

Bulletin

NUMBER: 2009-7

TO: All Freddie Mac Sellers and Servicers

March 31, 2009

SUBJECTS

With this *Single-Family Seller/Servicer Guide* (“Guide”) Bulletin, Freddie Mac is revising the Guide to:

- Include applicable requirements related to the *Home Valuation Code of Conduct* (“Code”)
- Revise our requirements for the Freddie Mac Relief Refinance MortgageSM offering to require that the Mortgage being refinanced have a Settlement Date on or before **May 31, 2009**, and the Freddie Mac Relief Refinance Mortgage have a Note Date on or after **March 4, 2009**
- Update requirements for Condominium Unit Mortgages, which include a requirement to deliver a new special characteristics code (SCC) for Condominium Unit Mortgages with a streamlined review and for Condominium Unit Mortgages approved through Fannie Mae’s Project Eligibility Review Service (PERS) process
- Revise Form 71, *Market Conditions Addendum to the Appraisal Report*
- Update requirements for Mortgages with temporary subsidy buydown plans (“buydown plans”), including Home Possible[®] Mortgages and Home Possible Neighborhood Solution[®] Mortgages
- Establish requirements for Restructured Mortgages to state that they may only be sold to Freddie Mac under negotiated contracts through our bulk sales unit
- Amend special underwriting requirements for A-minus Mortgages related to the Borrower’s housing payment history

We are also retiring our special temporary collateral requirements for Mortgages secured by property located in “eligible Disaster Areas” impacted by Hurricane Katrina and Hurricane Rita. (Eligible Disaster Areas are counties, municipalities and parishes 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.)

Effective dates

All of these changes are effective immediately except:

- **April 1, 2009** – Sellers are required to use the Form 71 for all appraisals that have effective dates on and after this date. The version of the Form 71 that was available prior to the publication of this Bulletin may not be used on or after July 1, 2009.
- **May 1, 2009**
 - Restructured Mortgages may be sold to Freddie Mac only under negotiated contracts through our bulk sales unit on and after this date
 - Freddie Mac will no longer purchase Mortgages from Sellers that do not adopt the Code with respect to single-family Mortgages that are delivered to Freddie Mac on and after this date
 - Sellers must represent and warrant that appraisal reports are obtained in a manner that is consistent with the Code for Mortgages with applications dated on and after this date
- **July 1, 2009**
 - Changes to our requirements for the sale of Condominium Unit Mortgages are effective for Mortgages with Settlement Dates on and after this date, including the requirement to deliver the two new SCCs, if applicable
 - For A-Minus Mortgages with Settlement Dates on and after this date, when the Mortgage payment histories for qualifying Borrowers must be directly verified outside of Loan Prospector[®], Sellers must warrant that during the prior 12-month period, the Borrower was not 30 days or more delinquent more than once
 - Changes to our requirements for the sale of Mortgages with temporary subsidy buydown plans are effective on and after this date

HOME VALUATION CODE OF CONDUCT

The Code is part of Freddie Mac's March 3, 2008 agreement with the Federal Housing Finance Agency and the New York State Attorney General; it builds upon our efforts to enhance appraiser independence and accuracy of the appraisal process.

In Bulletin 2009-1 (Home Valuation Code of Conduct), we announced that effective **May 1, 2009**, Freddie Mac will no longer purchase Mortgages from Sellers that do not adopt the Code with respect to single-family Mortgages delivered to Freddie Mac.

In addition, effective for single-family Mortgages with application dates on or after **May 1, 2009**, Freddie Mac Seller/Serviceicers must represent and warrant that appraisals are obtained in a manner that is consistent with the Code. The sale of the following Mortgages is excluded from the above representation and warranty: FHA/VA Mortgages, Section 184 Native American Mortgages and Section 502 Guaranteed Rural Housing Mortgages.

We are updating the Guide to reflect the requirements announced in Bulletin 2009-1, including revisions that require any third party specifically authorized to perform certain actions on behalf of the Seller be in compliance with the Code. Guide Sections 6.10, 44.3, 44.5, 44.7, 44.15 and 44.21 are being revised to include applicable Code requirements.

For more information about the Code, visit the Home Valuation Code of Conduct web page on FreddieMac.com at http://www.freddiemac.com/singlefamily/home_valuation.html.

New Exhibit 31, Home Valuation Code of Conduct

The revised Code, which was previously attached to Bulletin 2009-1 as an exhibit, is now being added to the Guide as new Exhibit 31, *Home Valuation Code of Conduct*.

FREDDIE MAC RELIEF REFINANCE MORTGAGES

On March 4, 2009, we announced eligibility and delivery requirements for Freddie Mac Relief Refinance Mortgages, in support of the federal Making Home Affordable Program. With this Bulletin, we are revising Chapter A24 to provide that Mortgages being refinanced must have Settlement Dates on or before **May 31, 2009**, and Freddie Mac Relief Refinance Mortgages must have Note Dates on or after **March 4, 2009**.

CONDOMINIUM UNIT MORTGAGES

Freddie Mac monitors the performance of the Mortgages we purchase. As a result of a noticeable deterioration in the performance of Condominium Unit Mortgages, we are amending Condominium Unit Mortgage and Condominium Project requirements, including requirements related to operating budgets and presales, some of which are highlighted in this Bulletin. For complete requirements, Sellers must review revised Chapter 42.

New defined terms

The term “Newly-Converted Condominium Project” is being added to the Glossary. In addition, definitions/descriptions of the following have been added to Chapter 42:

- Covenants, Conditions and Restrictions (CC&Rs)
- Homeowners Association
- Live-Work Condominium Project
- Mixed-use Condominium Project

Sellers should familiarize themselves with these terms as they apply to Condominium Unit Mortgage and Condominium Project requirements in Chapter 42.

Fannie Mae Project Eligibility Review Service and Expedited Condo Project Manager Reviews

Section 42.9 is being revised to reflect that Freddie Mac will purchase Mortgages secured by 1-unit residential dwellings in Condominium Projects that are approved through the Fannie Mae PERS process subject to certain requirements and Seller warranties.

Condominium Unit Mortgages located in Florida have substantially higher default rates. Effective **July 1, 2009**, attached Condominium Unit Mortgages secured by units in New and Newly-Converted Condominium Projects in Florida will only be eligible for sale to Freddie Mac if the Condominium Project is approved through the Fannie Mae PERS process, with certain additional conditions.

New special characteristics codes

We are revising Chapter 17 to require that effective for Mortgages with Settlement Dates on and after **July 1, 2009**, Sellers must deliver new SCC “H10” when delivering a Condominium Unit Mortgage evaluated using the streamlined review process described in Section 42.4.

In addition, Sellers must deliver SCC “H09” when delivering a Condominium Unit Mortgage located in a Condominium Project approved through the Fannie Mae PERS process (refer to Section 42.9).

Ineligible projects

We are reminding Sellers of ineligible Condominium Projects in Section 42.3 that continue to include the following:

- Projects sold with excessive Seller contributions
- Projects with excessive single investor concentration
- Projects with fractured interest
- Continuing Care Retirement Communities
- Condominium Projects that are ineligible for delivery to or have been rejected by Fannie Mae

As a reminder, certain Condominium Unit Mortgages are only eligible for sale to Freddie Mac when the Condominium Project is approved through a reciprocal review (refer to Section 42.9).

Condominium Project review and project warranties

For all Mortgages secured by a Condominium Unit in a Condominium Project, a Seller must perform an underwriting review of the Condominium Project to ensure that the Mortgage and the Condominium Project meet the requirements in the Guide. Included in a Condominium Project review is an underwriting of the Project Documents, which include agreements between the developer, builder or project management and any unit owner or the subject Homeowners Association.

Freddie Mac reserves the right to underwrite a Condominium Project when a unit in the project secures a Mortgage sold to Freddie Mac. Additional requirements for a complete Condominium Project review can be found in Section 42.1.

The general Condominium Project warranties in Section 42.2 apply to all Condominium Projects and include requirements for project ownership, ownership and use of the Common Elements, requirements for a Master Association, and requirements for a Condominium Project that is formed as a result of a conversion.

Streamlined review

Multiple originations from the same Seller in the same Condominium Project are not eligible for streamlined review. If a Mortgage is eligible for streamlined review, a Seller must still underwrite the Condominium Project to the extent necessary to ensure that the Seller can make all of the general project warranties in Section 42.2.

Live-Work Condominium Projects, Mixed-use Condominium Projects and leasehold Condominium Projects

In new Section 42.8.3 we are providing requirements for Live-Work Condominium Projects, which must be underwritten as Established Condominium Projects or New Condominium Projects, as applicable, based on the subject project status. Live-Work Condominium Projects are described in Section 42.1 and must meet the requirements in Section 42.8.3.

In new Section 42.8.4, we are providing requirements for eligible Mixed-use Condominium Projects. Mixed-use Condominium Projects must be underwritten as Established Condominium Projects or New Condominium Projects, as applicable, based on the subject project status. Mixed-use Condominium Projects are defined in Section 42.1 and must meet the requirements in Section 42.8.4.

In Section 42.8.6, we are providing additional requirements for Condominium Projects on leasehold estates. These conditions are unique to condominiums on leaseholds and are in addition to the leasehold requirements in Chapter 41.

Appraisal requirements for Condominium Unit Mortgages

New Section 42.8.7 is being added to provide additional guidance for appraisals for Condominium Unit Mortgages.

Acceptance of mixed-use properties

Section 44.2 was updated to provide additional guidance for mixed-use properties. Appraisal requirements for mixed-use properties were added to Section 44.15.

FORM 71, MARKET CONDITIONS ADDENDUM

In our November 24, 2008 Bulletin, we introduced Form 71 to give direction to appraisers concerning our expected scope of work for appraisals, and provide Sellers with additional details to support the appraiser's determination of market trends and a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood.

Form 71 has been amended to recognize that not all data sources are available in all markets; however, if the data is available, appraisers must include it in their analysis.

In the “Market Research & Analysis” section of the form, the “Median List to Sale Price Ratio” has been changed to require that the median sale price be stated as a percentage of the list price. We also amended the Overall Trend column for this row to list the increasing trend first, then stable and declining trends.

Unless otherwise provided, Freddie Mac requires Form 71 for Mortgages with appraisals that have effective dates on or after **April 1, 2009**, regardless of property type or inspection type. The version of the Form 71 that was available prior to the publication of this Bulletin may not be used on or after July 1, 2009.

MORTGAGES WITH TEMPORARY SUBSIDY BUYDOWN PLANS

We are revising our eligibility requirements for all Mortgages with buydown plans to permit 5/1 adjustable-rate Mortgages (ARMs).

We are also revising Borrower qualification requirements for all Mortgages with buydown plans to:

- Require for fixed-rate Mortgages (including Balloon/Reset Mortgages), the Borrower must be qualified using monthly housing payments calculated at the Note Rate
- Require for ARMs, the Borrower must be qualified using monthly housing payments calculated at the higher of the Note Rate or the fully-indexed rate as defined in Section 30.16(a)

As a reminder, only 5/1 ARMs with a 2/2/5 cap structure are eligible to be Home Possible Mortgages and Home Possible Neighborhood Solution Mortgages. Special requirements applicable to these Mortgages with temporary buydown plans may be found in Section A34.5.

RESTRUCTURED MORTGAGES

Due to current market conditions and the increase in mortgage restructuring (e.g., forgiveness of debt, conversion from secured debt to unsecured, etc.), Freddie Mac is providing a definition of Restructured Mortgages and requiring that such Mortgages will be eligible for sale only under a negotiated sales transaction through our bulk sales unit.

A-MINUS MORTGAGES

Effective for Mortgages with Settlement Dates on or after **July 1, 2009**, when the Mortgage payment histories for qualifying Borrowers must be directly verified outside of Loan Prospector, Sellers must warrant that during the prior 12-month period, the Borrower was not 30 days or more delinquent more than once on any directly verified Mortgage or combination of directly verified Mortgages. Previously, each Borrower could not be 30 days or more delinquent more than twice.

The Seller is still required to warrant that the Borrower was never 60 days or more delinquent on any directly verified Mortgage or combination of directly verified Mortgages.

At a later date, we will update the feedback message below in Loan Prospector to read as follows:

Direct verification of mortgage payment history is required for mortgages not verified on credit report. The Mortgage is ineligible for sale to Freddie Mac if the direct verification reveals more than 1x30 or any 60-day or more delinquencies in the last 12 months.

HURRICANE KATRINA AND HURRICANE RITA SPECIAL COLLATERAL REQUIREMENTS

In Bulletin 2008-3 (Postsettlement Delivery Fees) we announced that while our other temporary selling requirements for Mortgages affected by Hurricane Katrina and Hurricane Rita would not be extended, our temporary special collateral requirements for these Mortgages, depending on the zone in which a property was located, remained in effect until further notice.

With this Bulletin, we are announcing that effective immediately, those temporary special collateral requirements are retired.

LOAN PROSPECTOR

We expect Loan Prospector to be updated at a later date. Until Loan Prospector is updated, Sellers must do a manual review of the Mortgage file to ensure that the Mortgage meets the revised requirements for sale to us. Sellers will be notified when the changes are implemented.

REVISIONS TO THE GUIDE

The revisions included in this Bulletin impact the following:

- Chapters 6, 17, 22, A24, 25, 32, C33, J33, L33, A34, 37, 42 and 44
- Exhibit 25
- Forms 11, 13SF and 71
- Glossary

CONCLUSION

If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call (800) FREDDIE.

Sincerely,

A handwritten signature in black ink, appearing to read "Patricia J. McClung". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Patricia J. McClung
Vice President
Offerings Management