

Industry Letter

Freddie
Mac

November 26, 2003

Subject: Revisions to Freddie Mac's purchase requirements based on the enactment of antipredatory lending legislation in New Jersey, New Mexico, Oklahoma, Illinois, Maine and Nevada

TO: All Freddie Mac Sellers and Servicers

Freddie Mac continues to play a leadership role in combating predatory lending practices. Freddie Mac has instituted the secondary mortgage market's most comprehensive set of policies designed to protect consumers from predatory lending practices. In accordance with our policies, Freddie Mac will not purchase Mortgages originated with single-premium credit insurance; Mortgages with terms that exceed either the Annual Percentage Rate (APR) or the points and fees threshold under the Home Ownership and Equity Protection Act of 1994 (HOEPA); or subprime Mortgages with prepayment terms that exceed three years. In addition, Freddie Mac requires its Servicers to report all Borrower credit information, including monthly Mortgage payments.

We are revising our requirements for the purchase of Mortgages secured by Mortgaged Premises located in New Jersey, New Mexico, Illinois, Oklahoma, Maine or Nevada, in response to the following anti-predatory lending statutes:

- New Jersey Home Ownership Security Act of 2002 (the "New Jersey Act")
- New Mexico Home Loan Protection Act (the "New Mexico Act")
- Illinois High Risk Home Loan Act (the "Illinois Act")
- Oklahoma Home Ownership and Equity Protection Act (the "Oklahoma Act")
- Maine Consumer Credit Code (the "Maine Act")
- Nevada Revised Statutes Title 52 (the "Nevada Act")

The following requirements are effective on November 27, 2003 for Mortgages secured by Mortgaged Premises located in New Jersey, Maine or Nevada and on January 1, 2004 for Mortgages secured by Mortgaged Premises in New Mexico, Illinois or Oklahoma.

- Mortgages secured by Mortgaged Premises in New Jersey, New Mexico, Illinois, Oklahoma, Maine or Nevada that are high-cost home loans as defined by the anti-predatory lending laws in their respective States are not eligible for delivery to Freddie Mac.
- The Seller must represent and warrant that it will not sell or assign to Freddie Mac high-cost home loans as defined by the laws in their respective States or sell or assign to Freddie Mac any other ineligible Mortgages.

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

The New Jersey Act and the New Mexico Act create the potential for heightened legal and business risk exposures for the purchasers or assignees of manufactured home loans, home improvement loans and certain refinance loans. This potential exists for secondary market participants, like Freddie Mac, that engage in prudent, reasonable and responsible mortgage purchase activities. While these Mortgages will remain eligible for purchase by Freddie Mac, we will expect our Sellers to comply with the law, exercise sound business judgment and best practices and meet special documentation requirements so that compliance can be confirmed or verified. For example,

special documentation requirements may include, but are not limited to, a reasonable tangible net benefit analysis and Borrower acknowledgement, a copy of the final Truth in Lending Statement and copies of subordinate lien documentation.

On an ongoing basis, we will monitor legislative and regulatory developments, market trends and loan data delivered to us by our Sellers. We intend to reassess our current position based upon relevant information and may announce further purchase restrictions for Mortgages secured by Mortgaged Premises located in New Jersey or New Mexico.

We expect our Sellers to become familiar with the requirements of anti-predatory laws and regulations in each State in which they conduct business. Sellers should review their loan origination processes as well as their processes with third-party originators and make any changes necessary to ensure that they do not deliver high-cost home loans and other ineligible Mortgages to Freddie Mac. In accordance with provisions of Section 6.2(a) of the Guide, Sellers must ensure that they comply with all applicable laws, regulations and orders. In addition, they must retain appropriate documentation in their loan files to demonstrate that the loan complies with applicable laws, regulations and orders.

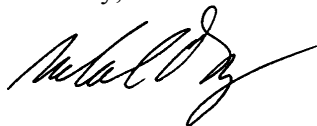
Without limitation of any other remedies set forth in the Purchase Documents, Freddie Mac reserves the right to notify a Seller in writing, at any time, that the Seller is ineligible to deliver, or is subject to a maximum purchase amount for, Mortgages secured by Mortgaged Premises in New Jersey, New Mexico, Illinois, Oklahoma, Maine or Nevada. Postpurchase, Freddie Mac will conduct reviews of Mortgages secured by Mortgaged Premises in these States. If a Mortgage is not in compliance with the Guide, or is determined to be in violation of any law or regulation, Freddie Mac will request that the Seller repurchase the Mortgage.

Conclusion

These new requirements will be added to Chapter 22 and Exhibit 26 as Discretionary Provisions in a future Guide Bulletin. Until that time, Sellers must retain this Industry Letter for Freddie Mac's purchase requirements for Mortgages secured by Mortgaged Premises in New Jersey, New Mexico, Illinois, Oklahoma, Maine or Nevada.

Freddie Mac remains committed to combating predatory lending while continuing to provide low-cost, easily accessible mortgage financing. For additional information about these changes to Freddie Mac's purchase requirements, please call (800) FREDDIE.

Sincerely,



Michael C. May
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Mortgage Sourcing, Operations & Funding