers must submit Form 104DC (via paper or online) so that Freddie Mac receives it within 30 days of the acquisition date. Previously, this deadline was noted in the Form 104DC but not the related Guide section.

Changes to [Directory 5](#)

We are revising [Directory 5](#) to:

- Add a specific e-mail address for expense-related questions and/or submissions associated with FHA, VA and RHS Mortgages
- Delete the e-mail address for requests related to changes to the Mortgaged Premises since this e-mail method of notification was not well utilized. Effective immediately, requests related to changes to the Mortgaged Premises (see [Section 51.7](#)) must be submitted by fax.