We make home possible

Bulletin

NUMBER: 2010-23

TO: Freddie Mac Sellers and Servicers October 15, 2010

INTRODUCTION

Both selling and Servicing requirements are amended with this *Single-Family Seller/Servicer Guide* ("Guide") Bulletin.

We are making the following changes to our requirements:

Property eligibility

- Announcing new Appraiser Independence Requirements that replace the Home Valuation Code of Conduct (HVCC) (Effective October 15, 2010)
- Requiring interior photographs for all appraisals that require interior and exterior inspections (Effective for Mortgages with applications dated on or after February 1, 2011)

Credit - Effective for Mortgages with Settlement Dates on or after February 1, 2011

- Updating our requirements for using FICO scores (Credit Scores developed by Fair Isaac Corporation (FICO™)) for Manually Underwritten Mortgages
- Revising our underwriting requirements for managing significant adverse or derogatory credit information caused by extenuating circumstances or financial mismanagement
- Revising our minimum reserves requirements for certain Mortgages
- Revising our requirements for the maximum number of financed properties when the subject property is a second home or Investment Property

Eligibility requirements for Freddie Mac counterparties – Effective dates vary

- Announcing new eligibility requirements for approved counterparties and new applicants for Seller/Servicers, Document Custodians and Eligible Depositories

Operational – Effective November 1, 2010

- Providing additional instructions for obtaining cash adjustor values from (800) FREDDIE for Freddie Mac Relief Refinance Mortgages℠ with loan-to-value (LTV) ratios greater than 105% that are sold under fixed-rate Cash

Mortgage insurance – Effective October 15, 2010

- Announcing the suspension of California Housing Loan Insurance Fund as an approved Freddie Mac mortgage insurer

In addition, in our Single-Family Advisory e-mail on **September 17, 2010**, we informed Sellers we were extending from December 1, 2010 to **February 1, 2011**, the effective date for the requirement announced in Bulletin 2010-19 that the Seller must determine whether additional debt was granted when the Borrower's credit report indicates that a creditor has made an inquiry within the previous 120-day period. With this Bulletin, we are updating Guide Chapter 37, *Underwriting the Borrower*, to reflect this extension.

PROPERTY ELIGIBILITY

Appraiser Independence Requirements

Effective October 15, 2010

Freddie Mac has worked with the Federal Housing Finance Agency (FHFA) and Fannie Mae to develop appraiser independence requirements to replace the HVCC. The HVCC is expected to sunset on the earlier of the release of the Interim Final Rules by the Federal Reserve as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act") or November 1, 2010.

Freddie Mac is committed to supporting strong appraiser independence requirements and continuing to provide important protections for homebuyers, mortgage investors and the housing market. We will continue to review our appraisal independence requirements to address market developments and regulatory actions taken pursuant to the Dodd-Frank Act, which may include rules relating to conflicts of interests and fee disclosure by appraisal management companies.

Though not included in the appraiser independence requirements, all new provisions replacing HVCC will be subject to our current quality control processes and requirements for appraisals as stated in the Guide.

New Guide Exhibit 35, *Appraiser Independence Requirements*, replaces Exhibit 31, *Home Valuation Code of Conduct*, which is being deleted from the Guide. Sellers must review Exhibit 35, as well as Chapter 6, *General Warranties and Responsibilities of the Seller/Servicer*, and Chapter 44, *Appraisals, Inspections and the Property Inspection Alternative (PIA),* which have been revised to reflect these changes.

Requiring interior photographs for all appraisals with interior and exterior inspections

Effective for Mortgages with applications dated on or after February 1, 2011

To strengthen appraisal quality and reduce collateral risk, we are requiring that specific interior photographs be provided with all appraisals with interior and exterior inspections. We are also requiring additional photographs showing any physical deterioration that materially impacts market value or marketability of the Mortgaged Premises.

Chapter 44 has been revised to reflect these changes.

Reminders

Sellers are reminded of the following:

- Real Estate Owned (REO) and short sales as comparable sales for appraisals

  As indicated in Bulletin 2009-18, Freddie Mac does not require an appraiser to use REO or short sales as comparable sales. However, if the appraiser determines that these properties are representative of the properties available to typical purchasers for the market in which the property is located, the appraiser must consider their use. When using an REO sale or short sale as a comparable sale, the appraiser must make appropriate adjustments to account for any market reaction to differences between the REO or short sale property and the subject property, including, but not limited to, differences in property condition. Additionally, the appraiser must consider whether there is any significant difference in the market's reaction between REO or short sales and typical arms-length market sales.

- Personal property

  The appraiser's opinion of market value of the subject property must not include any value assigned to personal property, including, for example, boat docks and boat slips that are not part of the real property that is securing the Mortgage.

- Seller changes to appraised value

  It is not acceptable for a Seller to change the appraiser's opinion of market value; any changes to the opinion of market value may only be made by the appraiser. If the Seller has any concerns about the appraisal, the Seller must resolve these concerns with the appraiser. If the Seller is unable to resolve any concerns regarding the appraisal, a new property valuation must be obtained. The basis of the concern cannot be that the value does not support the proposed loan amount. Any new value determination must be made by an appraiser who, at a minimum, is licensed or certified in the State in which the property is located, and the Seller must use that new value to underwrite the Mortgage and determine the value of the Mortgaged Premises pursuant to Section 23.1, *Value*.

CREDIT

All of these changes effective for Mortgages with Settlement Dates on or after February 1, 2011

Requirements for using FICO scores for Manually Underwritten Mortgages

We are updating our requirements for Manually Underwritten Mortgages regarding the use of FICO scores with accompanying reason codes in underwriting the Borrower's credit reputation. Our new requirements provide for one detailed review of all aspects of the Borrower's credit history. Prior to this change, the Seller had to establish a Borrower's credit reputation using one of the three levels of review (basic, comprehensive or cautious) depending on the risk indicated by the Borrower's FICO score.

Chapter A34, *Home Possible® Mortgages,* and Chapter 37 have been revised to reflect these changes.

Managing significant adverse or derogatory credit information

We are revising our requirements for certain recovery periods that must elapse before a Borrower is eligible for a new Mortgage after a significant derogatory credit event.

Short sales

Any short sale must be classified as a significant derogatory event. Prior to this change, only a short sale related to a delinquent Mortgage obligation was considered a significant derogatory credit event. Additionally, we are establishing acceptable time frames for reestablishment of credit for all short sales. If the short sale was due to extenuating circumstances, the recovery time period for reestablishment of credit is 24 months from the completion date; if the short sale was due to financial mismanagement, the recovery period for reestablishment of credit is 48 months from the completion date.

Loan Prospector® may not, in all instances, be able to identify a short sale in the credit report data. Therefore, we are adding a requirement that regardless of the Loan Prospector Risk Classification, a Seller must manually apply to Loan Prospector Mortgages the requirements for handling significant adverse or derogatory information caused by extenuating circumstances or financial mismanagement for Manually Underwritten Mortgages related to short sales if evidence of a short sale is disclosed on a credit report or contained elsewhere in the Mortgage file.

Bankruptcy and foreclosure

We are adding a recovery time period requirement for reestablishment of credit after a Chapter 13 bankruptcy caused by financial mismanagement. This new recovery time period for reestablishment of credit is 48 months from the dismissal date. The existing requirement of 24 months from the discharge date remains in effect.

We are increasing the recovery time period for reestablishment of credit after a foreclosure due to financial mismanagement from 60 months to 84 months.

Chapter 22, *General Mortgage Eligibility*, Chapter 23, *Maximum Loan Amounts and LTV, TLTV and HTLTV Ratios*, and Chapter 37 have been updated to reflect these changes.

Maximum number of financed properties

We are revising the requirement for the maximum number of financed properties when the subject property is a second home or Investment Property to address instances when a Borrower is obligated on a Note secured by a Mortgage on a financed property without being an owner of record. The Borrower's obligation on other Mortgages is important in evaluating the Borrower's capacity regardless of whether the Borrower is on the title to the property.

Chapter 22 has been updated to reflect these changes.

Reserves requirements

We are revising the minimum reserves requirements as follows:

Subject property occupancy	New reserves requirements
2- to 4-unit Primary Residence	6 months principal, interest, taxes and insurance (PITI) for subject property
Second home	2 months PITI for subject property and 2 months PITI for each other financed second home and/or 1- to 4-unit Investment Property that the Borrower owns and/or is obligated on
1- to 4-unit Investment Property	6 months PITI for subject property and 2 months PITI for each other financed second home and/or 1- to 4-unit Investment Property that the Borrower owns and/or is obligated on
New Primary Residence and current Primary Residence is: ▪ Pending sale ▪ Being converted to a second home or Investment Property	If the LTV ratio for the property that is pending sale or being converted is > 70%: ▪ 6 months PITI for the property pending sale or being converted and 6 months PITI for the new Primary Residence If the LTV ratio for the property that is pending sale or being converted is ≤ 70%: ▪ 2 months PITI for the property pending sale or being converted and 2 months PITI for the new Primary Residence

Chapters 22 and 37 have been updated to reflect these changes.

Loan Prospector

Loan Prospector feedback messages will be updated at a later date to support these reserves requirement changes. Sellers will be notified when the changes are implemented.

Training

Webinar training is available on the credit requirements announced in this Bulletin. Please refer to http://www.freddiemac.com/ontrack/html/LearningCenter/ClassDescription.jsp?crsNum=MP_Overview for specific details on this overview webinar training session.

Rental income reminder

Sellers are reminded that a signed lease may be used to determine the net rental income from a 1-unit Primary Residence being converted to an Investment Property, provided that all requirements of Sections 37.16.2(c) and 37.14(d) are met, including the requirement that the Borrower's tax returns reflect a two-year history of managing Investment Properties. If any of these requirements are not met, the Borrower's housing payment on the residence being converted to an Investment Property must be included in the monthly debt payment-to-income ratio.

See Sections 37.14(d) and 37.16.2(c) for more detail.

ELIGIBILITY REQUIREMENTS FOR FREDDIE MAC COUNTERPARTIES

Background

Freddie Mac is announcing new eligibility requirements for approved counterparties, as well as new applicant requests. We are making these changes to help ensure the stability of the mortgage market by working with counterparties that have the financial strength and operational capacity to handle the risks and contractual obligations associated with market variations.

The new requirements announced in this Bulletin change the Acceptable Net Worth required for Seller/Servicers, the Acceptable Net Worth required for Document Custodians and the acceptable ratings for Eligible Depositories.

Acceptable Net Worth requirement for Seller/Servicers

Currently, the Guide requires that all Seller/Servicers maintain an Acceptable Net Worth of $250,000. We are revising this requirement as follows:

- **Seller/Servicers approved on or after October 15, 2010**

  These Seller/Servicers must have and maintain Acceptable Net Worth of $2.5 million. Beginning **June 30, 2012**, they must maintain an Acceptable Net Worth of $2.5 million, plus a dollar amount equal to .25% of their Representation and Warranty Unpaid Principal Balance (that is, the aggregate unpaid principal balance as of the last day of each calendar month of all Mortgages and REO for which a Seller/Servicer is currently liable to Freddie Mac for the sale and/or Servicing representations, covenants and warranties in the Purchase Documents with respect to such Mortgages and REO).

- **Seller/Servicers approved prior to October 15, 2010**

  These Seller/Servicers must maintain an Acceptable Net Worth of $2 million by **September 30, 2011**, and beginning **June 30, 2012,** they must maintain an Acceptable Net Worth of $2.5 million, plus a dollar amount equal to .25% of their Representation and Warranty Unpaid Principal Balance.

See revised Section 4.3, *Acceptable Net Worth Requirement*, for additional information.

Acceptable Net Worth/ratings requirement for Document Custodians

Currently, Freddie Mac requires that financial institutions wishing to become Document Custodians for Freddie Mac Seller/Servicers maintain an Acceptable Net Worth of $1 million or greater.

We are updating the Guide to require that entities applying to be Document Custodians, and Document Custodians entering into new custodial relationships with Freddie Mac Seller/Servicers, on or after **October 15, 2010,** have an investment-grade rating by a nationally recognized statistical rating organization, such as Standard & Poor's (S&P) or Moody's Investors Service (Moody's) (S&P equivalent of 'BBB-' or better) or have an Acceptable Net Worth of $500 million. Document Custodians approved prior to October 15, 2010 and in existing relationships with Seller/Servicers must have an Acceptable Net Worth of $1 million or greater and **must** comply with the new investment-grade rating/Acceptable Net Worth requirement by **June 30, 2011**.

See revised Section 18.2, *Document Custodian Eligibility*, for additional details.

Acceptable ratings for Eligible Depositories

Currently, Freddie Mac requires financial institutions holding a Principal and Interest Custodial Account to meet certain minimum ratings requirements, as outlined in Section 77.10, *Insured Depository Tier Ratings*. Agencies that rate depositories are grouped into two categories: Tier 1 (S&P, Moody's, and Fitch) and Tier 2 (LACE Financial Corporation (LACE), IDC Financial Publishing (IDC), and Fitch (formerly known as Bank Watch®)).

We are not revising the current Tier 1 minimum ratings requirements, but we are revising the Tier 2 minimum rating requirements for LACE (currently C or better) and IDC (currently 75 or better). For relationships established on or after October 15, 2010, the insured depository rating must be C+ or better if rated by LACE and 125 or better if rated by IDC. For relationships established before October 15, 2010 (that is, when accounts were already opened), the insured depository rating must be C or better (LACE) and 75 or better (IDC), and the depository must comply with the applicable higher minimum rating **by March 31, 2011.** The Tier 2 minimum rating requirement of 3.5 or better for Fitch remains the same.

These changes increase minimum ratings to investment grade. See revised Section 77.10 for additional details.

Chapter 4, *Seller/Servicer Institutional Eligibility*, Chapter 18, *Document Custody*, Chapter 77, *Establishing Investor Accounting Functions*, and the Glossary have been revised to reflect these changes.

OPERATIONAL

Revised instructions to obtain fixed-rate Relief Refinance Mortgage Cash Adjustor

Effective November 1, 2010

In Bulletin 2009-20, dated July 24, 2009, we announced that we would apply a cash adjustor for all fixed-rate Relief Refinance Mortgages with LTV ratios greater than 105% sold under fixed-rate Cash. Effective August 1, 2009, the cash adjustor values were made available through a recorded message on (800) FREDDIE.

We are revising our instructions for obtaining the cash adjustor applicable to a particular Mortgage. Effective **November 1, 2010**, to obtain the current value, prior to taking out a commitment in the Freddie Mac Selling System, Sellers should call (800) FREDDIE, enter their customer number and select delivery. The delivery agent will provide that day's cash adjustor value.

MIDANET® for delivery

Effective for Mortgages delivered on or after November 1, 2010

We are announcing a new process for the delivery of Mortgages currently delivered through MIDANET. Effective **November 1, 2010**, Mortgages currently delivered through MIDANET will be delivered through a new web-based portal. For specific step-by-step instructions on the new delivery process, Sellers must contact our Delivery Assistance Team at (571) 382-3636.

MORTGAGE INSURANCE

California Housing Loan Insurance Fund suspension

Guide Exhibit 10, *Freddie Mac-Approved Mortgage Insurers*, has been updated to reflect that the approved mortgage insurer status of California Housing Loan Insurance Fund (formerly CalHFA Mortgage Insurance Services) and its Freddie Mac-approved affiliates (collectively or individually, "CaHLIF") is suspended. Mortgages with CaHLIF insurance are not eligible for sale to Freddie Mac on or after October 15, 2010.

As a reminder, except in limited circumstances, Section 61.7, *Transfers of Mortgage Insurance Coverage*, prohibits transfers of the mortgage insurance coverage that is in effect at the time a Mortgage is sold to Freddie Mac. Because none of those limited circumstances apply in this instance, Freddie Mac Servicers do not need to take any action in connection with Mortgages that have already been sold to us, whether at renewal of the insurance or otherwise.

Exhibit 10 can be accessed on FreddieMac.com at **http://www.freddiemac.com/sell/guide/mortgage_insurers.html**

We will continue to notify you of changes to Exhibit 10 in future Bulletins.

REVISIONS TO THE GUIDE

- The revisions included in this Bulletin impact the following:
- Chapters 4, 6, 18, 22, 23, A34, 37, 44, and 77
- Directory and Directory 1
- Glossary
- Exhibits 5, 31 (deleted), and 35

CONCLUSION

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

Sincerely,

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Vice President
Offerings Management