

# Bulletin

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**TO:** All Freddie Mac Sellers and Servicers

February 21, 2008

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## SUBJECTS

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

In response to the continued deterioration of credit quality and declining home values in most areas of the country, we are further expanding our use of risk-based pricing and increasing our postsettlement delivery fee rates for certain Mortgages with higher risk. We are also announcing that certain higher-risk Mortgages will no longer be eligible for purchase, making changes to our Home Possible® Mortgage offering and providing specific guidance regarding the use of the Office of Federal Housing Enterprise Oversight (OFHEO) House Price Index to improve the identification of declining markets in order to assist in determining whether a reduction in maximum financing is necessary as Sellers assess value for a given property.

### **Changes to Exhibit 19, Postsettlement Delivery Fees**

***Effective date: June 1, 2008***

We are making the following changes to our postsettlement delivery fees (delivery fees), effective for all Mortgages sold under flow Purchase Contracts with Freddie Mac Settlement Dates on or after June 1, 2008:

- Announcing a new delivery fee of 30 basis points for all Mortgages with **loan-to-value (LTV)/total LTV (TLTV) ratios greater than or equal to 80% and minimum Indicator Scores less than 740**, including Mortgages sold with recourse and indemnification
- Revising our Indicator Score/Loan-to-Value ratio delivery fee rate structure to include new Indicator Score and LTV ratio ranges, as well as a delivery fee credit and increased delivery fee rates for Mortgages with certain Indicator Score/LTV ratio combinations
- Assessing the Home Possible delivery fees on Home Possible 3% Cash and Home Possible Neighborhood Solution® 3% Cash Mortgages
- Increasing Credit Score/Loan-to-Value delivery fee rates for A-minus Mortgages, other Caution Mortgages and Non-Loan Prospector® Mortgages

We are also correcting certain statements made in our special [November 15, 2007 Bulletin](#) with respect to delivery fee changes.

## **Credit Changes**

### ***Effective immediately***

Effective for Mortgages with Freddie Mac Settlement Dates on or after February 21, 2008, we are exempting the following Mortgages secured by properties located in a market with declining values from the requirement to reduce the maximum LTV/TLTV ratio, with conditions:

- Freddie Mac-owned streamlined refinance Mortgages, as described in [Guide Section 24.4](#)
- “No cash-out” refinance Mortgages, as described in [Section 24.5](#), when the Mortgage being refinanced is currently owned by Freddie Mac in whole or in part, or securitized by Freddie Mac

### ***Effective June 1, 2008***

We are making the following credit changes, effective for Mortgages with Freddie Mac Settlement Dates on or after June 1, 2008:

- Requiring a reduction in the maximum TLTV ratio when the property is located in a market with declining values (the Guide already requires a reduction in the maximum LTV in this instance)
- Announcing that we will no longer purchase:
  - Mortgages with LTV/TLTV/home equity line of credit TLTV (HTLTV) ratios greater than 97%, except for FHA/VA Mortgages, Section 502 GRH Mortgages and for Home Possible Mortgages with Indicator Scores equal to or greater than 700
  - Alt 97<sup>®</sup> Mortgages with Affordable Seconds
  - Streamlined Purchase for Homeowners Mortgages (streamlined purchase Mortgages)
- Announcing the following changes to Home Possible Mortgages:
  - For purchase transaction Home Possible Mortgages, requiring homeownership education for a qualifying Borrower when all of the Borrowers are First-Time Homebuyers
  - Revising our secondary financing requirements for Home Possible Mortgages
  - Revising Borrower eligibility requirements

We are also providing specific guidance regarding the use of the OFHEO House Price Index, mentioned in our special [November 15, 2007 Bulletin](#), as a tool Sellers can use to identify declining markets.

## **DELIVERY FEE RATE CHANGES**

### ***Effective June 1, 2008***

#### **New delivery fee**

For Freddie Mac Settlements on or after June 1, 2008, all Mortgages with both LTV/TLTV ratios greater than or equal to 80% and minimum Indicator Scores less than 740, including Mortgages sold with recourse and indemnification, will be assessed a 30 basis point delivery fee. The delivery fee will be applied in addition to all other applicable delivery fees. For Mortgages with no secondary financing or home equity line of credit (HELOC), the Mortgage LTV ratio and TLTV ratio are the same.

For Sellers that sell fixed-rate Mortgages for cash through the Freddie Mac Selling System and participate in the net price option, the new delivery fee will not be netted out of the cash price when this fee becomes effective on June 1, 2008; instead, this delivery fee will appear on the Seller’s monthly invoice until further notice.

**Changes to Indicator Score/Loan-to-Value ratio delivery fee structure, introduction of delivery fee credit and increase in delivery fee rates for Mortgages with certain Indicator Score and LTV ratio combinations**

Effective June 1, 2008, we are modifying our Indicator Score/Loan-to-Value delivery fee table in [Exhibit 19, Postsettlement Delivery Fees](#), by adding the following new Indicator Score ranges:

- Equal to or greater than 680 to less than 700
- Equal to or greater than 700 to less than 720
- Equal to or greater than 720

We are also adding the following LTV ratio ranges:

- Less than or equal to 60%
- Greater than 60% to less than or equal to 70%

Finally, we are:

- Adding a 25 basis point delivery fee **credit** for Mortgages with LTV ratios less than or equal to 60% with Indicator Scores equal to or greater than 700
- Increasing delivery fee rates by 50 or 75 basis points for Mortgages with certain Indicator Score and LTV ratio combinations

The revised Indicator Score/Loan-to-Value delivery fee rates and new credits are as follows:

<b>INDICATOR SCORE / LOAN-TO-VALUE</b>									
Effective for Settlements on or after June 1, 2008									
Product	Credit Score	LTV Ratios							
		≤ 60%	> 60% & ≤ 70%	> 70% & ≤ 75%	> 75% & ≤ 80%	> 80% & ≤ 85%	> 85% & ≤ 90%	> 90% & ≤ 95%	> 95% & ≤ 97%
	≥ 720	-0.25%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	≥ 700 & < 720	-0.25%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
	≥ 680 & < 700	0.00%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
	≥ 660 & < 680	0.00%	0.50%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%
	≥ 640 & < 660	0.00%	0.50%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%
	≥ 620 & < 640	0.00%	0.75%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
	< 620	0.00%	0.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%

As a reminder, the Indicator Score/Loan-to-Value ratio delivery fee rates will not apply to the following Mortgages:

- 15-year fixed-rate Mortgages
- Home Possible Mortgages
- Section 184 Native American Mortgages
- Section 502 Guaranteed Rural Housing Mortgages
- FHA/VA Mortgages
- A-minus Mortgages, which are Mortgages that meet the requirements described in [Guide Chapter C33](#), other Caution Mortgages, and Non-Loan Prospector Mortgages that are subject to the CS/LTV (A-minus) fees, as set forth on [Exhibit 19](#)

**Home Possible delivery fee assessed on Home Possible 3% Cash and Home Possible Neighborhood Solution 3% Cash Mortgages**

Effective for Freddie Mac Settlements on or after June 1, 2008, Home Possible 3% and Home Possible Neighborhood Solution 3% Cash Mortgages will be assessed applicable Home Possible delivery fees listed in [Exhibit 19](#).

**Increasing Credit Score/Loan-to-Value delivery fee rates for A-minus Mortgages, other Caution Mortgages and Non-Loan Prospector Mortgages**

Effective June 1, 2008, the CS/LTV delivery fee rate for both A-minus Mortgages and Caution Mortgages with Loan Prospector feedback message level one will be increased to 125 basis points, and for level three will be increased to 275 basis points.

We are also increasing the CS/LTV delivery fee rates for Non-Loan Prospector Mortgages with certain Indicator Score/LTV ratios as follows:

CS/LTV DELIVERY FEES (“A-MINUS FEES”) – NON-LP MORTGAGES							
Effective for Settlements on or after June 1, 2008							
Product	Non-LP Mortgages Subject to A-Minus Fees	Credit Score	LTV Ratios				
			≤ 60%	> 60% & ≤ 75%	> 75% & ≤ 90%	> 90% & ≤ 95%	> 95% & ≤ 97%
All Eligible Product	See Eligibility Chart on Page 16 of Exhibit 19	≥ 700 & ≤ 850	1.25%	1.25%	1.25%	1.25%	1.25%
		≥ 660 & ≤ 699	1.25%	1.25%	2.75%	1.50%	1.50%
		≥ 620 & ≤ 659	1.25%	2.75%	3.25%	2.75%	2.75%
		≥ 580 & ≤ 619	1.25%	3.25%	3.25%	3.25%	3.25%
		< 580	2.75%	3.75%	3.75%	3.25%	3.25%

**CREDIT CHANGES**

*Effective immediately*

**Freddie Mac-owned streamlined refinance Mortgages and Freddie Mac-owned “no-cash-out” refinance Mortgages secured by properties located in a market with declining values exempt from requirement to reduce maximum LTV/TLTV ratios**

We are revising the special eligibility requirements in [Section 24.4](#) to permit Sellers to offer maximum financing on Freddie Mac-owned streamlined refinance Mortgages when the property is located in a market with declining values if the new refinance Mortgage amount is limited to the unpaid principal balance (UPB) of the existing first Mortgage (rounded up to the nearest \$100) and there is no cash out to the Borrower.

We are also revising [Section 24.5](#) to permit a Seller to offer maximum financing on a property in a market with declining values when the Mortgage being refinanced is currently owned by Freddie Mac in whole or in part, or securitized by Freddie Mac, provided the new refinance Mortgage amount is no more than \$1,000 greater than the UPB of the existing first Mortgage and there is no cash out to the Borrower.

*Effective June 1, 2008*

We are making the following credit changes, effective for Mortgages with Settlement Dates on or after June 1, 2008.

**Maximum financing**

As many areas of the country are experiencing significant and on-going property value depreciation, we are amending [Section 23.5](#) to require a five percentage point reduction in maximum TLTV ratios, as applicable, for Mortgages originated in areas where property values are declining. The Guide already requires such a reduction in maximum LTV ratio.

**Mortgages with LTV/TLTV/HTLTV ratios greater than 97% ineligible for sale**

Freddie Mac will no longer purchase Mortgages with LTV/TLTV/HTLTV ratios greater than 97%. We are updating [Section 23.4](#) to reduce the maximum HTLTV ratio to 97%, where applicable.

This change does not apply to FHA/VA Mortgages and Section 502 GRH Mortgages.

Also, this change does not apply to Home Possible Mortgages with Indicator Scores equal to or greater than 700. Since the provisions of [Chapter A34, Home Possible Mortgages](#), are identified as Discretionary Provisions (see [Section 12.13](#) and [Exhibit 26, Discretionary Provisions](#)), this change applies to all Seller/Servicers effective June 1, 2008, including those with negotiated Master Agreements and/or Master Commitment Contracts.

As a result of this change, the Freddie Mac 100 Mortgage and [Chapter G33](#) are being retired.

Since the provisions of [Chapter G33](#) are identified as Discretionary Provisions, this change applies to all Seller/Servicers effective June 1, 2008, including those with negotiated Master Agreements and/or Master Commitment Contracts.

We are also amending [Chapter J33, Initial Interest Mortgages](#), to reduce the maximum HTLTV ratio to 97%. Since the provisions of [Chapter J33](#) are identified as Discretionary Provisions, this change applies to all Seller/Servicers effective June 1, 2008, including those with negotiated Master Agreements and/or Master Commitment Contracts.

**Alt 97 Mortgages with Affordable Seconds ineligible for sale**

We are amending [Chapter D33, Alt 97<sup>®</sup> Mortgages](#), to remove Affordable Seconds as an acceptable source of Borrower Funds. Since the provisions of [Chapter D33](#) are identified as Discretionary Provisions, this change applies to all Seller/Servicers effective June 1, 2008, including those with negotiated Master Agreements and/or Master Commitment Contracts.

**Streamlined Purchase for Homeowners Mortgages ineligible for sale**

We are retiring the Freddie Mac Streamlined Purchase Offerings (Offerings 400 and 401), [Chapter A33](#), effective for Mortgages with Settlement Dates on or after June 1, 2008.

**Home Possible Mortgages**

*LTV and TLTV limits*

Effective June 1, 2008, we are requiring that all Home Possible Mortgages with an LTV ratio or a TLTV ratio greater than 97% have an Indicator Score equal to or greater than 700.

*Homeownership education for one qualifying Borrower when all Borrowers are First-Time Homebuyers with purchase transaction Home Possible Mortgages*

As part of Freddie Mac's efforts to reduce the risks of mortgage default, we are amending the Guide to require that for purchase transaction Home Possible Mortgages secured by 1- to 4-unit Primary Residences, if all Borrower(s) are First-Time Homebuyers, at least one qualifying Borrower must participate in a homeownership education program before the Note Date.

As stated in [Section A34.12](#), a copy of [Exhibit 20, Homeownership Education Certification](#), or another document containing comparable information must be retained in the Mortgage file. Internet-based homeownership education programs that have been developed by mortgage insurance companies are acceptable.

*Elimination of secondary financing other than Affordable Seconds and RHS Leveraged Seconds for Home Possible Mortgages*

Effective June 1, 2008, we are eliminating the use of other secondary financing that is not an Affordable Second or RHS Leveraged Second as a source of funds for down payment, Closing Costs, Financing Costs and Prepaids/Escrows for Home Possible Mortgages. For refinance Home Possible Mortgages, any secondary financing that is resubordinated to the lien of the new refinance Mortgage must be an Affordable Second that meets the requirements of [Section 25.1\(g\)](#), or an RHS Leveraged Second that meets the requirements of [Section 35.3](#).

### *Borrower eligibility*

We are revising [Section A34.7](#) to require that for Home Possible Mortgages with Freddie Mac Settlements Dates on or after June 1, 2008, the Borrower(s) may not, as of the Note Date, have any ownership in any other residential properties.

## **SPECIFIC GUIDANCE REGARDING USE OF OFHEO HOUSE PRICE INDEX**

Freddie Mac expects Sellers to be aware of home price trends in their lending areas. Decisions that Mortgages are acceptable for purchase by Freddie Mac are based not only on Borrower credit reputation and capacity, but also on the adequacy of the Mortgaged Premises to secure the transaction. Accurate property values are essential, and the fact that a property is located in a market where house prices are declining is an important indication that the value of a specific property may be declining.

In our special [November 15, 2007 Bulletin](#) we advised Sellers that we use the OFHEO House Price Index (the OFHEO Index) (available on the OFHEO web site at:

[http://www.ofheo.gov/hpi\\_download.aspx](http://www.ofheo.gov/hpi_download.aspx)) as a tool to help identify markets where home prices may be declining. To further assist our Seller/Servicers as they assess property value and determine whether a reduction in maximum financing amounts is necessary, we are providing specific guidance on how to use the OFHEO index when originating Mortgages for sale to Freddie Mac.

Using the OFHEO Index, subject to the Seller completing the analysis described below, Sellers should consider that home prices are declining in the Metropolitan Statistical Area (MSA) in which a property is located if either of the following is true:

- The overall decline in the OFHEO Index for the MSA for the most recent two quarters is greater than 1%; or
- There is an overall decline in the OFHEO Index for the MSA year-over-year, unless there is overall growth in the OFHEO Index for the MSA in the most recent two quarters.

For purposes of performing these calculations, Freddie Mac does not round.

Using the criteria above, home prices in the MSA in which a property is located may be declining; however, there may be smaller geographic areas within the MSA that have stable or increasing property values. Freddie Mac expects Sellers to examine the appraisal and other information sources with care and perform a rigorous analysis to determine whether in fact the property is located in a geographic area within the MSA where home prices are declining.

If the Seller uses the OFHEO Index and the Index shows the property is located in a declining MSA, and the Seller after a rigorous analysis determines property values in the smaller geographic area in which the property is located are stable or increasing, the Seller may offer maximum financing if:

- The Seller cites specific factual evidence that clearly supports its determination of stable or increasing values, and
- The Seller retains documentation in the Mortgage file supporting its conclusion.

Regardless of the results of the OFHEO Index, if the appraisal indicates or the Seller has other evidence that the property is located in a declining market, the Seller may not offer maximum financing.

Using the OFHEO tool, a rigorous analysis of smaller geographic areas, and the appraisal, a Seller must determine whether a property is located in a declining market. When a Seller determines that a property is located in a declining market, the Seller must reduce the maximum financing amount in accordance with the requirements of [Section 23.5](#), as modified by this Bulletin.

Freddie Mac holds the Seller accountable for the quality, integrity and accuracy of the property valuation and LTV, TLTV and HTLTV ratios for Mortgages sold to us.

## **NOVEMBER 15, 2007 BULLETIN CORRECTIONS**

The special [November 15, 2007 Bulletin](#) incorrectly stated that the Number of Units delivery fee rate increase, effective March 1, 2008, applies only to Mortgages secured by 2-unit Primary Residences with LTV ratios greater than 75% and less than or equal to 90%. This delivery fee rate increase applies to all Mortgages secured by a 2-unit property within the specified LTV ratio range. The version of [Exhibit 19](#) published with the special [November 15, 2007 Bulletin](#) reflected the correct fee rate increase, so no revision to the exhibit is necessary.

Although [Exhibit 19](#) has been updated several times recently to reflect fee rate changes and additions, an [Exhibit 19](#) page reference was not updated to reflect the new location of the Eligibility Chart for Non-Loan Prospector Mortgages subject to CS/LTV (A-minus) Fees. The revised [Exhibit 19](#) attached to this Bulletin has been corrected.

### **LOAN PROSPECTOR**

We expect to update Loan Prospector by June 1, 2008, to reflect the requirements announced in this Bulletin. 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. For example, for Home Possible Mortgages with Freddie Mac Settlement Dates on or after June 1, 2008, Sellers must verify that the Indicator Score on the Feedback Certificate is equal to or greater than 700 if the LTV/TLTV/HTLTV ratio is greater than 97%.

### **DELIVERY REQUIREMENTS**

At this time, there are no changes to our delivery requirements.

### **REVISIONS TO THE GUIDE**

Applicable chapters and exhibits will be revised to reflect the changes announced in this Bulletin in a future Bulletin to be published in the second quarter of 2008, with the exception of [Exhibit 19](#), which has been updated.

### **CONCLUSION**

If you have questions regarding 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