Freddie Mac
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Bulletin

NUMBER: 2007-4

TO: All Freddie Mac Sellers and Servicers — October 19, 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**:

- Updating the Guide to prohibit the sale of adjustable-rate Mortgages (ARMs) with application dates on or after September 13, 2007 that have an Initial Period of three years or less and Margins of 400 basis points or higher, as announced in our September 7, 2007 Single-Family Advisory e-mail
- Revising the area median income limits guidance announced in our June 14, 2007 Bulletin to permit Sellers to use the higher of the 2006 or 2007 area median income limits for Home Possible® Mortgages and also for Alt 97® Mortgages and Freddie Mac 100 Mortgages with secondary financing that is an Affordable Second®
- Updating the Guide to incorporate new Master Form and Short Form Security Instruments and to provide requirements for authorized changes that are applicable to these instruments
- With respect to Uniform Instruments, revising the Guide to:
  - Update Section 6.8 to remove the provision allowing modification of the Uniform Instruments through the use of an addendum or rider that terminates on the sale of the Mortgage to Freddie Mac
  - Update Exhibit 5, Authorized Changes to Notes, Riders, Security Instruments and the Uniform Residential Loan Application, to provide additional permissive and required authorized changes in California, Pennsylvania, Virginia and Washington
- Updating the Guide to call attention to the requirement that an attorney's opinion of title must provide an opinion on environmental protection lien matters and providing further direction on when an exception for a State superlien statute may be taken in that opinion
- Adding PMI Insurance Company as a new Freddie Mac-approved mortgage insurer
- Updating Guide Section 17.13.1 and Form 11, Mortgage Submission Schedule, and Form 13SF, Mortgage Submission Voucher, to add special characteristic code 140, introduced for certain Home Possible Mortgages in the August 1, 2007 Bulletin

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

- Revising our requirements related to a Custodian's document tracking system and eliminating the requirements that the Freddie Mac loan number be affixed to the Note and that a Custodian must segregate the Notes they hold for Freddie Mac

We are making the following changes to our **Servicing requirements**:

- Revising the criteria used to determine a Servicer's Workout-to-REO Ratio and foreclosure time lines performance on the default management section of the Servicer Performance Profile
- Updating the Guide to emphasize that mortgage insurance premiums must be paid through the later of the foreclosure sale date or the confirmation/ratification date, and to require Servicers receiving a refund for premiums paid after DDLPI to submit the refund credit to Freddie Mac via Form 104SF, Statement of Loan, Workout and REO Expenses and Income
- Updating the Guide to eliminate all claim filing instructions for FHA and VA Mortgages as a result of the recent Guide change requiring FHA and VA proceeds be sent directly to the Servicer
- Providing guidance regarding the due dates of various Form 104SF submission types and revising several adjustment code descriptions and adding one new adjustment code to Exhibit 75, Adjustment Codes for Forms 104SF and 104DC, to better reflect our reimbursement time lines
- Updating Form 1127, BPO Request Form, to reflect revised pricing and BPO request selections by inspection type
- Reminding Servicers of changes to the Designated Counsel/Trustee List reflecting new counsel in Georgia and Massachusetts and other updated contact information
- Making general updates to Directories 5 and 7:
  - Revising Directory 5 to provide a new address for submission of hard copies of Form 104SF and Form 104DC, Designated Counsel/Trustee, to reflect updated Freddie Mac department names, phone numbers, fax numbers and e-mail addresses
  - Revising Directories 5 and 7 to reflect the new address for remittances, which resulted from the JP Morgan Chase acquisition of Bank One, NA
- Removing obsolete Form 1073, Uniform Mortgage Insurance Claim for Loss, and Form 1109, Mortgage Insurer's Claim Payment Instructions, from the Guide

In addition, we are making a correction to Exhibit 19, Postsettlement Delivery Fees, revised with our August 1, 2007 Bulletin. A line referencing "no cash-out" refinance Mortgages was inadvertently omitted from the Home Possible Mortgage fee rate section of Exhibit 19 effective for settlements on or after November 1, 2007. Exhibit 19 has been corrected to provide this fee information.

Effective Dates

All of these changes are effective immediately except:

- **October 20, 2007** – ARMs with application dates on or after September 13, 2007, that have Initial Periods of three years or less and Margins of 400 basis points or higher, are ineligible for sale to Freddie Mac through flow Purchase Contracts beginning on this date
- **October 21, 2007** – Loan Prospector® will be updated on this date to apply the higher of the 2006 or 2007 area median income limits to Home Possible Mortgages and also Alt 97 Mortgages and Freddie Mac 100 Mortgages with secondary financing that is an Affordable Second
- **November 1, 2007** – Revised postsettlement delivery fees announced in our August 1, 2007 Bulletin are effective for Mortgages with settlements on or after this date. In addition, special characteristics code 140—indicating a purchase transaction Home Possible Mortgage when the income used to qualify the Borrower, converted to an annual basis, does not exceed 80% of the applicable area median income or a purchase transaction Home Possible Mortgage secured by property located in a Hurricane Katrina/Hurricane Rita eligible Disaster Area originated on or before December 31, 2007—will be effective beginning on this date
- **January 1, 2008**
    - Changes to the default management section of the Servicer Performance Profile will become effective on this date
    - If Servicers receive a refund from the mortgage insurer for premiums paid after DDLPI, the credit of those refunds must be submitted to Freddie Mac via Form 104SF beginning on this date
- **February 1, 2008** – Freddie Mac will no longer accept changes or additions to the Uniform Instruments unless the change or addition is permitted under Section 6.8 beginning on this date

Revisions to the Single-Family Seller/Servicer Guide

The revisions include:

- Chapters 6, 10, 16, 17, 18, 22, 30, 39, 46, 50, 52, 59, 66 and 71
- Exhibits 2, 4, 5, 10, 19 and 75
- Forms 11, 13SF, 1073, 1109 and 1127
- Glossary
- Directories 5 and 7

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
Customer Outreach and Offerings Deployment

SELLING CHANGES

Changes to requirements for flow ARM purchases announced September 7, 2007

In June 2007, the federal banking agencies issued the interagency *Statement on Subprime Mortgage Lending* (Subprime Statement), which provided guidance to depositories regarding appropriate underwriting standards for short-term subprime ARMs. While Freddie Mac has not historically purchased Mortgages that could be considered short-term subprime ARMs, by a Single-Family Advisory e-mail dated September 7, 2007, we notified Seller/Servicers, as directed by our regulator, the Office of Federal Housing Enterprise Oversight, of changes to our requirements for flow and bulk purchases of short-term ARMs.

We would not expect prime ARMs with shorter initial fixed-rate periods sold under Master Commitments to have high margins, and we require reasonable rate and cap structures on our flow ARM products. However, until now the Guide requirements did not include an explicit margin cap for these ARM products, making it theoretically possible for a short-term prime ARM with a high margin to be sold under a flow commitment.

Therefore, as announced in our Single-Family Advisory e-mail, and effective October 20, 2007, for Mortgages with applications dated on or after September 13, 2007, 6-month ARMs, 3/6-month ARMs, 1-year ARMs, 3/1 ARMs and 3-year ARMs that have a Margin of 400 basis points or more will be ineligible for sale to Freddie Mac under flow Purchase Contracts. Guide Chapters 10 and 30 have been updated to reflect this change, which we view as largely technical.

For more information about the changes to our requirements for the sale of short-term ARMs under bulk sale transactions, refer to our Single-Family Advisory e-mail dated September 7, 2007.

Updated area median income limits guidance

On June 14, 2007, Freddie Mac issued a Bulletin providing guidance to Sellers regarding use of the 2006 and 2007 area median income estimates to underwrite Home Possible Mortgages and also Alt 97 Mortgages and Freddie Mac 100 Mortgages with secondary financing that is an Affordable Second. Eligibility for these Mortgages is based on, among other things, area median income estimates issued annually by the Department of Housing and Urban Development (HUD).

Because of a change in HUD's methodology, many of the area median income estimates for 2007 are lower than the 2006 estimates. Freddie Mac is taking steps to facilitate the transition to this methodology and to enable Sellers to serve more first-time homebuyers and low- to moderate-income Borrowers. Specifically, we are updating Loan Prospector effective October 21, 2007, to use the higher of the 2006 or 2007 area median income limits for Mortgages with area median income requirements. Sellers may also use the higher of the area median income limits to underwrite Manually Underwritten Alt 97 Mortgages and Non-Loan Prospector Freddie Mac 100 Mortgages with an Affordable Second.

These changes will result in additional Borrower eligibility for affordable Mortgages secured by properties located in certain geographic areas.

As a reminder, HUD issues area median income estimates annually. Freddie Mac will provide Sellers with information about the income estimates to be used to underwrite Mortgages with area median income limit requirements in 2008 at a future date.

Master Form and Short Form Security Instruments

On July 25, 2007, Freddie Mac announced the availability of Master Form and Short Form Security Instruments.

Section 6.10.1, and Exhibit 4, Single-Family Uniform Instruments, and Exhibit 5, have been updated to incorporate these new instruments and the authorized changes that are applicable to these instruments.

Authorized changes to Uniform Instruments

As part of our efforts with Fannie Mae to keep the Uniform Instruments compliant with various State laws, we are revising Exhibit 5 to include authorized changes for the California Security Instrument, the Pennsylvania Note and Security Instrument, the Virginia Note and the Washington Security Instrument. We are also providing authorized changes for the Multistate Construction Conversion Modification Agreement – Fixed Interest Rate (Embedded Fixed-Rate Financing Terms).

Making changes and additions to Uniform Instruments

Under current Section 6.8, changes or additions are permitted to the Uniform Note or Security Instrument if the changes are stated in a Note addendum or Security Instrument rider that provides they will have no further force or effect upon sale of the Mortgage to Freddie Mac. Freddie Mac has become aware that loan originators may be exploiting this Guide provision to modify or add provisions to the Uniform Instruments that, absent this Guide provision, would not be eligible for sale to Freddie Mac.

For that reason, effective February 1, 2008, Freddie Mac will no longer accept any changes or additions to Uniform Instruments unless the change or addition is expressly permitted under Section 6.8.

Section 6.8 is being updated to reflect this change.

Environmental protection lien opinion

Freddie Mac acknowledges that there are areas of the country where an attorney's opinion of title has historically been commonly acceptable in lieu of title insurance by private institutional mortgage investors. However, as title insurance policy coverage expands to meet new land title and lien priority concerns, an attorney's opinion of title must evolve accordingly.

Therefore, Freddie Mac is calling attention to the requirement that an attorney's opinion of title is required to provide an opinion on environmental protection lien matters. Additionally, Freddie Mac is providing further direction on when an exception for a State superlien statute may be taken in that opinion.

Section 39.3 has been updated with respect to these requirements.

New approved mortgage insurer: PMI Insurance Company

Exhibit 10, Freddie Mac-Approved Mortgage Insurers, has been updated to include PMI Insurance Company as a new Freddie Mac-approved mortgage insurer.

Mortgaged Premises located in New York

Because New York recently amended Section 6-L of its State Banking Law to delete the $300,000 principal amount limitation from the definition of "home loan," we are deleting the reference to loan size from the examples of Mortgages that are not "high cost home loans" from Section 22.18.2(b), Mortgaged Premises located in New York. Freddie Mac will continue to purchase home loans that comply with the terms of a Seller's Purchase Documents and that are not subject to Section 6-L of the New York State Banking Law.

Reminder: Special characteristics code 140

As announced in our August 1, 2007 Bulletin, in order to receive a reduced delivery fee rate for Home Possible Mortgages, Sellers must deliver new special characteristics code 140 for any purchase transaction Home Possible Mortgage when the income used to qualify the Borrower, converted to an annual basis, does not exceed 80% of the applicable area median income and when a purchase transaction Home Possible Mortgage is secured by property located in a Hurricane Katrina/Hurricane Rita eligible Disaster Area and originated on or before December 31, 2007.

With this Bulletin, we are updating Section 17.13.1, Form 11 and Form 13SF to add this new special characteristics code.

Sellers are reminded that in addition to delivering this new special characteristics code, they must comply with all of the existing delivery requirements for Home Possible Mortgages set forth in Section 17.13.1, including the requirement for delivery of other applicable special characteristics codes.

SELLING AND SERVICING CHANGES

New requirements for document custody

We are revising Section 18.2(b) with respect to a Custodian's requirements for document tracking and reporting to reflect that a Custodian's document tracking system must cross-reference the Freddie Mac loan number with the Servicer loan number assigned to the related Mortgage.

We are also requiring that screen prints of a Custodian's document tracking system be included with a request for initial approval as a Custodian, annually as part of its eligibility certification, and otherwise, upon request.

As a result of these changes, Custodians are no longer required to segregate Notes they hold for Freddie Mac from those they hold for other investors. In addition, Sellers (or Document Custodians acting at the request of Sellers) are no longer required in most circumstances to affix the Freddie Mac Loan Number to the face of the Note.

Chapters 16, 18, 46 and 52 have been updated to reflect these changes.

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
- Measures the activities that help us minimize credit losses
- Values (ranks) the different activities to align with their importance to minimizing credit losses
- Helps Servicers understand how well they are managing our delinquent loan portfolio

As a result of our review, and as announced in our Single-Family Advisory e-mail dated September 17, 2007, Freddie Mac is making the following changes to the default management section of the Servicer Performance Profile, which will be effective on January 1, 2008.

Workout-to-REO Ratio

Freddie Mac is changing the criteria used to determine the weighting of settled loan modifications and short payoffs in the calculation of a Servicer's Workout-to-REO Ratio performance.

The weighting awarded for each completed short payoff and loan modification will be based on the loss mitigation Early Indicator® (EI) score generated by Freddie Mac. This score will be translated into a weighting of settled loan modifications and short payoffs as follows:

EI Score	Weight
100 - 250	1.5
251 - 350	1.25
351 - 400	1.0

If there is no EI score available, a weight of 1.0 will be assigned.

What is Early Indicator?

EI is a delinquency scoring system designed to help Servicers make decisions about how to most effectively use resources in delinquent-loan management. EI:

- Uses a Servicer's servicing system data and updated economic data (quarterly) to score loans due for one or more payments, with each loan assigned one of two types of scores:
  - Collection (loans due for one payment)
  - Loss Mitigation (loans due for two or more payments, including loans in foreclosure)
- Risk-ranks delinquent loans from early collections to foreclosure
- Helps Servicers assist homeowners to avoid foreclosure, if possible
- Measures the likelihood of a loan becoming more seriously delinquent or continuing through to a loss-producing state
- Can be used on all loans in a Servicer's portfolio, not just Freddie Mac loans

Foreclosure Timeline Metric

Once a Servicer has determined foreclosure is the only course of action, we expect a Servicer to move the Mortgage to foreclosure in a timely fashion. Currently, Servicers that have Mortgages in foreclosure, but are not moving those Mortgages timely toward foreclosure sale and do not complete any foreclosure sales in a calendar year, are awarded full points for the Foreclosure Timeline Metric.

Effective January 1, 2008, if a Servicer has no foreclosure sales within a rolling 12-month period, but has Mortgages in the foreclosure process, they must achieve a minimum Tier 2 or better in the Inventory Past Standard Severity measure to receive the minimum Tier 2 points for the Foreclosure Timelines Including Delay's metric. This change reinforces the requirement that a Servicer must effectively manage the entire foreclosure process to achieve the maximum points for this metric.

Payment of mortgage insurance premiums and remittance of mortgage insurance premium refunds

To ensure there is no lapse in mortgage insurance coverage should a delinquent Mortgage reinstate, Freddie Mac is updating the Guide to emphasize that mortgage insurance premiums must be paid through the later of the foreclosure sale date or the confirmation/ratification date.

Additionally, effective January 1, 2008, should a Servicer receive a refund from an MI for premiums paid after DDLPI, the Servicer must submit a refund credit to Freddie Mac via Form 104SF. In the June 22, 2007 Bulletin, we introduced a new "mortgage insurance premium refund" income code to the Form 104SF for this purpose.

Chapters 59 and 71 have been updated to reflect these changes.

Payment of and reimbursement for regular condominium/homeowners association (HOA)/ Planned Unit Development (PUD) assessments

Freddie Mac is updating Chapter 66 to emphasize that regular condominium, HOA and PUD assessments must also be paid prior to the foreclosure sale for properties located in those States that give these assessments lien priority over the Mortgage.

In addition, we are providing further guidance regarding our reimbursement requirements for condominium/HOA/PUD assessments for properties located in States with a redemption period. We are updating Chapter 71 to specify that we will reimburse the Servicer for regular assessments from the foreclosure sale date through the REO settlement date. This time frame encompasses the redemption period through the property disposition.

Revision to claim filing instructions for FHA and VA Mortgages

As of March 1, 2007, we require Servicers to file FHA and VA claims so that proceeds are paid directly to the Servicer. As a result, with this Bulletin, Freddie Mac is revising the Guide to eliminate all claim filing instructions for FHA and VA Mortgages that indicated FHA or VA proceeds would be sent to Freddie Mac, and any existing requirements for expense reimbursement that are contingent upon Freddie Mac's receipt of claim payments from the FHA or VA.

Sections 66.65 and 71.7, and Exhibit 75, have been updated to reflect this change.

Form 104SF types and time frames and Form 104SF adjustment codes

Form 104SF types and time frames

Freddie Mac is providing more guidance regarding the due dates for various Form 104SF submission types for both non-REO expenses and REO expenses. We are also reinforcing the purpose of the final Form 104SF for REO properties, which is the submission of allowable REO expenses incurred after the acquisition date.

Freddie Mac is also reminding Servicers that if they resubmit an expense to either correct or contest an adjustment, such a resubmission must be sent to Freddie Mac on a hard copy Form 104SF. With this Bulletin, we are notifying Servicers that they must now send any hard copies of Form 104SF or Form 104SF to a new address.

We have updated the relevant Guide sections and Directory 5 to reflect this change.

Adjustment code descriptions

Several descriptions for Form 104SF adjustment codes have been updated and one new adjustment code has been added to Exhibit 75 to better reflect Freddie Mac's expense reimbursement policies.

Updating Form 1127

Form 1127 has been updated to reflect revised pricing and BPO request selections by inspection type.

Designated counsel/trustee

On August 16, 2007, Freddie Mac announced via e-mail that two new Georgia firms have been added to Freddie Mac's Designated Counsel Program: Pendergast & Jones, P.C. and McCurdy & Candler, L.L.C. These new firms began accepting new program referrals on September 1, 2007.

Additionally, Julie Moran, Esq. and her staff (formerly of Barron and Stadfeld, P.C.) have opened a new law firm, Orlans and Moran, in Massachusetts. Effective August 1, 2007, the new firm replaced Barron and Stadfeld as Designated Counsel.

The Designated Counsel/Trustee List (formerly Exhibit 79) reflects the new counsel and updated contact information. The Designated Counsel/Trustee List is located on FreddieMac.com at **http://www.freddiemac.com/service/msp/desig_counsel.html**.

General updates to Directories 5 and 7

Directory 5 has been revised to reflect updated Freddie Mac department names, phone numbers, fax numbers and e-mail addresses. As indicated above in the discussion of Form 104SF types and time frames, changes include a new address to which Servicers must send any hard copies of Form 104SF or Form 104DC.

In addition, as a result of the JP Morgan Chase acquisition of Bank One, NA, we have changed the name and address of the banking institution to which Servicers send cash remittances of non-REO related funds. Directories 5 and 7 have been updated to reflect this change.

Removing obsolete forms

Form 1073, Uniform Mortgage Insurance Claim for Loss, and Form 1109, Mortgage Insurer's Claim Payment Instructions, have been removed from the Guide. With the introduction of MI Access®, Freddie Mac assumed the responsibility of filing mortgage insurance claims.