

Bulletin

NUMBER: 2012-11

TO: Freddie Mac Sellers

May 15, 2012

SUBJECTS

With this *Single-Family Seller/Servicer Guide* (“Guide”) Bulletin, we are providing the following updates and revisions to our **selling requirements**:

- Permitting federally regulated Sellers to conduct Electronic Transactions using electronic versions of certain loan documents in the initial loan origination process
- Updating our Social Security number validation requirements for the Seller’s in-house quality control program
- Updating our requirements for use of third-party employment and/or income verification services
- As previously announced, for Relief Refinance MortgagesSM, we are:
 - Until further notice, reducing the cash adjustor value from 50 basis points (bps) to zero bps for Relief Refinance Mortgages sold under fixed-rate Cash with loan-to-value (LTV) ratios greater than 125%.
 - Revising the Guide to reflect the removal of the cash adjustor for Relief Refinance Mortgages sold under fixed-rate Cash with LTV ratios greater than 105% and less than or equal to 125%
 - Updating the Guide to reflect the removal of the maximum LTV ratio of 125% for fixed-rate Mortgages sold under fixed-rate Guarantor for Relief Refinance Mortgages – Same Servicer with LTV ratios greater than 80% and Relief Refinance Mortgages – Open Access as announced in Bulletin 2011-22
 - Adding language to the Guide to reflect that, as announced in previous Bulletins, Relief Refinance Mortgages – Same Servicer and Relief Refinance Mortgages – Open Access with LTV ratios less than or equal to 105% are eligible for sale under the fixed-rate Cash program using the Servicing Released Sales Process Servicing option
- Introducing a new provision that entitles Freddie Mac to recapture premiums and buyups associated with Mortgages that are paid off within 120 days of their sale to Freddie Mac
- Removing the requirement that ARMs sold to Freddie Mac have a Note Rate, Margin and Lifetime Ceiling that are divisible by one-eighth of 1%
- Prohibiting the sale of Mortgages that are encumbered by certain private transfer fee covenants
- Announcing Freddie Mac will no longer purchase Mortgages originated on Fannie Mae balloon documents

In addition:

- Regarding Counterparty Authorization (CPA) compliance, we are:
 - Notifying Sellers that we will be contacting customers with CPA compliant accounts for resubmission of outdated CPA compliance forms

- ❑ Updating our CPA compliance forms and wire transfer authorization forms to provide clearer instructions and layout
- As announced in our Single-Family Update e-mail on April 10, 2012, an updated version of Appendix D, *UAD Field-Specific Standardization Requirements*, of the Uniform Appraisal Dataset (UAD) Specification (“Appendix D”) was posted on FreddieMac.com.

EFFECTIVE DATE

All of the changes announced in this Bulletin are effective immediately, unless otherwise noted.

ELECTRONIC TRANSACTIONS

Effective immediately, federally regulated Sellers are permitted to conduct Electronic Transactions using electronic versions of certain loan documents in the initial loan origination process. The initial loan origination documents eligible for Electronic Transactions are listed in new Guide Exhibit 7, *Electronic Initial Loan Documents*.

Sellers must still obtain a negotiated term of business in order to sell electronic Mortgages (“eMortgages”) to Freddie Mac.

Sellers must comply with the requirements of new Guide Chapter 3, *Special Requirements for Electronic Transactions*, which consolidates our existing requirements in Guide Section 1.3, *Acknowledgment and Consent to Electronic Transactions*, and other references to electronic documents and Electronic Transactions throughout the Guide. Section 1.3 will remain in the Guide only as a cross-reference to Chapter 3.

Sellers with a negotiated term of business that permits them to sell Mortgages to Freddie Mac that were originated using electronic versions of loan documents in the initial origination process may continue to sell Mortgages to Freddie Mac under that term of business until the expiration of their negotiated term.

SOCIAL SECURITY NUMBER VALIDATION

We are updating our requirements for Social Security number validation during the Seller’s in-house quality control review to state that in certain circumstances, the Seller is not required to validate each Borrower’s Social Security number during the postclosing quality control review.

We have revised Sections 48.5, *Reverifications Made by Seller*, and Section 48.8, *Preclosing Quality Control Reviews*, to reflect this change.

THIRD-PARTY EMPLOYMENT AND/OR INCOME VERIFICATION SERVICES

We have removed the specific list of acceptable third-party employment and income verification service providers from the Guide; however, Sellers may continue to use third-party service providers for the purposes of verifying employment and/or income. All income and employment verifications must meet the requirements of the Guide.

Sellers remain responsible for the accuracy and integrity of all information provided. Sellers are encouraged to maintain procedures and process controls to ensure the quality of services used and products provided are acceptable.

Refer to Section 37.20, *General Requirements for Verifying Documents*, for complete information.

With this change, we have deleted Exhibit 24, *Third-Party Verification Services*.

RELIEF REFINANCE MORTGAGES

Cash adjustor updates

As announced in a Single-Family Update e-mail on May 9, 2012, effective for commitments taken out on or after May 15, 2012, and until further notice, the cash adjustor value is reduced to zero bps for Relief Refinance Mortgages sold under fixed-rate Cash with LTV ratios greater than 125%. Sellers will be provided written notification in advance of any future changes to the cash adjustor value.

As announced in our Single-Family Update e-mail on March 30, 2012, for Relief Refinance Mortgages sold under fixed-rate Cash commitments taken out on or after April 1, 2012, we no longer apply the cash adjustor for Mortgages with LTV ratios greater than 105% and less than or equal to 125%.

Sections A24.5, *Postsettlement Delivery Fees and Other Assessments and Credits*, and B24.5, *Postsettlement Delivery Fees and Other Assessments and Credits*, have been updated to reflect these changes.

Guide updates for Mortgages sold under fixed-rate Guarantor with LTV ratios greater than 125%

Effective for Mortgages with loan applications dated on or after December 1, 2011 and Freddie Mac Settlement Dates on or after June 1, 2012

As announced in Bulletin 2011-22, we have removed the maximum LTV ratio of 125% for fixed-rate Mortgages sold under fixed-rate Guarantor for Relief Refinance Mortgages – Same Servicer with LTV ratios greater than 80% and Relief Refinance Mortgages – Open Access. The 105% maximum LTV ratio for ARMs will remain.

A Mortgage with an LTV ratio greater than 125% will be eligible for pooling in a High LTV >125% Gold PC.

With this Bulletin, we have updated Sections 13.4, *Pooling Requirements for Gold PC[®] Pools and Giant PC Pools*, A24.4, *Delivery and Pooling Requirements*, and B24.4, *Delivery and Pooling Requirements*, and Exhibit 17S, *Mortgage Products Available Through the Selling System*, to reflect the revised pooling criteria for Mortgages sold under fixed-rate Guarantor.

Servicing Released Sales Process

As announced in previous Bulletins, Relief Refinance Mortgages – Same Servicer and Relief Refinance Mortgages – Open Access with LTV ratios less than or equal to 105% are eligible for sale under the fixed-rate Cash program using the Servicing Released Sales Process Servicing option. Mortgages with LTV ratios greater than 105% may be sold under fixed-rate Cash using the Servicing retained or Concurrent Transfer of Servicing options only.

We have updated Sections A24.4, B24.4 and C24.4, *Delivery and Pooling Requirements*, to reflect Relief Refinance Mortgage eligibility for the Servicing Released Sales Process.

RECAPTURE OF PREMIUMS AND REIMBURSEMENT OF BUYUP PROCEEDS

To help address Seller origination and refinance practices that lead to unusually high prepayment speeds relating to the Freddie Mac loan portfolio, we are introducing a new provision that entitles Freddie Mac to recapture premiums and buyups associated with Mortgages that are paid off within 120 days of their sale to Freddie Mac, regardless of whether the payoff is due to a refinance of the Mortgage, a prepayment of the Mortgage or for any other reason. This remedy will be not be applied automatically; instead it will be imposed at Freddie Mac's discretion to address a Seller's origination or refinance practices that could negatively affect prepayment speeds and other situations that could impact the value of the Freddie Mac PCs containing the Mortgages.

We have created new Section 8.13, *Recapture of Premiums and Reimbursement of Buyup Proceeds*, and revised Sections 17.2, *Provisions for the Payment of Fees and Proceeds and Application of Delivery Fee Credits*, and A17.2, *Provisions for the Payment of Fees and Proceeds and Application of Delivery Fee Credits*, to reflect this new provision.

ARM NOTE RATE, MARGIN AND LIFETIME CEILING – NO LONGER REQUIRED TO BE DIVISIBLE BY ONE-EIGHTH OF 1%

We are removing the requirement that ARMs have a Note Rate, Margin and Lifetime Ceiling that are divisible by one-eighth of 1%. With this change, Sellers will have more flexibility in setting Note Rates for ARMs. This change does not affect our requirements regarding Note Rate changes on Interest Change Dates, which must continue to be rounded to the nearest one-eighth of 1%.

Sections 10.5, *Purchase Requirements*, and C15.4, *Eligible ARMs*, have been revised to reflect this change.

PRIVATE TRANSFER FEES

Effective July 16, 2012

On March 16, 2012, the Federal Housing Finance Agency (FHFA) issued a final rule that prohibits Freddie Mac from dealing in mortgages on properties encumbered by certain types of private transfer fee covenants. The rule is intended to protect Freddie Mac from exposure to mortgages with certain features that may impair their value and increase risk to the financial safety and soundness of Freddie Mac.

To comply with the final rule, we have added new Section 22.36, *Mortgages with Private Transfer Fee Covenants*, which prohibits the sale to Freddie Mac of Mortgages that are encumbered by certain private transfer fee covenants. Effective on **July 16, 2012**, Mortgages on properties encumbered by certain private transfer fee covenants, prohibited by 12 C.F.R. Part 1228, are ineligible for purchase by Freddie Mac, if those covenants were created on or after February 8, 2011.

Seller/Servicers must represent and warrant that they have controls in place to prevent the delivery of ineligible Mortgages encumbered by private transfer fee covenants to Freddie Mac. We will review these controls as part of our regular on-site reviews of Seller/Servicers and identify risks and recommend control enhancements, as appropriate.

REMOVAL OF FANNIE MAE BALLOON DOCUMENTS

Effective for Mortgages with Settlement Dates on or after September 1, 2012

We have revised Section 33.3, *Mortgage Document Requirements*, to delete certain references to Fannie Mae balloon documents as Freddie Mac will no longer purchase Balloon/Reset Mortgages originated on these documents. We have also revised Section A83.8, *Balloon/Reset Mortgage Documents*, to remove certain references to the origination of Balloon/Reset Mortgages on Fannie Mae balloon documents.

COUNTERPARTY AUTHORIZATION (CPA) COMPLIANCE

We will be contacting customers with CPA compliant accounts to request resubmission of Guide Forms 988SF, *Certificate of Incumbency – For a Corporation or Limited Liability Company Only*, or 989SF, *Certificate of Incumbency – For a Partnership or Sole Proprietorship Only*, if it has been more than two years since those forms have been submitted. Updating outdated information provided in these forms will help to mitigate the risk of unauthorized persons making financial decisions on behalf of the Seller.

We have additionally updated Forms 483, *Wire Transfer Authorization*, 987, *Wire Transfer Authorization for a Cash Warehouse Delivery*, 987E, *Wire Transfer Authorization for a Warehouse Delivery – For Use in the Freddie Mac Selling System*, 988SF, 988ASF, *Addendum to Certificate of Incumbency – For a Corporation or Limited Liability Company Only*, 989SF and 989ASF, *Addendum to Certificate of Incumbency – For a Partnership or Sole Proprietorship Only*, to provide clearer instructions and layout.

UPDATED APPENDIX D

As announced in our Single-Family Update e-mail on April 10, 2012, an updated version of Appendix D was posted on FreddieMac.com. The updated Appendix D provides additional guidance on the selection and use of the condition and quality ratings.

REVISIONS TO THE GUIDE

The revisions included in this Bulletin impact:

- Chapters 1, 3, 8, 10, 13, C15, 17, A17, 22, A24, B24, C24, 33, 37, 48 and A83
- Forms 483, 987, 987E, 988SF, 988ASF, 989SF and 989ASF
- Exhibits 4, 7, 17S and 24

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 cursive script that reads "Laurie A. Redmond". The signature is written in black ink on a white background.

Laurie A. Redmond
Vice President
Offerings Effectiveness