Understanding Custodial Accounts Reference Guide

October 2024

Freddie Mac SINGLE-FAMILY | Learning

Notice

This information is not a replacement or substitute for the requirements in the Freddie Mac *Single-Family Seller/Servicer Guide* or any other contractual agreements. This information does not constitute an agreement between Freddie Mac and any other party. *© 2024 Freddie Mac*

Last updated: October 2024

Table of Contents

Chapter 1: Introduction

What is a Custodial Account? 1-2
The Custodial Account Reconciliation Process 1-2
Understanding the Cash Management Process 1-4
Cash Management Reports 1-4
Cash Management and Investor Reporting Relationship 1-5
The Monthly Account Statement (MAS) 1-11
Loan History vs. Amount Due 1-14
When You Need Assistance 1-14

Chapter 2: Establish and Maintain Custodial Accounts

Types of Custodial Accounts You Must Establish 2-2
Where to Establish Your Custodial Accounts 2-2
Depository Eligibility Requirements 2-3
Establishing Custodial Accounts 2-3
Documentation Required to Establish Custodial Accounts 2-5
Custodial Account Designation 2-5
Maintaining and Monitoring Your Custodial Accounts 2-6

Chapter 3: Reconcile Escrow Custodial Accounts

Types of Escrow Funds 3-2
Reconciling the Escrow Custodial Account 3-2
Advancing Funds 3-3
Remitting Escrow Funds 3-3
Biweekly Mortgages and the Escrow Custodial Account 3-3
Completing Form 59E, *Escrow Custodial Account Monthly Reconciliation Worksheet* 3-4

Chapter 4: Reconcile Principal and Interest Custodial Accounts

What do I need to begin reconciling? 4-2
The P&I Custodial Account Reconciliation Process 4-3
Reconciling the P&I Custodial Account 4-4
Completing Form 59, *Principal and Interest Custodial Account Reconciliation Worksheet* 4-5
The Current Cycle Variance 4-12
Understanding Delinquent Interest Amounts 4-12

Chapter 5: Calculate Cash Disbursement Variance

Reconciling the Cash Disbursement Variance 5-1
Cash Disbursements to Actual Amount Drafted Worksheet 5-2
How to Identify and Resolve a Cash Disbursements Variance 5-5

Chapter 6: Calculate Cash Receipts Variance

Cash Receipts 6-1

Table of Contents

Cash Receipts Variances 6-2
Sources of Cash Receipts 6-3
Amount Due 6-4
Calculating Loan-Level and Portfolio-Level Amount Due 6-4
Loan-Level Amount Due and Cash Receipts 6-4
Understanding Cash Receipts and Amount Due 6-4
Cash Receipts to Current Amount Due Worksheet 6-9
How to Identify and Resolve a Cash Receipts Variance 6-13
Deposit Analysis 6-15
Other Billings Analysis 6-19
Loan-Level Analysis 6-21

Chapter 7: Current Cycle and Cumulative Variance Logs

Identifying and Resolving Current Cycle Variances 7-1
The Current Cycle Variance Log 7-3
The Cumulative Variance Log 7-4
How to Complete the Cumulative Variance Log 7-5

Chapter 8: Custodial Account Review

Overview of the Custodial Account Review (CAR) 8-1
Custodial Account Review Customer Profile 8-3
Required Documentation 8-5

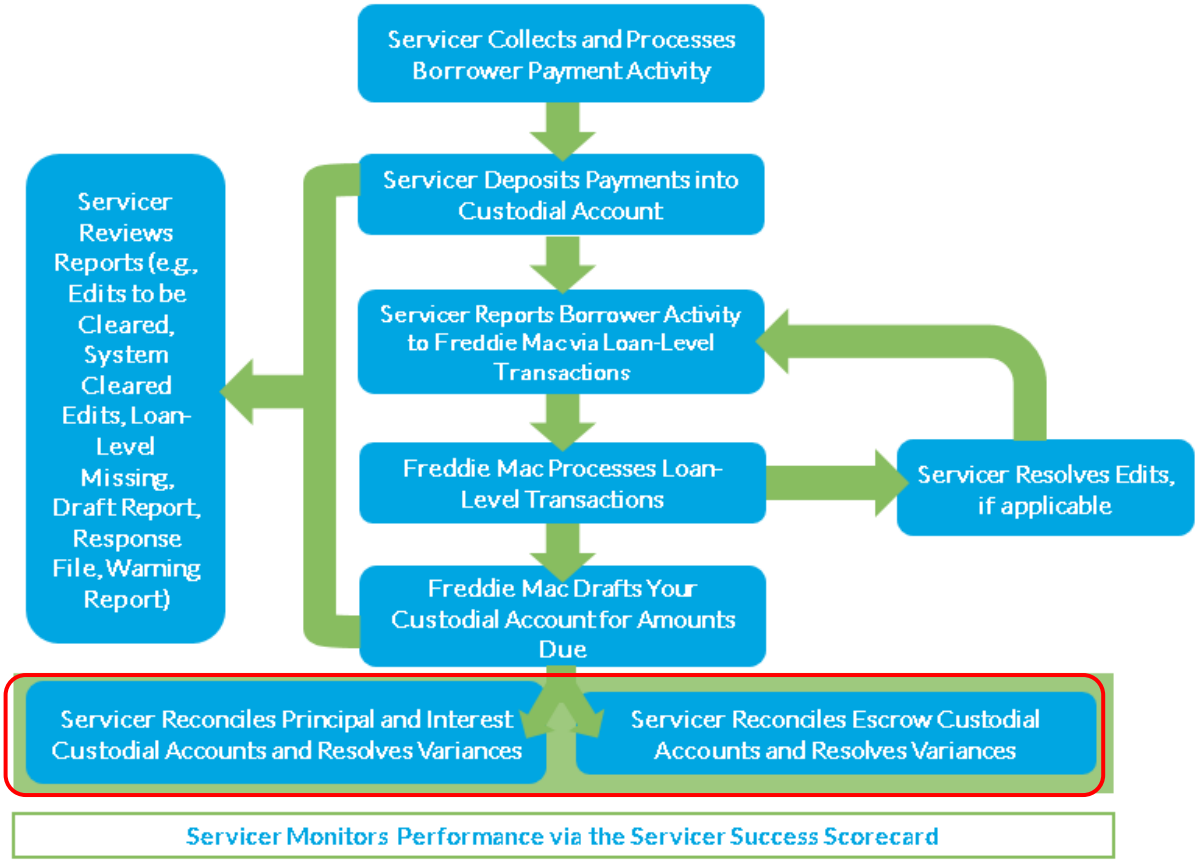
Chapter 9: Accounting for Odd Due Date Mortgages

Payment Due Date and Payment Received Date 9-1
Odd Due Date Mortgages and Cash Flow Variances 9-2
Determining Interest Due Freddie Mac 9-2
Determining Interest Due from the Borrower 9-3
Principal and Interest Adjustments 9-3
New Funding Adjustments for Odd Due Date Mortgages 9-3
Determining Prepaid Interest Collected 9-10
Determining Monthly Interest 9-14
Prepaid and Delinquent Interest Adjustments 9-16
Determining Daily Interest for Payoffs 9-21

Welcome to Understanding Custodial Accounts!

This publication

- Explains how the custodial account reconciliation process fits into the Investor Accounting Process.
- Outlines Freddie Mac's requirements and expectations for custodial account reconciliation.
- Identifies the information you will need to reconcile your custodial accounts.
- Explains how to reconcile your escrow and principal and interest (P&I) custodial accounts.
- Provides a methodology for identifying and resolving variances.
- Introduces the Custodial Account Reconciliation Process.
- Explains the amounts reflected on each line of the *LLR Monthly Account Statement* (MAS).



What is a Custodial Account?

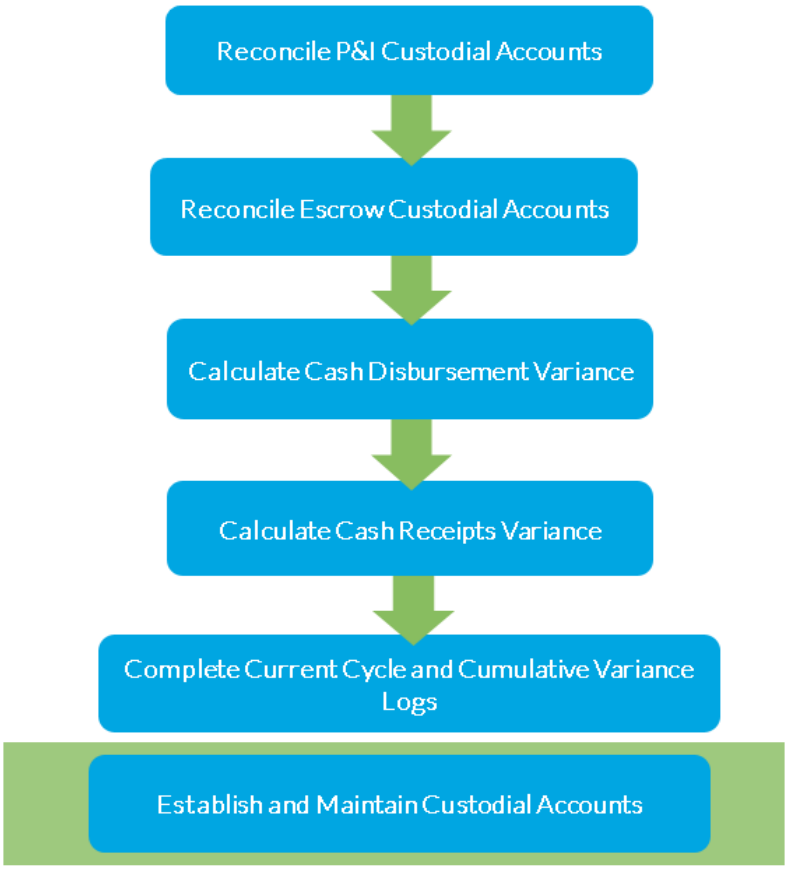
A Custodial Account is a Demand Deposit Account or Interest-Bearing Deposit Account the Servicer must establish and maintain at an Eligible Depository for the safekeeping of funds associated with Freddie Mac-owned mortgages. The Servicer must maintain principal and interest (P&I) Payments and Escrow Funds in separate Custodial Accounts until Freddie Mac drafts monthly P&I payments or loan payoffs or the Servicer remits funds to a third party. Only funds received in connection with the servicing of Freddie Mac-owned mortgages are to be deposited into the accounts.

There are various types of custodial accounts:

- Principal and interest custodial accounts
- Principal and interest disbursement clearing custodial accounts
- Escrow custodial accounts
- Buydown custodial accounts

The Custodial Account Reconciliation Process

The following illustration highlights the various components of the custodial account reconciliation process. As you collect and process borrower payment activity for mortgages in your Freddie Mac servicing portfolio, you will deposit those funds into your designated custodial account. Within 45 days of the end of each accounting cycle, you must reconcile your P&I and escrow custodial accounts. Throughout this publication, we will highlight the specific component(s) of the process that each chapter addresses.



For additional information about custodial accounts, refer to *Single-Family Seller/Servicer Guide* (Guide) Chapter 8304.

Understanding the Cash Management Process

Cash management is the process of:

- Collecting borrowers' payments
- Posting payments, reversals and adjustments to borrowers' loan histories
- Depositing borrowers' payments into the appropriate accounts (i.e., principal and interest custodial and escrow custodial accounts)

Cash Management Reports

The following reports are outputs of the cash management process. You will use these reports to complete your custodial account reconciliation.

- Loan history
- Daily collections report
- Bank statement

Loan History	The loan history is the record between you and the borrower. It reflects all payment activity for the mortgage.
Daily Collections Report	The daily collections report summarizes the investors' share of collections received on a given day.
Bank Statement	The bank statement summarizes the investors' entire share of cash receipts and cash disbursements. It represents the balance of your cash management process. Your bank statement may cut off on any date. However, we recommend that your bank statement cuts off at the end of the month to correspond with the time period being reconciled. You must keep an actual bank statement as supporting documentation. If you have an in-house account and the ability to print the activity you still must include an actual bank statement with your bank's logo.

The relationship between the daily collections report and cash management reports are shown here. You should be able to trace a payment to a deposit or itemize any deposit back to the individual loan payments.

The daily collections report reflects a borrower's payment on loan number 765431. You post the payment to the borrower's loan record on the day received (4/1) and to Freddie Mac's custodial account the following business day (4/2).

Daily Collections Report for Investor — Investor: Freddie Mac
Date: 04/01

Investor Loan Number	Servicer Loan Number	Payment Due Date	Total Collected	Interest	Principal
123456781	765431	04/01/XY	683.93	604.66	79.27
123456782	765432	04/01/XY	724.16	651.00	73.16
123456783	765433	04/01/XY	611.51	555.77	55.74
123456784	765434	04/01/XY	780.48	699.42	81.07
Daily Total			2,800.09	2,510.85	289.84

Freddie Mac Custodial Account Bank Statement

Deposits
04/02 2,800.09*

Servicer Loan Record

Loan Number 765431
Investor Loan Number 123456781

DDLPI 04/01
Transactions

Date	Total Payment	Interest	Principal
04/01	683.93	604.66	79.27

Beginning Loan Balance.....80,621.50

Current Loan Balance.....80,542.23

*Figure is net servicing fee.

Cash Management and Investor Reporting Relationship

Cash management is the collection of funds, processing and depositing borrowers' payments to custodial accounts, and drafting funds from the principal and interest custodial account. Your cash management activity and ending balance are represented by your bank statement.

Investor reporting is the reporting of all activity that has occurred in the cash management process. Your investor reporting activity and ending balance are represented by your *LLR Monthly Account Statement* (MAS).

The two processes should be equal. In other words, activity on your bank statement should be reflected on your MAS and vice versa. In theory, the balances of those two reports should be the same.

Example: Payment Received Before the P&I Determination Date:

***May Cycle*:** You receive a $150 payment ($50 principal, $100 interest) from the borrower on May 3, deposit the funds and report the loan-level transaction. On the May P&I draft date, Freddie Mac drafts the forecasted scheduled interest of $100 reported in April and the $50 principal reported and processed in May.

***June Cycle*:** You receive a $150 payment from the borrower ($51 principal, $ 99 interest), deposit the funds on June 3 and report the loan-level transaction. On the June P&I draft date, Freddie Mac drafts the forecasted scheduled interest of $99 reported in May and the $51 principal reported and processed in June before the P&I Determination Date. Both are processed on the June MAS. The June MAS and the Custodial Account both have a $0 beginning balance, $150 increase based on applied transactions, $150 reduction due to amounts drafted and credited to the liability due Freddie Mac, and $0 ending balance as of the end of June.

MONTHLY ACCOUNT STATEMENT
AS OF 6/XXXX

BEGINNING BALANCE						0.00
TRANSACTIONS APPLIED	PRINCIPAL DUE	DFRD PRINCIPAL CURTAILMENT	BORR INCENTIVE CURTAILMENT	INTEREST DUE	TOTAL P&I	
NON EXCEPTION	51.00	0.00	0.00	99.00	150.00	
SUBTOTAL P&I						150.00
ADJUSTMENTS TO BALANCE DUE FREDDIE MAC						0.00
TOTAL BALANCE DUE FREDDIE MAC						150.00
DRAFT AMOUNT						150.00
NSF/CR						0.00
ACTUAL AMOUNT DRAFTED						150.00
ENDING BALANCE						0.00

$99 forecasted scheduled interest reported in May due and received in June, $51 principal due and received in June

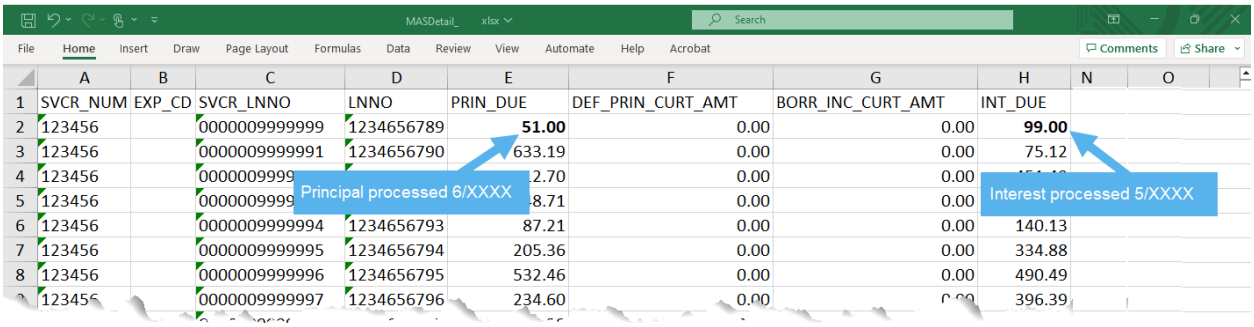
ABC BANK

Posted Date	Withdrawals	Deposits	Transactions	Bank Balance
1 – June			Beginning Balance	0.00
2 – June				0.00
3 - June		150.00	Mortgage Collections	150.00
4 – June				150.00
5 – June				150.00
6 - June				150.00
7 – June				150.00
8 – June				150.00
9 - June				150.00
10 –June				150.00
11 –June				150.00
12 - June				150.00
13 –June				150.00
14 –June				150.00
15 - June				150.00
16 –June				150.00
17 - June	150.00		Draft – Freddie Mac	0.00
18 – June				0.00
19 – June				0.00
20 - June				0.00
21 – June				0.00
22 – June				0.00
23 - June				0.00
24 – June				0.00
25 – June				0.00
26 - June				0.00
27 – June				0.00
28 – June				0.00
29 - June				0.00
30 – June			Ending Balance	0.00

$150 payment received on June 3 ($99 interest and $51 principal)

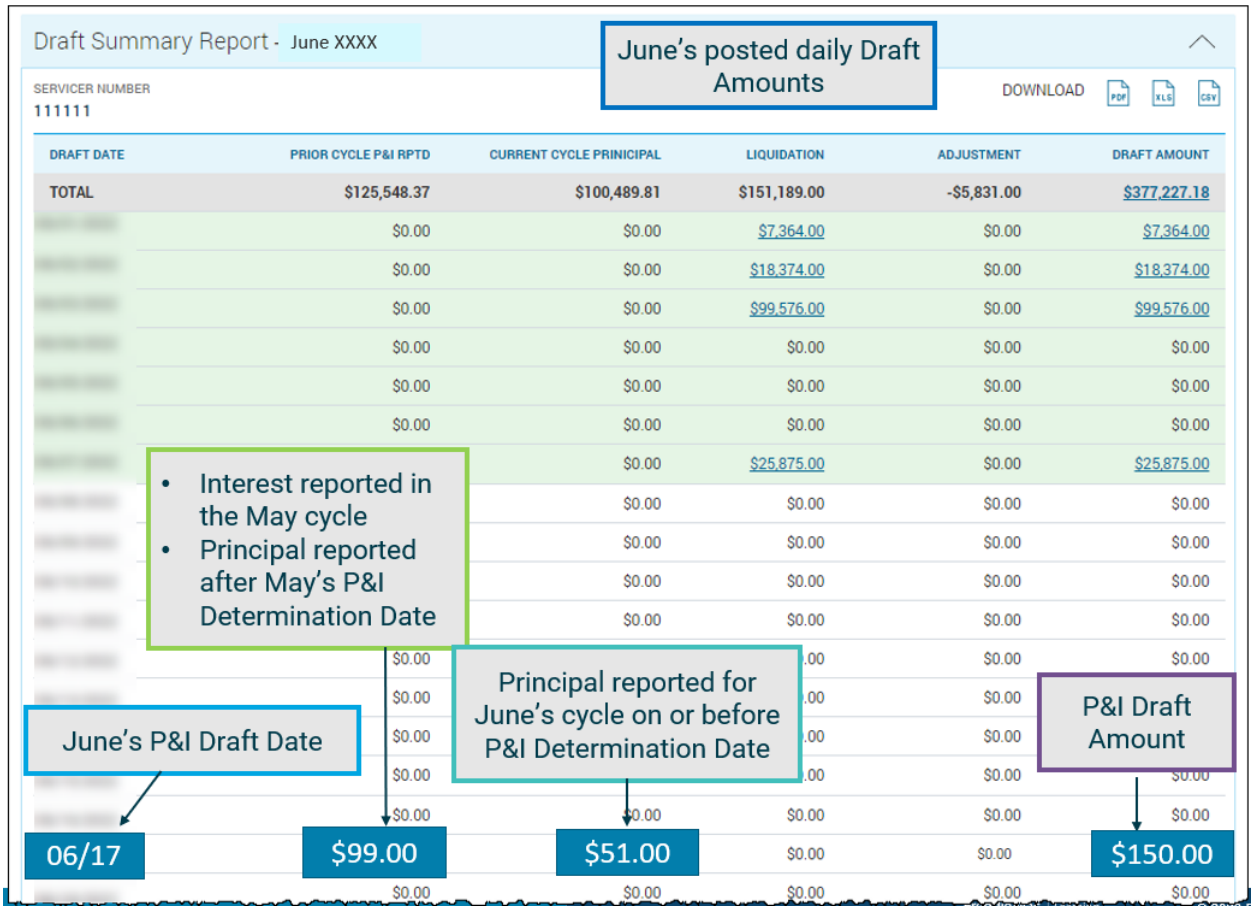
$99 forecasted scheduled interest reported in May, $51 principal reported in June

Access the MAS Loan Level Detail Report to determine the loan level P&I amount due that's posted to the Monthly Account Statement.



	A	B	C	D	E	F	G	H
1	SVCR_NUM	EXP_CD	SVCR_LNNO	LNNO	PRIN_DUE	DEF_PRIN_CURT_AMT	BORR_INC_CURT_AMT	INT_DUE
2	123456		0000009999999	1234656789	**51.00**	0.00	0.00	**99.00**
3	123456		0000009999991	1234656790	633.19	0.00	0.00	75.12
4	123456		0000009999		2.70	0.00	0.00	
5	123456		0000009999		8.71	0.00	0.00	
6	123456		0000009999994	1234656793	87.21	0.00	0.00	140.13
7	123456		0000009999995	1234656794	205.36	0.00	0.00	334.88
8	123456		0000009999996	1234656795	532.46	0.00	0.00	490.49
	123456		0000009999997	1234656796	234.60	0.00	0.00	396.39

The following Draft Summary Report reflects the P&I drafted by Freddie Mac June's P&I draft date.



Draft Summary Report - June XXXX

SERVICER NUMBER
111111

DOWNLOAD

DRAFT DATE	PRIOR CYCLE P&I RPTD	CURRENT CYCLE PRINICIPAL	LIQUIDATION	ADJUSTMENT	DRAFT AMOUNT
TOTAL	$125,548.37	$100,489.81	$151,189.00	-$5,831.00	$377,227.18
	$0.00	$0.00	$7,364.00	$0.00	$7,364.00
	$0.00	$0.00	$18,374.00	$0.00	$18,374.00
	$0.00	$0.00	$99,576.00	$0.00	$99,576.00
	$0.00	$0.00	$0.00	$0.00	$0.00
	$0.00	$0.00	$0.00	$0.00	$0.00
	$0.00	$0.00	$0.00	$0.00	$0.00
		$0.00	$25,875.00	$0.00	$25,875.00
		$0.00	$0.00	$0.00	$0.00
		$0.00	$0.00	$0.00	$0.00
		$0.00	$0.00	$0.00	$0.00
		$0.00	$0.00	$0.00	$0.00
	$0.00			$0.00	$0.00
	$0.00			$0.00	$0.00
	$0.00			$0.00	$0.00
	$0.00			$0.00	$0.00
	$0.00	$0.00	$0.00	$0.00	$0.00
	$0.00	$0.00	$0.00	$0.00	$0.00
	$0.00	$0.00	$0.00	$0.00	$0.00

Example: Payment Received After the P&I Determination Date:

***May Cycle*:** You receive a $150 payment ($50 principal, $100 interest) from the borrower on May 3, deposit the funds and report the loan-level transaction. On the May P&I draft date, Freddie Mac drafts the forecasted scheduled interest of $100 reported in April and $50 reported and processed on the May MAS.

***June Cycle*:** You receive a $150 payment from the borrower ($51 principal, $99 interest), deposit the funds on June 20 (after the P&I determination date) and report the loan-level transaction. On the June P&I draft date, Freddie Mac drafts the forecasted scheduled interest of $99 reported in May. The principal of $51 processed in June will be included in the MAS liability, however, will not be drafted until July because the payment was received and processed after the P&I determination date.

The June MAS and the Custodial Account both have a $0 beginning balance, $150 increase based on applied transactions, $99 reduction due to amounts drafted (i.e., the forecasted scheduled interest processed in May) and credited to the liability due Freddie Mac, and $51 ending balance (still due Freddie Mac) as of the end of June.

MONTHLY ACCOUNT STATEMENT
AS OF 6/XXXX

BEGINNING BALANCE						0.00
TRANSACTIONS APPLIED	PRINCIPAL DUE	DFRD PRINCIPAL CURTAILMENT	BORR INCENTIVE CURTAILMENT	INTEREST DUE	TOTAL P&I	
NON EXCEPTION	51.00	0.00	0.00	99.00	150.00	
SUBTOTAL P&I						150.00
ADJUSTMENTS TO BALANCE DUE FREDDIE MAC						0.00
TOTAL BALANCE DUE FREDDIE MAC						150.00
DRAFT AMOUNT						99.00
NSF/CR						0.00
ACTUAL AMOUNT DRAFTED						99.00
ENDING BALANCE						51.00

$99 forecasted scheduled interest reported in May due and received in June, $51 principal due and received in June

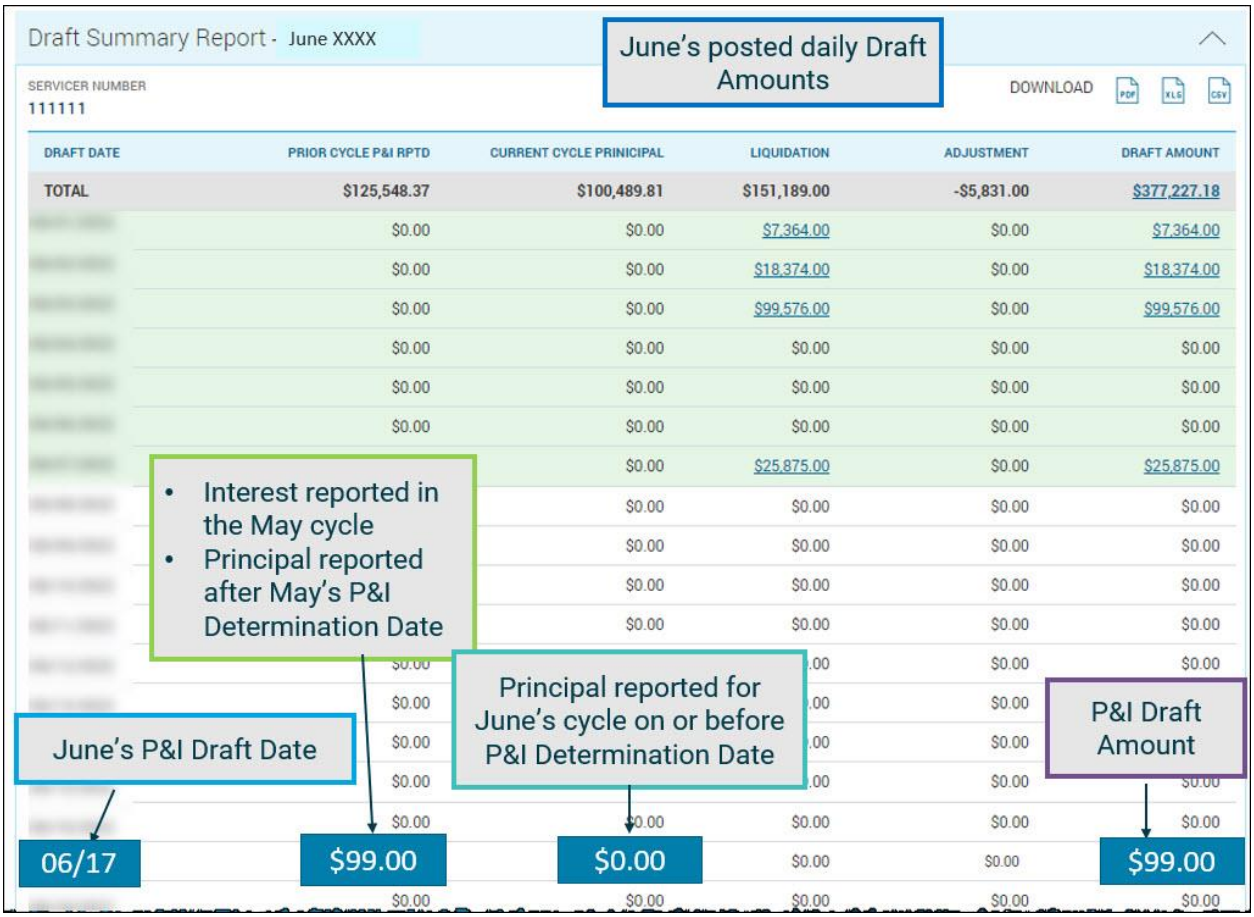
ABC BANK

Posted Date	Withdrawals	Deposits	Transactions	Bank Balance
1 – June			Beginning Balance	0.00
2 – June				0.00
3 - June				0.00
4 – June				0.00
5 – June				0.00
6 - June				0.00
7 – June				0.00
8 – June				0.00
9 - June				0.00
10 –June				0.00
11 –June				0.00
12 - June				0.00
13 –June				0.00
14 –June				0.00
15 - June				0.00
16 –June				0.00
17 - June	99.00		Draft – Freddie Mac	(99.00)
18 – June				51.00
19 – June				51.00
20 - June		150.00	Mortgage Collections	51.00
21 – June				51.00
22 – June				51.00
23 - June				51.00
24 – June				51.00
25 – June				51.00
26 - June				51.00
27 – June				51.00
28 – June				51.00
29 - June				51.00
30 – June			Ending Balance	51.00

$99 forecasted scheduled interest reported in May

$150 payment received on June 20 ($99 interest and $51 principal)

The following Draft Summary Report reflects the interest drafted by Freddie Mac on June's P&I draft date.



DRAFT DATE	PRIOR CYCLE P&I RPTD	CURRENT CYCLE PRINICIPAL	LIQUIDATION	ADJUSTMENT	DRAFT AMOUNT
TOTAL	$125,548.37	$100,489.81	$151,189.00	-$5,831.00	$377,227.18
	$0.00	$0.00	$7,364.00	$0.00	$7,364.00
	$0.00	$0.00	$18,374.00	$0.00	$18,374.00
	$0.00	$0.00	$99,576.00	$0.00	$99,576.00
	$0.00	$0.00	$0.00	$0.00	$0.00
	$0.00	$0.00	$0.00	$0.00	$0.00
	$0.00	$0.00	$0.00	$0.00	$0.00
		$0.00	$25,875.00	$0.00	$25,875.00
		$0.00	$0.00	$0.00	$0.00
		$0.00	$0.00	$0.00	$0.00
		$0.00	$0.00	$0.00	$0.00
		$0.00	$0.00	$0.00	$0.00
	$0.00		.00	$0.00	$0.00
	$0.00		.00	$0.00	
	$0.00		.00	$0.00	
	$0.00		.00	$0.00	$0.00
	$0.00	$0.00	$0.00	$0.00	$0.00
	$0.00	$0.00	$0.00	$0.00	$0.00

***July Cycle*:** You receive a $150 payment from the borrower ($52 principal, $98 interest), deposit the funds on July 3 (before the P&I determination date) and report the loan-level transaction. On the July P&I draft date, Freddie Mac drafts the forecasted scheduled interest of $98 reported in June and the $52 principal reported in July before the P&I Determination Date. The principal of $51 received after the P&I determination date in June will also be drafted in July.

The June MAS and the Custodial Account both have a $51 beginning balance, $150 increase based on applied transactions, $201 reduction due to amounts drafted and credited to the liability due Freddie Mac, and $0 ending balance as of the end of June.

MONTHLY ACCOUNT STATEMENT
AS OF 7/XXXX

BEGINNING BALANCE						51.00
TRANSACTIONS APPLIED	PRINCIPAL DUE	DFRD PRINCIPAL CURTAILMENT	BORR INCENTIVE CURTAILMENT	INTEREST DUE	TOTAL P&I	
NON EXCEPTION	52.00	0.00	0.00	98.00	150.00	
SUBTOTAL P&I						150.00
ADJUSTMENTS TO BALANCE DUE FREDDIE MAC						0.00
TOTAL BALANCE DUE FREDDIE MAC						201.00
DRAFT AMOUNT						201.00
NSF/CR						0.00
ACTUAL AMOUNT DRAFTED						201.00
ENDING BALANCE						0.00

$98 forecasted scheduled interest reported in June due and received in July, $52 principal due and received in July

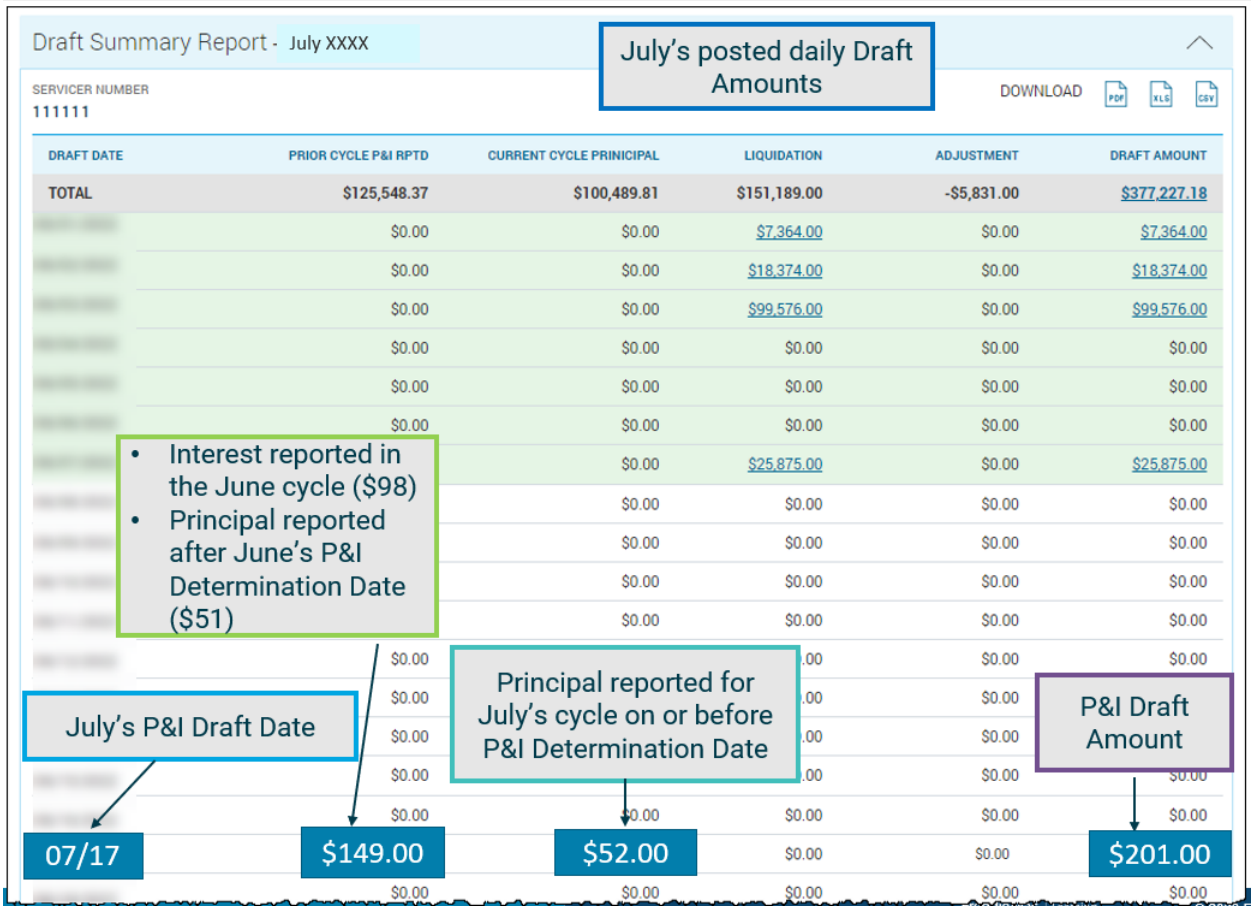
ABC BANK

Posted Date	Withdrawals	Deposits	Transactions	Bank Balance
1 - July			Beginning Balance	51.00
2 - July				51.00
3 - July		150.00	Mortgage Collections	201.00
4 - July				201.00
5 - July				201.00
6 - July				201.00
7 - July				201.00
8 - July				201.00
9 - July				201.00
10 - July				201.00
11 - July				201.00
12 - July				201.00
13 - July				201.00
14 - July				201.00
15 - July				201.00
16 - July				201.00
17 - July	201.00		Draft – Freddie Mac	0.00
18 - July				0.00
19 - July				0.00
20 - July				0.00
21 - July				0.00
22 - July				0.00
23 - July				0.00
24 - July				0.00
25 - July				0.00
26 - July				0.00
27 - July				0.00
28 - July				0.00
29 - July				0.00
30 - July			Ending Balance	0.00

$150 payment received on July 3 ($98 forecasted scheduled interest reported in June and $52 principal)

$98 forecasted interest reported in June, $51 principal reported in June after the P&I determination date, $52 reported in July on or before the P&I determination date.

The following Draft Summary Report reflects the P&I drafted by Freddie Mac on July's P&I draft date.



DRAFT DATE	PRIOR CYCLE P&I RPTD	CURRENT CYCLE PRINICIPAL	LIQUIDATION	ADJUSTMENT	DRAFT AMOUNT
TOTAL	$125,548.37	$100,489.81	$151,189.00	-$5,831.00	$377,227.18
	$0.00	$0.00	$7,364.00	$0.00	$7,364.00
	$0.00	$0.00	$18,374.00	$0.00	$18,374.00
	$0.00	$0.00	$99,576.00	$0.00	$99,576.00
	$0.00	$0.00	$0.00	$0.00	$0.00
	$0.00	$0.00	$0.00	$0.00	$0.00
	$0.00	$0.00	$0.00	$0.00	$0.00
		$0.00	$25,875.00	$0.00	$25,875.00
		$0.00	$0.00	$0.00	$0.00
		$0.00	$0.00	$0.00	$0.00
		$0.00	$0.00	$0.00	$0.00
		$0.00	$0.00	$0.00	$0.00
	$0.00		.00	$0.00	$0.00
	$0.00		.00	$0.00	
	$0.00		.00	$0.00	
	$0.00		.00	$0.00	$0.00
	$0.00	$0.00	$0.00	$0.00	$0.00
	$0.00	$0.00	$0.00	$0.00	$0.00
	$0.00	$0.00	$0.00	$0.00	$0.00

The Monthly Account Statement (MAS)

The *Monthly Account Statement* (MAS) provides the amounts due, funds drafted, and adjustments for the current accounting cycle. The ending balance represents your liability to Freddie Mac as of the end of the accounting cycle. The MAS is available via the Loan Level Reporting tool on the second business day of the month following the accounting cycle. You will use the MAS to reconcile your P&I custodial account.

REPORT: LLR6110R
SERVICER: 123456

LOAN LEVEL REPORTING
MONTHLY ACCOUNT STATEMENT
AS OF 06/XXXX

FINAL

PAGE: 1
RUN TIME: 13:30:02

BEGINNING BALANCE 150,250.00

TRANSACTIONS APPLIED		PRINCIPAL DUE	DFRD PRINCIPAL CURTAILMENT	BORR INCENTIVE CURTAILMENT	INTEREST DUE	TOTAL P&I	
NON EXCEPTION	( )	113,065.85	0.00	0.00	88,845.98	201,911.83	
INACTIVATION	(40)	0.00	0.00	0.00	813.00	813.00	
REINSTATEMENT	(50)	8,230.49	0.00	0.00	3,680.55	11,911.04	
REO	(70)	0.00	0.00	0.00	3,873.77-	3,873.77-	
PREPAID PAYOFF	(61)	220,000.00	0.00	0.00	301.37	220,301.37	
SUBTOTAL P&I		341,296.34			89,767.13	431,063.47	431,063.47
ADJUSTMENTS TO BALANCE DUE FREDDIE MAC							330.11
TOTAL BALANCE DUE FREDDIE MAC							581,643.58
DRAFT AMOUNT							213,829.20
NSF /CR							0.00
ACTUAL AMOUNT DRAFTED							213,829.20
ENDING BALANCE							367,814.38

It's important to understand the specific amounts reflected on the MAS each cycle. Below is a line-by-line description of the activity included on the MAS.

Section	Description	
Beginning Balance	The ending balance on the prior cycle's MAS. The value displayed includes liabilities due from the prior cycle, excluding forecasted scheduled interest processed during the prior cycle.	
Applied Transactions **Note:** Only transactions with amounts due for the current accounting cycle display on the MAS.	Identifies all transactions with funds due for the current accounting cycle.	
	Transaction:	**Amount Reflected on MAS:**
	Non-Exception (includes P&I Recast) Exception codes: (blank) 91 (P&I Recast)	▪ Principal processed during the current accounting cycle. ▪ Deferred Principal Curtailment Payment (DPCP) processed during the current accounting cycle. ▪ Borrower incentive curtailment (BIC) processed during the current accounting cycle. ▪ Forecasted scheduled interest processed during the prior accounting cycle. (This includes forecasted scheduled interest for reinstatements processed in the prior cycle.) ▪ Delinquent interest and alternate method interest processed during the current accounting cycle.

Section	Description	
	Transaction:	**Amount Reflected on MAS:**
Applied Transactions **Note:** Only transactions with amounts due for the current accounting cycle display on the MAS.	Balance Correction Exception code: 80	▪ Negative principal reduction processed during the current accounting cycle. ▪ DPCP processed during the current accounting cycle. ▪ BIC processed during the current accounting cycle. ▪ Forecasted scheduled interest processed during the prior accounting cycle.
	Inactivation Exception code: 40	▪ Zero principal due. ▪ DPCP processed during the current accounting cycle. ▪ BIC processed during the current accounting cycle. ▪ Forecasted scheduled interest processed during the prior accounting cycle.
	Reinstatement Exception code: 50	▪ Principal due during the current accounting cycle. ▪ DPCP processed during the current accounting cycle. ▪ BIC processed during the current accounting cycle. ▪ Delinquent interest processed during the current accounting cycle.
	REO Exception code: 70	▪ Zero principal due. ▪ Zero DPCP. ▪ Zero BIC. ▪ Credit for reimbursement of interest advanced for REOs processed during the current accounting cycle.
	Payoff (All types) Exception codes: 60, 61, 65, 66, 67	▪ Principal due is equal to the prior accounting cycle's ending interest-bearing unpaid principal balance (UPB). ▪ DPCP is equal to the prior accounting cycle's deferred UPB. ▪ BIC processed during the current accounting cycle. ▪ Daily exception interest processed during the current accounting cycle plus: – Forecasted scheduled interest processed in the prior cycle (if the loan was active). – Delinquent interest processed in the current cycle (if the loan was inactive). ▪ Refer to Loans that Pay Off on the Last Business Day of the Month in this chapter for an explanation on how these payoffs are reflected on the *Monthly Account Statement*.

Section	Description	
Applied Transactions **Note:** Only transactions with amounts due for the current accounting cycle display on the MAS.	**Transaction:**	**Amount Reflected on MAS:**
	Third-Party Foreclosure Sales Exception codes: 71, 73	▪ Principal due is equal to the prior accounting cycle's ending interest-bearing unpaid principal balance (UPB). ▪ DPCP is equal to the prior accounting cycle's deferred UPB. ▪ BIC processed during the current accounting cycle. ▪ Daily exception interest processed during the current accounting cycle plus: – Forecasted scheduled interest processed in the prior cycle (if the loan was active). – Delinquent interest processed in the current cycle (if the loan was inactive).
Subtotal P&I	Total principal due, DPCP, BIC, and interest due for the current accounting cycle.	
Adjustments to Balance Due Freddie Mac	Total adjustments posted during the current accounting cycle. For a list of all adjustment codes and descriptions, refer to our publication, *Reporting Transactions and Resolving Level-Edits*, Chapter 4.	
Total Balance Due Freddie Mac	The sub-total P&I plus or minus any adjustments posted during the current accounting cycle.	
Draft Amount	Total amount Freddie Mac *attempted* to draft during the accounting cycle. This value is equal to the total of the Draft Amount column on the *Draft Summary Report*.	
NSF/CR	Reflects the net amount of funds Freddie Mac could not draft due to non-sufficient funds (NSF) and subsequent drafts that cured NSFs during the accounting cycle. Review the *Non-Sufficient Funds Report*, available via the Cash Manager tool, to identify funds we were unable to draft during the accounting cycle.	
Actual Amount Drafted	Total funds Freddie Mac drafted from your designated custodial account during the accounting cycle. This value equals the Draft Amount on the *Monthly Account Statement* plus or minus the NSF/CR amount.	
Ending Balance	Beginning Balance + Sub-total P&I +/- Adjustments to Balance Due Freddie Mac - Actual Amount Drafted = Ending Balance This value represents activity processed during the current cycle that Freddie Mac did not draft and becomes the beginning balance for the next accounting cycle's MAS.	

Loans that Pay Off on the Last Day of the Month

The following table outlines how loans that pay off on the last day of the month are reflected on the MAS.

If a loan pays off on the last day of the month and you report the payoff timely:	**Then:**
On the last day of the month or the first business day of the following month	The payoff is reported under the current accounting cycle. For example, if a loan pays off on April 30th, and you report the payoff on April 30th or May 1st, the payoff falls under the April accounting cycle, as you can report transactions through end of month plus one business day. The amounts due for the payoff will be reflected on the April MAS.
On the second business day of the following month	The payoff is reported under the next accounting cycle. For example, if a loan pays off on April 30th, and you report the payoff on May 2nd, the payoff falls under the May accounting cycle, as you can no longer report transactions for the April cycle. The amounts due for the payoff will be reflected on the May MAS.

Loan History vs. Amount Due

A borrower's loan history should equal the amount due Freddie Mac (if there are no reporting discrepancies). However, differences between the loan history and the amount due can be caused by delinquent and prepaid interest. You will see that both delinquent and prepaid interest are accounted for in your P&I custodial account reconciliation. This should not cause a large difference when reconciling your P&I custodial account. However, it may cause smaller amortization differences.

When You Need Assistance

Contact Customer Support at 800-FREDDIE for the following:

- General questions about custodial accounts
- Technical support

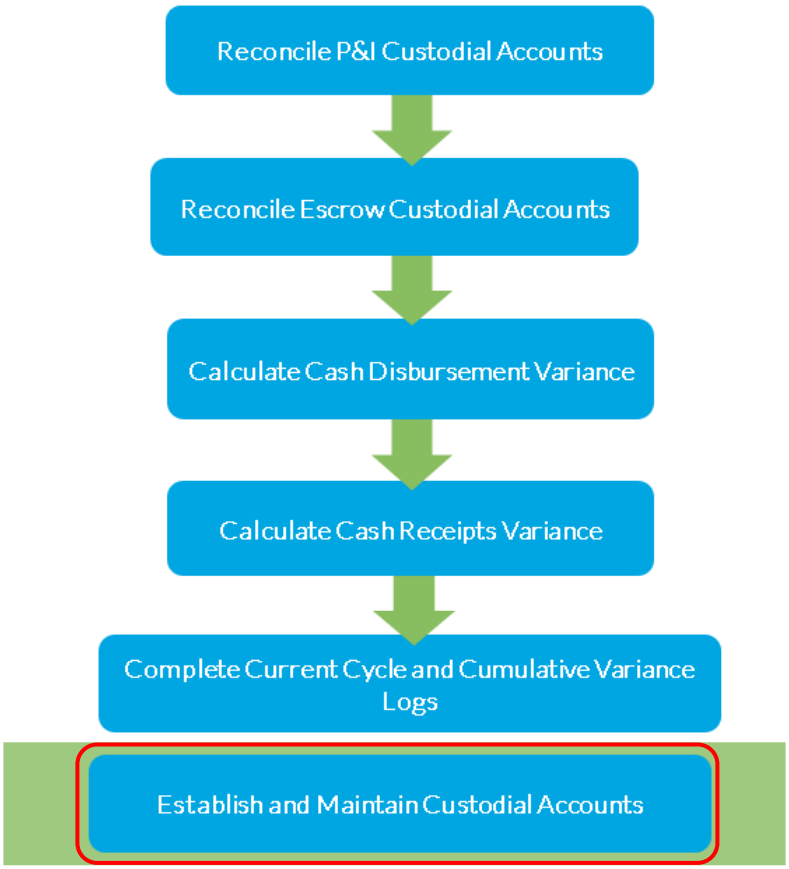
Contact your Freddie Mac representative with specific loan-level questions.

Chapter 2: Establish and Maintain Custodial Accounts

When you service loans for Freddie Mac, you must establish and maintain principal and interest (P&I) and escrow custodial accounts in accordance with our requirements.

This chapter explains:

- The types of custodial accounts you must establish.
- Where to establish your custodial accounts.
- Depository eligibility requirements.
- Custodial account designation requirements.
- How to maintain and monitor your custodial accounts.
- Requirements for investing custodial account funds.



Types of Custodial Accounts You Must Establish

In accordance with the requirements in *Single-Family Seller/Servicer Guide* (Guide) Section 8302.1, you must establish and maintain the following custodial accounts:

- **Principal and interest (P&I) custodial account:** You must open a principal and interest (P&I) custodial account for each Servicer number under which you service loans for Freddie Mac, and deposit P&I payments solely for the mortgages serviced under each Servicer number. You may open more than one P&I custodial account. However, if you do, you must designate one of them as the primary account from which Freddie Mac will draft principal and interest payments and payoffs. Alternatively, you may open a separate P&I disbursement clearing custodial account.
- **Escrow custodial account:** You must hold escrow funds in a separate escrow custodial account for each Servicer number. Even if you do not collect escrow funds, you must open an escrow custodial account in the event that you receive funds for insurance claims proceeds, partial payments or buydown funds. Although Freddie Mac allows you to hold buydown funds in an escrow custodial account, you may open a separate buydown custodial account for buydown funds.

You may initially deposit Freddie Mac funds in a custodial clearing account prior to transferring such funds into the appropriate custodial account and record that initial deposit in a general ledger account for general accounting purposes. The custodial clearing account is not a substitute for the custodial account, particularly as it is not required to meet all of the requirements of Chapter 8302. See Section 8302.3 for custodial clearing account requirements.

Where to Establish Your Custodial Accounts

All custodial accounts must be established in an eligible depository. We have a vested interest in the custodial account funds you maintain and therefore have specific eligibility requirements that a depository must meet to ensure that our funds are safeguarded.

If your institution qualifies as an eligible depository and meets the requirements outlined in the Guide or a subsidiary of or under common ownership with an eligible depository, you may open and maintain custodial accounts within your own financial institution.

You must safeguard at all times the funds you maintain in custodial accounts on behalf of Freddie Mac and indemnify Freddie Mac for and hold it harmless from any loss, damage or expenses (including court costs and attorney fees) that Freddie Mac sustains as a direct or indirect result of the financial institution's bankruptcy, receivership, liquidation, or insolvency (refer to Guide Sections 8302.4 and 8302.5 for the eligibility requirements). You can choose an eligible third-party depository as long as it meets the eligibility requirements. You are responsible for determining the eligibility status of each depository where you maintain Freddie Mac custodial funds.

The custodial accounts and the funds held therein must be free and clear of any and all liens or claims of others, including security agreements. If the custodial accounts are maintained at an eligible depository that is an FDIC-insured depository or a NCUSIF-insured depository, you must maintain the custodial accounts in accordance with all applicable requirements for full federal insurance coverage for the custodial accounts.

Depository Eligibility Requirements

An eligible depository for all custodial accounts must be one of the following:

- A Federal Reserve Bank
- A Federal Home Loan Bank
- An FDIC-insured depository
- An NCUSIF-insured depository

The FDIC-insured and NCUSIF-insured depositories where P&I funds are held must also meet both Freddie Mac confidential tolerance standards and risk tolerances as stated in Guide Section 8302.5.

Acceptable Risk Threshold

The FDIC-insured and NCUSIF-insured depositories for principal and interest (P&I) custodial accounts must maintain an acceptable risk threshold based upon the minimum tier rating requirements specified in Section 8302.5 and Freddie Mac's confidential tolerance standards calculated using various key metrics. Servicers must monitor these risk ratings based on the frequency used by the ratings agency for publishing and updating rating changes to determine continued eligibility of a depository institution. Freddie Mac will notify you if your depository has fallen below the acceptable risk threshold of Freddie Mac's confidential tolerance standard.

A depository institution that is a subsidiary of a holding company or an affiliate of another depository may, on a case-by-case basis, have its eligibility rating affected by the rating of its holding company or affiliate. FDIC regulations may require related depository institutions to guarantee the obligations of the troubled depository institutions. As a result, the related depository institution may be subject to a risk of regulatory action and Freddie Mac may deem it to be ineligible even if it meets Freddie Mac's acceptable risk level. You may want to consider this when selecting or monitoring your depository.

Establishing Custodial Accounts

Your custodial accounts must be demand deposit accounts or interest-bearing deposit accounts, such as money market deposit accounts or savings accounts. Your use of an interest-bearing deposit account is conditioned upon Freddie Mac's ability to present a sight draft and your ability to remit funds when due. If you elect to use an interest-bearing deposit account, you may use this type of account as long as Freddie Mac's ability to present a sight draft is not impaired and you are able to remit funds when due. If the account limits the number of withdrawals, or requires prior notice for withdrawals, you are responsible for any payments or penalties that result from excessive withdrawals, where advance notice is insufficient. You are also responsible for any losses or damages associated with the account. Interest-bearing deposit accounts do not include money market mutual fund accounts.

You may set up a disbursement clearing Custodial Account to consolidate funds held in multiple Freddie Mac P&I Custodial Accounts into one account prior to drafting funds to Freddie Mac. You must ensure that this account is adequately funded prior to the applicable draft date.

At our sole discretion, we may periodically require you to remove custodial accounts from specified depositories, and no longer hold time deposits of custodial accounts. We will notify you of this requirement in writing.

Principal and Interest (P&I) Custodial Accounts

When establishing P&I custodial accounts you must:

- Establish and maintain at least one P&I custodial account for each Seller/Servicer number under which you service loans for us.
- Deposit all funds to be drafted by Freddie Mac. You may not commingle any funds for mortgages not owned by us in the P&I account.

You may establish and maintain more than one P&I account for each Seller/Servicer number, but all of Freddie Mac's requirements apply to each account and a consolidated reconciliation must be performed each month.

Principal and Interest Disbursement Clearing Custodial Account

Freddie Mac will only draft funds from one account. You may designate your regular principal and interest account as the drafting account, or you may establish an account only for drafting purposes.

If you establish an account only for drafting purposes, it is called a principal and interest disbursement clearing account. Only Freddie Mac funds to be drafted may be in the account and funds must be deposited concurrent with, or no later than one business day prior to, the drafting due date.

Escrow Custodial Accounts

When setting up escrow custodial accounts you must:

- Establish and maintain at least one escrow custodial account for each Seller/Servicer number under which you service loans for us.
- Deposit into the escrow custodial account all funds collected on the borrower's behalf. These funds are used to make payments for the borrower for items such as taxes and insurance.
- Deposit the entire amount collected on a borrower's behalf.

You may establish and maintain more than one escrow account for each Seller/Servicer number, but all of our requirements apply to each account. A consolidated reconciliation must be performed on a monthly basis for each Servicer number.

Buydown Custodial Accounts

Although we allow you to hold buydown funds in your escrow custodial account, at your option you may open a separate buydown custodial account for buydown funds with your Freddie Mac owned mortgages.

Documentation Required to Establish Custodial Accounts

You must send us the appropriate documentation for each account you open. Documentation is also necessary if your institution, or the institution where you maintain your custodial account(s), has a name change or you change the account from which Freddie Mac drafts amounts due.

The types of documentation required are:

Custodial Accounts opened at a Servicer's own financial institution

The required forms as are follows:

- Form 1059SF, *Letter Agreement for Single-Family Principal and Interest, or Principal and Interest Disbursement Clearing Custodial Account*
- Form 1060SF, *Letter Agreement for Single-Family Buydown or Escrow Custodial Account*
- Form 1060CR, *Letter Agreement for Single-Family Custodial Account for Renovation Funds*
- Copies of signature cards or bank statements

Custodial Accounts opened at another Eligible Depository

The required forms as are follows:

- Form 1057SF, *Letter Agreement for Single-Family Principal and Interest, or Principal and Interest Disbursement Clearing Custodial Account*
- Form 1058SF, *Letter Agreement for Single-Family Buydown or Escrow Custodial Account*
- Form 1058CR, *Letter Agreement for Single-Family Custodial Account for Renovation Funds*
- Copies of signature cards or bank statements

Custodial Account Designation

You must designate each custodial account with specific titling as outlined below.

Type	Unabbreviated Titling	Abbreviated Titling
P&I Custodial Account	*"(Name of Depositor/Servicer), as custodian and/or bailee for Federal Home Loan Mortgage Corporation and/or various owners of interest in mortgages and/or mortgage-related securities and/or various mortgagors."*	*"Freddie Mac P&I Custodial Account."*
P&I Disbursement Clearing Custodial Account	*"(Name of Depositor/Servicer), as Custodian and/or bailee for Federal Home Loan Mortgage Corporation and/or various owners of interest in mortgages and/or mortgage-related securities and/or various mortgagors."*	*"Freddie Mac P&I Clearing Custodial Account."*
Escrow Custodial Account	*"(Name of Depositor/Servicer), as trustee and/or custodian for Federal Home Loan Mortgage Corporation and various mortgagors, respectively."*	*"Freddie Mac Escrow Custodial Account."*

Buydown Custodial Account	*"(Name of Depositor/Servicer), as trustee and/or custodian of mortgage loan subsidy buydown funds for Federal Home Loan Mortgage Corporation and various mortgagors, respectively."*	*"Freddie Mac Buydown Custodial Account."*

If you utilize custodial clearing accounts, the title of such accounts must indicate that the account is custodial in nature and include, at a minimum, "for the benefit of the Federal Home Loan Mortgage Corporation" in the account title.

Proper designation must appear as the account title on the copy of the signature card or bank statement for each custodial account you maintain for us. The abbreviated account titling will be accepted and is considered the same as the unabbreviated account titling, thus giving Freddie Mac and such persons the same rights and interests with respect to the funds deposited or held in the account.

A copy of the bank statement is also accepted in lieu of a copy of the signature card. Guide Section 8302.6 provides additional language around the rights and interest of Freddie Mac when using the abbreviated account designations.

The bank statement must identify the depository institution at which the accounts are maintained and must reflect the bank account number and proper account owner titling, as required in Guide Section 8302.6.

If you change the account titling on existing accounts to the abbreviated titling, then you must comply with the requirements for changing accounts as outlined in Guide Section 8304.11.

Maintaining and Monitoring Your Custodial Accounts

After establishing a Freddie Mac custodial account, you must:

- Deposit funds on a timely basis.
- Reconcile the account monthly, as of the end of the accounting cycle.
- Monitor eligibility ratings for the institution where your custodial accounts are held and establish a new custodial account in an eligible depository for any depository that becomes ineligible.

Depositing Funds

Servicers utilizing custodial clearing accounts must deposit funds into those accounts the same day they are received.

You must deposit mortgage loan payments into a custodial account within one business days of receipt of the payment.

Refer to Guide Sections 8302.10, 8302.12 and 8304.9 for more information on what type of funds to deposit and when they should be deposited.

Reconciling the Custodial Accounts

All Freddie Mac custodial accounts must be reconciled within 45 days from the end of each accounting cycle. You must fund any shortages and clear all variances within 90 days of the accounting cycle, even if you have not identified the root cause of the issue. When reconciling your P&I account, you must complete and fully execute Form 59, *Principal and Interest Custodial Account Reconciliation Worksheet*, which compares the bank balance to the total amount due to us. When reconciling your escrow custodial account, you must complete and fully execute Form 59E, *Escrow Custodial Account Reconciliation Worksheet*, which compares the bank balance to the total escrow liability.

Funding Variances

You must fund and clear all variances (overages and shortages), even if you have not identified the cause, no later than 90 days following the accounting cycle. However, Freddie Mac reserves the right to request that funding occur immediately.

Corporate Advances

You must advance funds if the amount due is greater than the P&I custodial or escrow custodial account balance. Neither account balances may go below zero, even if allowed by the institution housing the account. You may reimburse yourself immediately (that same day) upon receipt of payments.

When a Depository Becomes Ineligible

You are required to establish a new custodial account in an eligible depository within 30 days of the release of all applicable ratings, if either your depository agency or you, as your own depository agency, become ineligible.

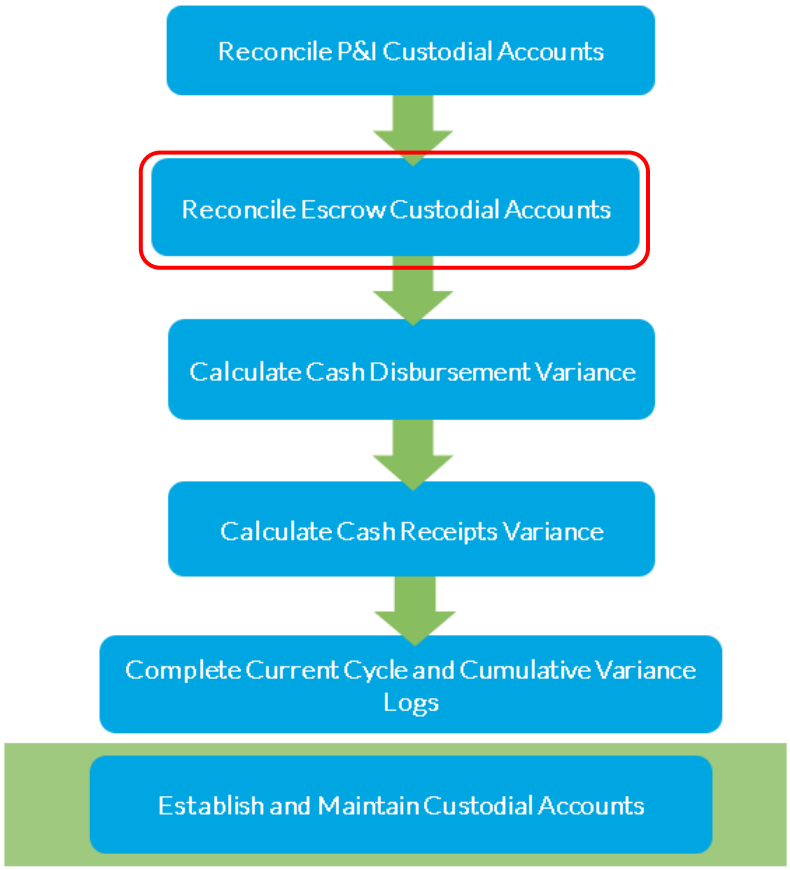
Chapter 3: Reconcile Escrow Custodial Accounts

This chapter provides an overview of reconciling escrow custodial accounts.

Freddie Mac requires that you establish a separate escrow custodial account for each Seller/Servicer number, even if you do not currently collect or plan to collect escrow money. You must open an escrow custodial account for unplanned events such as partial payments or insurance claim proceeds.

You must maintain detailed records at the loan level for each category of escrow-collected funds. These records are often referred to as a trial balance. The total of the trial balance should equal the liability on Form 59E*, Escrow Custodial Account Monthly Reconciliation Worksheet*.

For an overview of escrow custodial account set-up and maintenance requirements, refer to Chapter 2, *Establish and Maintain Custodial Accounts*, in this publication. For additional detailed information, refer to *Single-Family Seller/Servicer Guide* (Guide) Chapter 8302.



Types of Escrow Funds

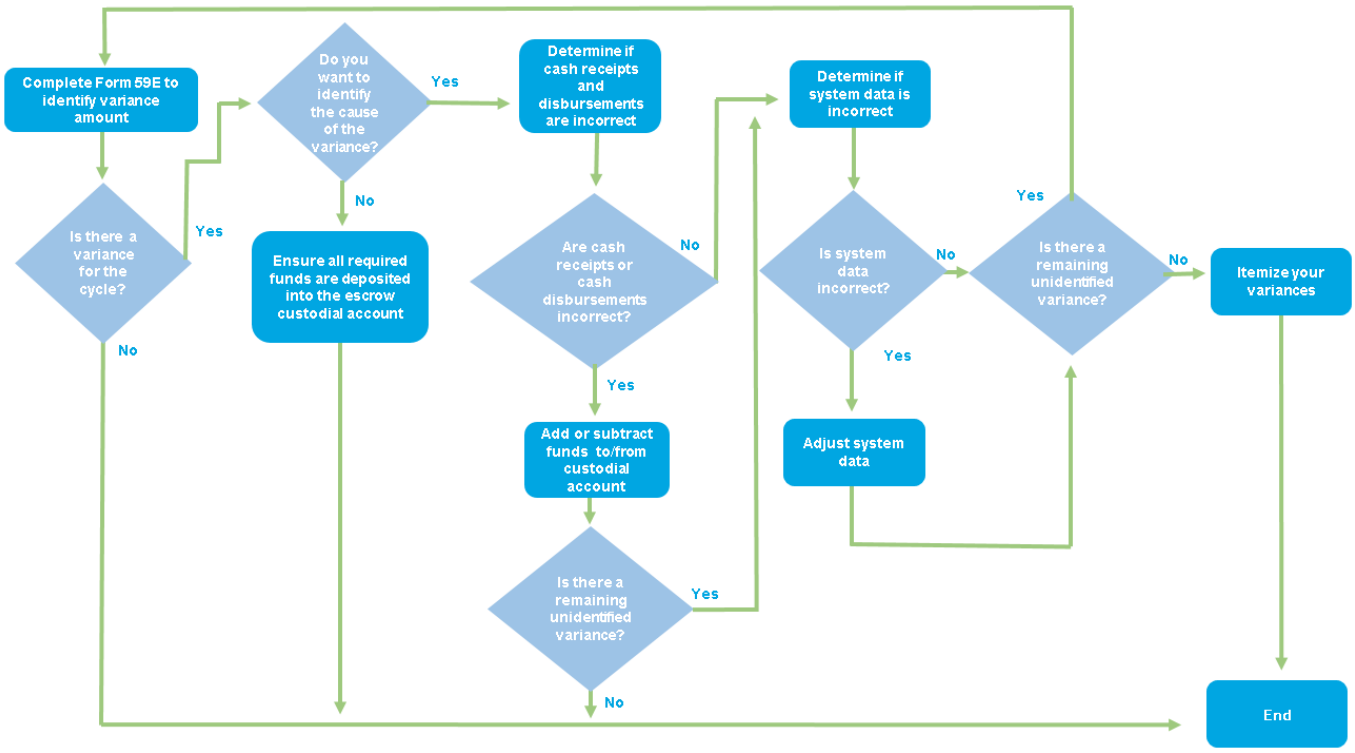
All funds held on behalf of the borrower are considered to be escrow funds. Escrow funds are categorized according to their source and their purpose. Listed below are some of the most common categories of escrow funds:

- Taxes and insurance
- Suspense (or partial payments)
- Buydown subsidy (At your option you may open a separate buydown custodial account for buydown funds.)
- Biweekly payments
- Insurance proceeds

Reconciling the Escrow Custodial Account

Escrow custodial accounts must be reconciled within 45 days from the end of each accounting cycle. If you have more than one escrow custodial account, you must complete a consolidated reconciliation.

The following illustrates the high-level process of reconciling the escrow custodial account.



Advancing Funds

For any type of escrow fund, the collections from one loan cannot be used to offset a deficit for another loan.

If there is a deficit, you are required to advance funds to the escrow account prior to remitting the amount due, and then collect the shortfall from the individual borrower. (Refer to Guide Section 8304.6.)

Remitting Escrow Funds

For remittance purposes only, our escrow funds may be commingled with escrow funds belonging to other investors. An example would be paying county taxes for multiple investors from a single disbursement account. Our escrow funds may not be transferred to your disbursement account until immediately before remitting the escrow amount due.

Monies for loans not owned by us may NEVER be deposited into our escrow custodial account.

Biweekly Mortgages and the Escrow Custodial Account

A *biweekly mortgage* is a mortgage on which the borrower makes a principal and interest payment every two weeks pursuant to either the terms of the note, a rider, or a separate agreement. Each payment received is applied as a P&I payment. The biweekly payment schedule cannot be changed.

A *biweekly payment plan* is when the borrower's account is debited every two weeks, however a principal and interest payment is applied once a month pursuant to the terms of the note. The biweekly payments may be stopped at any time. A borrower may choose to select a biweekly payment plan to accelerate the reduction in principal on a mortgage by applying the equivalent of one or more additional monthly payments each year, thereby reducing total interest costs. Biweekly payment plans do not change the conditions and terms of the note regarding the amount of monthly payments, the application of payments, the assessment of late charges, and the calculation of delinquencies. Nor do they change the way payments are reported or remitted to us, or the way delinquencies are reported to us. For biweekly payment plans, you must maintain the funds as unapplied P&I payments in the escrow custodial account until the full monthly payment is applied. At that time, collected biweekly funds not applied are then combined with the second biweekly P&I and transferred to the P&I custodial account as a full payment when applied.

Completing Form 59E, *Escrow Custodial Account Monthly Reconciliation Worksheet*

You are required to use Form 59E, *Escrow Custodial Account Monthly Reconciliation Worksheet* to reconcile your escrow account. You must fully execute either the online version, or a copy of the form including who completed and approved the reconciliation.

Freddie Mac
We make home possible®

Form 59E

Cycle as of:

Escrow Custodial Account
Monthly Reconciliation Worksheet

Note: Do not enter any data in shaded fields. Values will automatically calculate based on information entered in other fields.

You must complete a consolidated reconciliation if you have more than one Escrow Custodial Account

Seller/Servicer Number: **Seller/Servicer Name:**

	Section 1 - Adjusted Bank Balance	
	As of Date:	
1a)	**Current Cycle Ending Bank Balance**	
1b)	Add: Deposits in Transit	
1c	Less: Outstanding debits	
1)	**Adjusted bank balance (lines 1a+1b-1c)**	0.00
	Section 2 - Total Liability	
	As of Date:	
2a)	**Escrow Trial Balance Total**	
	Add cumulative amount totals for:	
2b)	Negative Escrow (Escrow Advance)	
2c)	Adjustments for Suspense Accounts	
2d)	Adjustments for Mortgages not included on Trial Balance	
2e)	Adjustments for other accounts (ex: Buydown Subsidies)	
2)	**Adjusted Escrow Balance (lines 2a+2b+2c+2d+2e)**	0.00
	Section 3 - Total Variance	
3a)	Current Cycle's Total Cumulative Variance (line 1 - line 2)	0.00
3b)	Enter previous Cycle's Cumulative Variance (line 3a of previous cycle)	
3c)	Current Cycle's Variance (line 3a - 3b)	0.00

Prepared by: _____ Date _____

Approved by: _____ Date _____

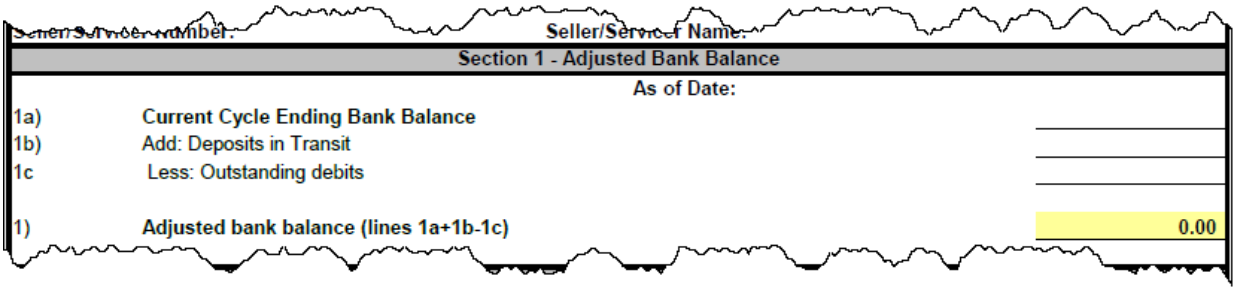
The Escrow Custodial Account Reconciliation Worksheet is a required document. See Instructions tab for information on completing it. The additional tabs in this workbook are optional tools to assist you in identifying variances.

If a line item does not apply to your Freddie Mac portfolio, enter zero or “N/A”.

Ensure that your Form 59E includes the “Prepared by” and “Approved by” names and dates.

Completing Section 1 – Adjusted Bank Balance

Section 1- Adjusted Bank Balance, is used to calculate an accurate bank balance as of the accounting cutoff date. You will complete this by adjusting the beginning bank balance for timing differences relating to deposits or debits.

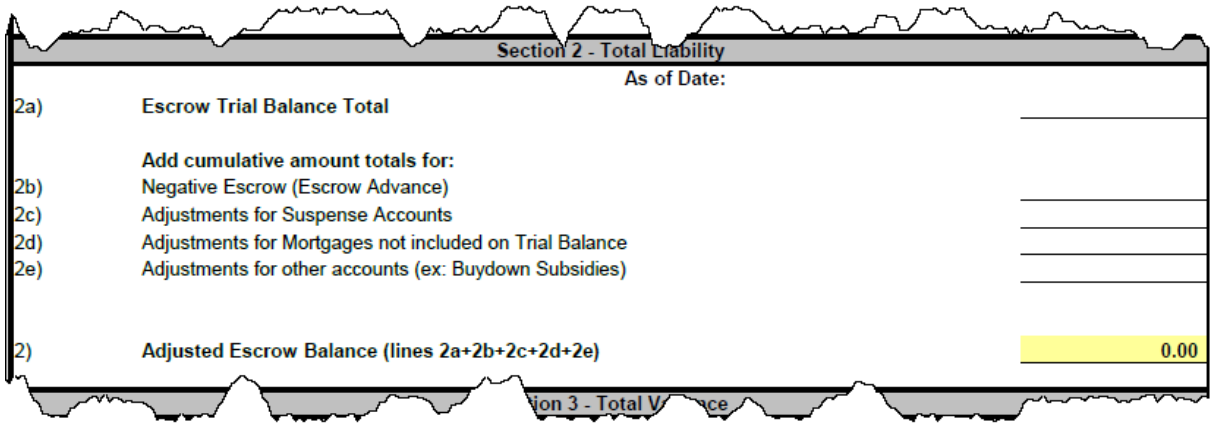


Seller/Servicer number:		Seller/Servicer Name:	
		Section 1 - Adjusted Bank Balance	
		As of Date:	
1a)	Current Cycle Ending Bank Balance		
1b)	Add: Deposits in Transit		
1c	Less: Outstanding debits		
1)	Adjusted bank balance (lines 1a+1b-1c)		0.00

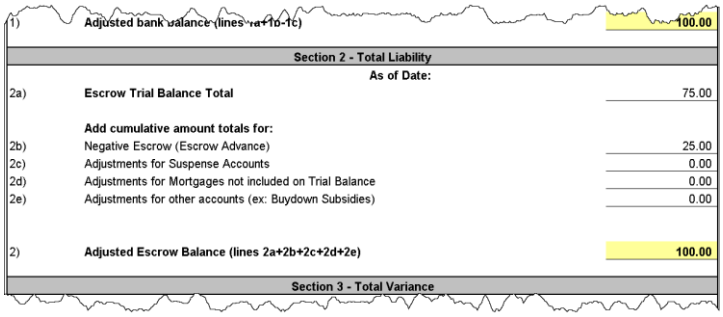
Description	
Line 1a) Current Cycle Ending Bank Balance	Enter the balance from the escrow custodial account bank statement as of the end of the accounting cycle. Example: If you are performing November's reconciliation, use the bank balance as of 11/30/xxxx.
Line 1b) Add: Deposits in Transit	Enter the total amount of escrow funds collected as of the end of the accounting cycle, but not credited to the bank statement until the next business day (two business days if using a lockbox service) after the end of the accounting cycle.
Line 1c) Less: Outstanding Debits	Enter the total amount of funds disbursed from the escrow custodial account as of the end of the accounting cycle, but not debited to the bank statement until the next business day after the end of the accounting cycle.
Line 1) Adjusted Bank Balance	Line 1 automatically calculates based on the values you entered on lines 1a through 1c.

Completing Section 2 – Total Liability

Section 2 - Total Liability, is used to calculate an accurate escrow liability amount. It reflects the total of all types of escrow funds held as of the end of the accounting cycle.



Section 2 - Total Liability		
	As of Date:	
2a)	Escrow Trial Balance Total	
	Add cumulative amount totals for:	
2b)	Negative Escrow (Escrow Advance)	
2c)	Adjustments for Suspense Accounts	
2d)	Adjustments for Mortgages not included on Trial Balance	
2e)	Adjustments for other accounts (ex: Buydown Subsidies)	
2)	Adjusted Escrow Balance (lines 2a+2b+2c+2d+2e)	0.00

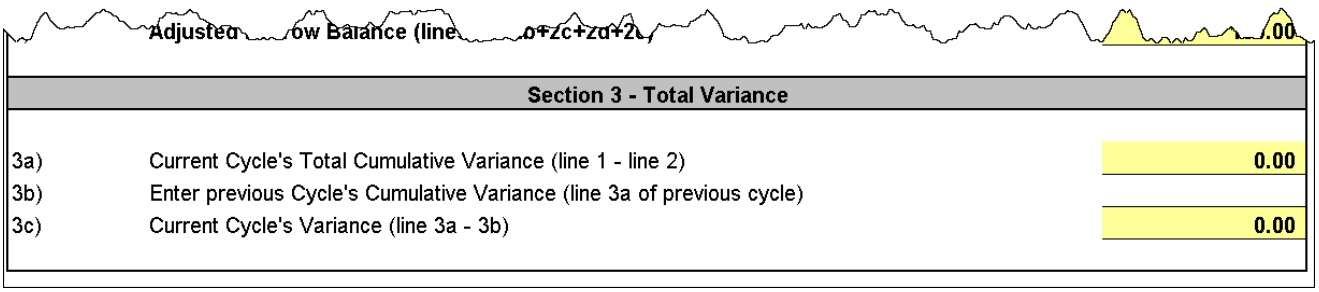
Description	
Line 2a) Escrow Trial Balance Total	Enter the total positive escrow balance and leave 2b blank. However, if the total of the escrow balances as reflected on your investor loan trial balance nets negative escrow balances from your positive escrow balance, then record the net figure here and record your negative escrow amount on line 2b. You must advance any negative amounts for each individual borrower.
Line 2b) Negative Escrow (Escrow Advance)	Enter the negative escrow total as of the reconciliation date only if the trial balance nets negative escrow balances against positive escrow balances to calculate the escrow total. If the trial balance sums only the positive escrow balances, an adjustment for negative escrow balances is not necessary. In the following example, Loan A's escrow balance is $100, and Loan B's escrow balance is ($25). The trial balance total is $75. 
Line 2c) Adjustments for Suspense Accounts	If they are not included in your trial balance totals, enter the suspense totals (partial payments, unapplied payments) as of the end of the accounting cycle.

1)	Adjusted bank balance (lines 1a+1b-1c)	100.00
	Section 2 - Total Liability	
	As of Date:	
2a)	Escrow Trial Balance Total	75.00
	Add cumulative amount totals for:	
2b)	Negative Escrow (Escrow Advance)	25.00
2c)	Adjustments for Suspense Accounts	0.00
2d)	Adjustments for Mortgages not included on Trial Balance	0.00
2e)	Adjustments for other accounts (ex: Buydown Subsidies)	0.00
2)	Adjusted Escrow Balance (lines 2a+2b+2c+2d+2e)	100.00
	Section 3 - Total Variance	

Description	
Line 2d) Adjustments for Mortgages not Included on Trial Balance	Enter the escrow balance of any loans funded by us as of the end of the accounting cycle, but not included in the trial balance totals on line 2a.
Line 2e) Adjustments for Other Accounts (ex. Buydown Subsidies)	Enter the total escrow balance for all other escrow amounts collected as of the end of the accounting cycle, but not included in your trial balance totals on line 2a. Buydown subsidy accounts would be the most common.
Line 2) Adjusted Escrow Balance	Line 2 automatically calculates based on the values you entered on lines 2a through 2e.

Completing Section 3 – Total Variance

Section 3 - Total Variance is used to calculate the total cumulative and current cycle variance for the escrow account.



	Adjusted ow Balance (line o+2c+2d+2e)	.00
	Section 3 - Total Variance	
3a)	Current Cycle's Total Cumulative Variance (line 1 - line 2)	0.00
3b)	Enter previous Cycle's Cumulative Variance (line 3a of previous cycle)	
3c)	Current Cycle's Variance (line 3a - 3b)	0.00

Description	
Line 3a) Current Cycle's Total Cumulative Variance	Line 3a automatically calculates based on the values calculated for lines 1 and 2. This is the cumulative amount of all variance items that have occurred up to the end of the accounting cycle.
Line 3a) Previous Cycle's Cumulative Variance	Enter the total cumulative variance (line 3a) from the previous cycle's Form 59E, *Escrow Custodial Account Reconciliation Worksheet*.
Line 3a) Current Cycle's Variance	Line 3c automatically calculates based on the value calculated for line 3a, and the value you entered on line 3b.

Itemize Current Cycle Variance

Once you have calculated any current cycle variance, you should identify and resolve current cycle variances and use the Variance Logs to itemize the transactions you identified as causing a variance. You should complete a log for each type of variance.

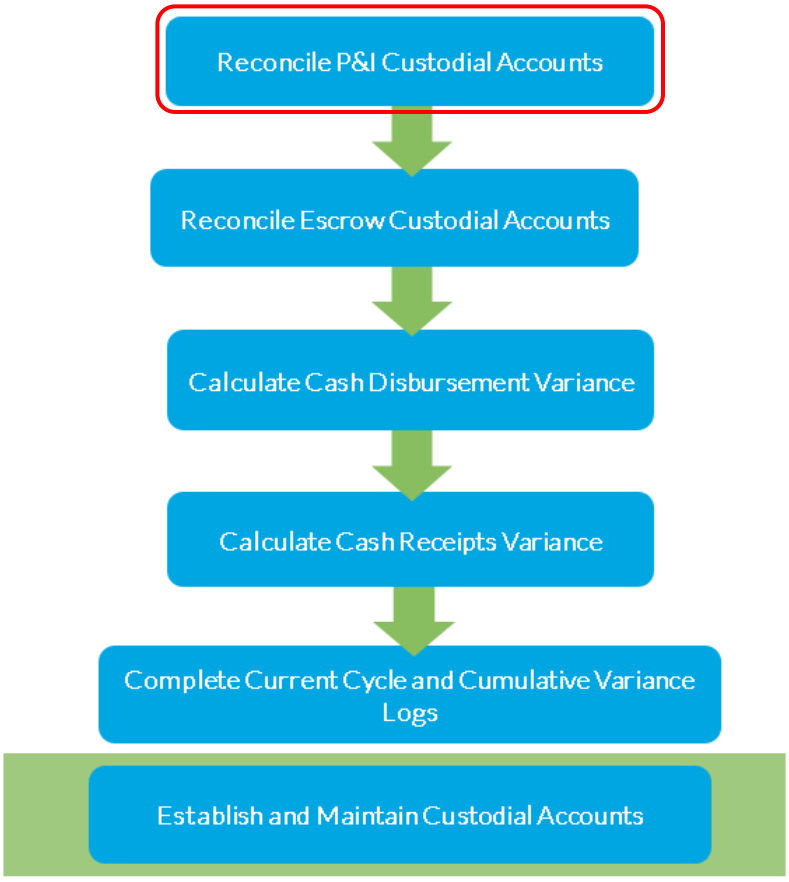
For additional information about the Variance Logs, refer to Chapter 7.

Chapter 4: Reconcile Principal and Interest (P&I) Custodial Accounts

No later than 45 days from the end of each accounting cycle, we require you to use the *LLR Monthly Account Statement* (MAS) to reconcile your P&I custodial account. The MAS is available to you via the Loan Level Reporting tool and reflects the total amount due to us as of the end of the accounting cycle.

This chapter:

- Identifies the reports you will need to reconcile your P&I custodial account.
- Introduces the P&I custodial account reconciliation process.
- Provides step-by-step instructions for completing Form 59, *Principal and Interest Custodial Account Reconciliation Worksheet*.



What do I need to begin reconciling?

You will need your bank statement, the *LLR Monthly Account Statement* (MAS) from Freddie Mac, and internal reports to support your numbers when reconciling your P&I custodial account. The following table identifies and provides a brief description of the types of statements and internal reports you will need to thoroughly support your numbers when reconciling your P&I custodial account.

Statement or Internal Report	Description
Bank statement	This is your monthly statement you receive from your bank.
LLR Monthly Account Statement (MAS)	The *LLR Monthly Account Statement* (MAS) is available via the Loan Level Reporting tool on the second business day of the month following end of the accounting cycle. The ending balance on the MAS reflects the total liability due Freddie Mac as of the end of the accounting cycle. For detailed information about the amounts reflected on the MAS, refer to Chapter 1.
LLR Monthly Account Statement (MAS) Loan-Level Detail	The *LLR Monthly Account* Statement (MAS) Loan-Level Detail is available via the Loan Level Reporting tool on the second business day of the month following end of the accounting cycle. This report provides details on all loans on the MAS.
Loan Reconciliation Difference Report (LRDR)	The *Loan Reconciliation Difference Report* is available via the Loan Level Reporting tool on the second business day of the month following the end of the accounting cycle. This report reflects loan-level edits and simulated loans that occurred during the cycle. Refer to the prior cycle's LRDR to view interest edits and the current cycle's LRDR to view principal edits for the month you are reconciling. Refer to the current cycle's LRDR to view reinstatement interest edits and exception interest on payoff edits.
Response File	The *Response File* generates multiple times daily as your loan-level file is processed. This file provides current cycle loan-level details and contains successful and unsuccessful loan-level transactions.
Detailed Adjustment Report (DAR)	Itemizes the adjustments and billings we have made to your Freddie Mac portfolio.
Loan Level Trial Balance report	The *Loan Level Trial Balance* report is available via the Loan Level Reporting tool on the second business day of the month following the end of the accounting cycle. This report lists active/inactive loans and the ending active/inactive Unpaid Principal Balance as of the most recent accounting cycle.
Collections report	Your monthly internal report that lists all monthly funds received from borrowers on a daily basis. The report should reflect a detailed allocation of the payments received. For example, how much is allocated to principal, interest, escrow, service spread, etc.
Delinquency Information and Prepaid Information	Your internal monthly report showing detailed delinquency and prepaid information per loan, including active and inactive loan totals.

Statement or Internal Report	Description
Cash Receipts to Amount Due for Interest	Your internal report (amount of forecasted scheduled interest reported to Freddie Mac in the prior cycle – change in delinquent interest + change in prepaid interest – cash deposited for interest).
Cash Receipts to Amount Due for Principal	Your internal report (amount of principal reported to Freddie Mac - cash deposited for principal).

The P&I Custodial Account Reconciliation Process

Below are the high-level steps you will perform to reconcile your P&I custodial account.

1. Complete Form 59, *Principal and Interest Custodial Account Reconciliation Worksheet*. After you complete the worksheet, you will be able to determine:
   - If a variance exists between the balance in your P&I custodial account(s), and your ending balance due to us as of the accounting cycle being reconciled.
     - The amount of the cumulative variance to date, if any, will display on line 6a - "Current Cycle's Total Cumulative Variance" of the worksheet.
     - The items that comprise the cumulative variance on line 6a, if any, should be tracked on the *Cumulative Variance Log*.
   - If there is a change between the previous cycle's total cumulative variance (previous cycle's line 6a) and the current cycle's total cumulative variance (current cycle's line 6a).
     - The amount of this change will display on line 6c - Current Cycle's Variance, of the worksheet.
     - The items that comprise the change should be tracked on the *Current Cycle Variance Log*.
2. Calculate your cash disbursement variances for the cycle using the Cash Disbursements to the Actual Amount Drafted Worksheet. Refer to Chapter 5, *Calculate Cash Disbursement Variance*, for details on how to calculate and complete the worksheet to determine any cash disbursement variances.
3. Calculate your cash receipts variances for the current cycle using the *Cash Receipts to Current Amount Due Worksheet*. Refer to Chapter 6, *Calculate Cash Receipts Variances*, for details on how to calculate and complete the worksheet to determine any cash receipt variances.
4. Verify that your worksheets are correct by using the "Numbers Check" formula. The totals from the three worksheets (Form 59, the *Cash Disbursements to Actual Amount Drafted Worksheet*, and the *Cash Receipts to Current Amount Due Worksheet*) should compute and match-up using the following formula:

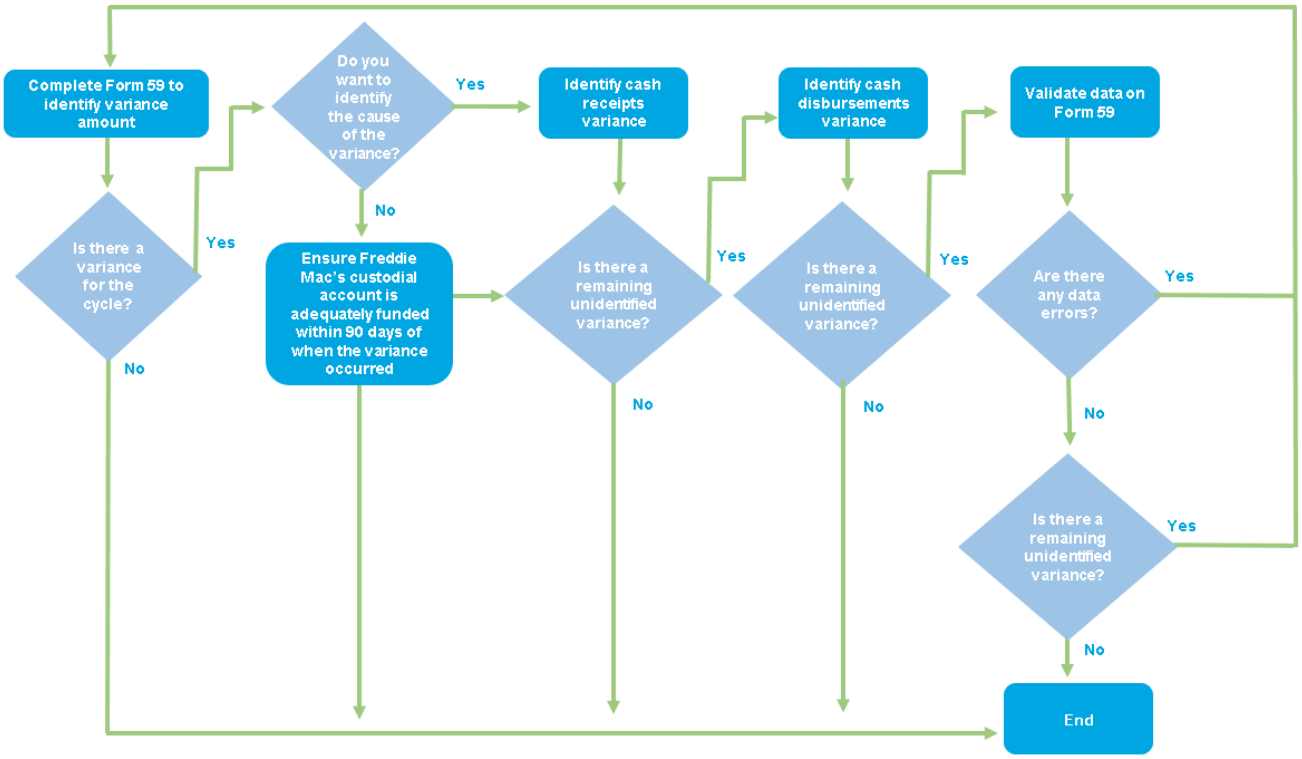
   Cash Receipt Variance – Cash Disbursement Variance = Current Cycle's Variance (Line 6c on Form 59)

   If your reconciliation worksheets do not tie out, verify that all:
   - Delinquent totals and prepaid totals are consistent from worksheet to worksheet.
   - Worksheets are footed correctly.
   - Numbers on the worksheets represent the requested data.

5. Identify the transactions causing your cash disbursements variance and record them on a *Current Cycle Variance Log*. See Chapter 5 for additional information on identifying cash disbursements differences.
6. Identify the transactions causing your cash receipts variance and record them on a *Current Cycle Variance Log*. See Chapter 6 for additional information on identifying cash receipts differences.
7. Record all outstanding variances on the *Cumulative Variance Log* and designate them as cash or paper.
8. Transfer all outstanding current cycle and previous cycle reconciliation items to a new Cumulative Variance Log. This log should equal line 6a of Form 59. Identify each item as a cash or paper adjustment. For additional information, refer to Chapter 7, *Current Cycle and Cumulative Variance Logs*.
9. Repeat the above steps for each previous cycle until the total cumulative variance is identified.

Reconciling the P&I Custodial Account

The following illustrates the high-level process of reconciling the P&I custodial account.



Completing Form 59, *Principal and Interest Custodial Account Reconciliation Worksheet*

You are required to use Form 59, *Principal and Interest Custodial Account Reconciliation Worksheet* (P&I Custodial Account Reconciliation Worksheet) to reconcile your P&I account. You may use either the online version, or a copy of the form to complete the reconciliation. If a line item does not apply to your Freddie Mac portfolio, enter zero or "N/A". Ensure that your Form 59 includes the "prepared by" and "approved by" names and dates.

Form 59 contains the following three sections:

- Section1 – Adjusted Bank Balance - adjusts the P&I custodial bank account as of the end of the accounting cycle. Your bank statement represents your cash management process.
- Section 2 – Total Liability - adjusts the net current amount due to us for amounts reported, but not collected (delinquents), and for amounts collected, but not reported (prepaids). The MAS represents the amount due us from your investor reporting process.
- Section 3 – Total Variance - identifies the amount of the variance between the adjusted bank balance and the adjusted liability. The total variance is the difference between your cash management system and your investor reporting system.

Below is Form 59, *Principal and Interest Custodial Account Monthly Reconciliation Worksheet*. Note that lines 1, 5, 6a, and 6c will automatically calculate based on the values you enter.

Freddie Mac
We make home possible®

Form 59

Cycle as of:

Principal and Interest Custodial Account Reconciliation Worksheet - Monthly Account Statement

Note: Do not enter any data in shaded fields. Values will automatically calculate based on information entered in other fields.

You must complete a consolidated reconciliation if you have more than one Principal & Interest Custodial Account

Seller/Servicer Number: **Seller/Servicer Name:**

Section 1 - Adjusted Bank Balance

		As of Date:
1a)	**Current Cycle Ending Bank Balance**	
1b)	Add: Deposits in Transit	
1c)	Less: Outstanding Debits	
1)	**Adjusted bank balance (lines 1a+1b-1c)**	0.00

Section 2 - Total Liability

		As of Date:
2)	Ending **MAS** Balance (*Monthly Account Statement*)	
3)	Less: Cumulative Delinquent Interest Advanced	
4)	Add: Cumulative Prepaid Interest	
5)	Total Liability (lines 2 - 3 + 4)	0.00

Section 3 - Total Variance

6a)	Current Cycle's Total Cumulative Variance (line 1 - line 5)	0.00
6b)	Previous Cycle's Total Cumulative Variance (line 6a from previous cycle)	
6c)	Total Variance for the Current Cycle (line 6a - line 6b)	0.00

Prepared by : _____ Date _____

Approved by: _____ Date _____

The Principal and Interest Custodial Account Reconciliation Worksheet is a required document. See instructions worksheet for information on completing it. The additional worksheet in identifying variances.

If a line item does not apply to your Freddie Mac portfolio, enter zero or "N/A".

Ensure that your Form 59 includes the "Prepared by" and "Approved by" names and dates.

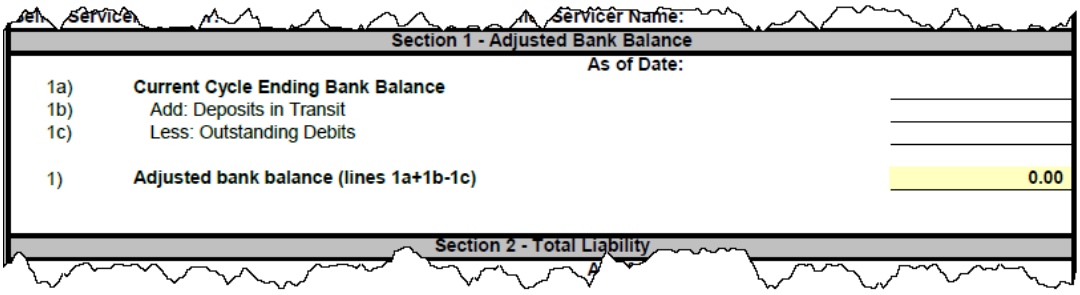
Completing Section 1 – Adjusted Bank Balance

Section 1 – Adjusted Bank Balance is used to calculate an accurate bank balance as of the reconciliation date by adjusting the beginning bank balance for timing differences relating to deposits or debits. In other words, it identifies your adjusted bank balance by subtracting outstanding debits and adding deposits in transit (outstanding credits) to your actual bank balance, as of the end of the accounting cycle.

One of the most common adjustments is for outstanding deposits (frequently called deposits in transit).

To complete this section, you will need:

- Your bank statement for the current cycle
- Supporting documentation for outstanding debits
- Supporting documentation for deposits in transit



	Section 1 - Adjusted Bank Balance	
	As of Date:	
1a)	**Current Cycle Ending Bank Balance**	
1b)	Add: Deposits in Transit	
1c)	Less: Outstanding Debits	
1)	**Adjusted bank balance (lines 1a+1b-1c)**	0.00
	Section 2 - Total Liability	

	Description
Line 1a) Current Cycle Ending Bank Balance	Enter on line 1a the balance from your principal and interest custodial account bank statement as of the end of the accounting cycle. Example: If you are performing April's reconciliation, use the bank balance as of 4/30/xxxx.
Line 1b) Add: Deposits in Transit	Enter on line 1b any deposits made as of the end of the accounting cycle that are not reflected on the bank statement but were posted to the bank balance on the next business day (two business days if using a lockbox service) after the end of the accounting cycle. The most common deposit in transit items are daily deposits posted to borrowers' loan histories, but not reflected on the bank statement until after the end of the accounting cycle. Usually, these deposits are for the day(s) just prior to the cutoff date of the bank statement.
Line 1c) Less: Outstanding Debits	Enter on line 1c any outstanding debits initiated prior to the end of the accounting cycle that are not reflected on the bank statement but were posted to the bank balance on the next business day after the end of the accounting cycle. Examples of valid outstanding debits include payment reversals for checks returned for non-sufficient funds and recovery of advances. These are separate withdrawals that are not netted against daily deposits. Do not enter payment reversals netted with daily deposits. **Note:** You will rarely have an adjustment for outstanding debits. The primary reason for an entry on this line is for payment reversals processed on the last day of the accounting cycle that were indicated as a debit entry to the bank statement the following business day.
Line 1) Adjusted Bank Balance	Line 1 automatically calculates based on the values you entered on lines 1a through 1c.

Completing Section 2 – Total Liability

Section 2 – Total Liability, is used to adjust the total amount due us for funds not collected, but reported (delinquents), and for funds collected, but not reported (prepaids). This section of the worksheet identifies your adjusted liability to us by subtracting your delinquent interest and adding your prepaid interest from the total due us from the MAS.

To complete this section, you will need:

- Final MAS for the month being reconciled
- Last page of the delinquent interest report*
- Last page of the prepaid interest report*

Delinquent and prepaid interest should be cumulative and calculated at the accounting net yield (ANY) rate.

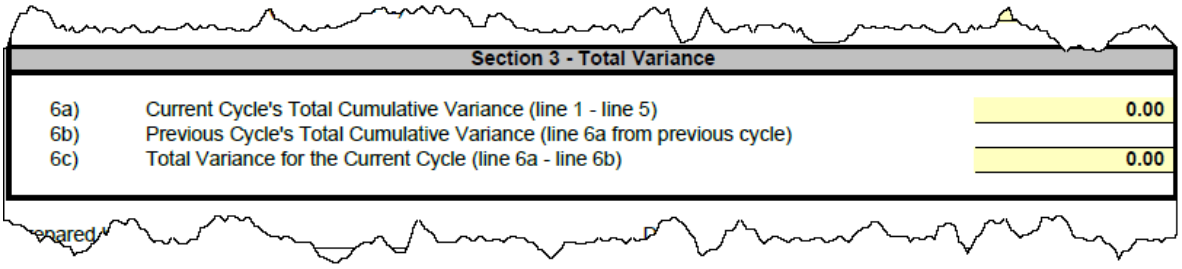
*Some reports may be substituted with a spreadsheet or handwritten report. Refer to Form 59 instructions for additional details.

	Section 2 - Total Liability	
		As of Date:
2)	Ending **MAS** Balance (*Monthly Account Statement*)	
3)	Less: Cumulative Delinquent Interest Advanced	
4)	Add: Cumulative Prepaid Interest	
5)	Total Liability (lines 2 - 3 + 4)	0.00
	Section 3 - Total Variance	
	Cycle's T	00

	Description
Line 2) Ending MAS Balance (Monthly Account Statement)	Enter on line 2 the ending balance (last line) from the final MAS for the cycle being reconciled. Example: If you are performing April's reconciliation, use the final MAS for 4/30.
Line 3) Cumulative Delinquent Interest Advanced	Enter on line 3 the cumulative amount of delinquent interest for active and inactive mortgages: ▪ For active mortgages, include the cumulative amount of delinquent interest that has been both reported to us and included as interest due on the MAS but has not been collected from borrowers as of the end of the accounting cycle. ▪ For inactive mortgages, include the cumulative amount of delinquent interest that has been reported to us but has not been collected from borrowers as of the end of the accounting cycle. The cumulative delinquent interest amount carried for an inactive mortgage should remain constant from the cycle the loan is inactivated until the loan status changes (for example, when the loan is reinstated or foreclosed upon). For additional information, refer to Understanding Delinquent Interest Amounts in this chapter.
Line 4) Cumulative Prepaid Interest	Enter on line 4 the total cumulative amount of interest prepayments collected from borrowers. Prepaid interest is collected when borrowers make payments in advance for future monthly payments. Prepaid interest must be held and reported only when it is scheduled to be reported. Prepaid principal is not part of the adjustment, because it must be reported in the same cycle that it is collected for loans reported under the net yield method.
Line 5) Total Liability	Line 5 is your adjusted total amount due to Freddie Mac. Line 5 automatically calculates based on the values you entered on lines 2, 3 and 4.

Completing Section 3 – Total Variance

Section 3 - Total Variance is used is used to calculate your total cumulative variance and the current cycle variance. This section of the worksheet compares the adjusted bank balance to the total liability. Any difference is considered a variance and must be funded within 90 days of when it originated, regardless if it is identified.



Section 3 - Total Variance		
6a)	Current Cycle's Total Cumulative Variance (line 1 - line 5)	0.00
6b)	Previous Cycle's Total Cumulative Variance (line 6a from previous cycle)	
6c)	Total Variance for the Current Cycle (line 6a - line 6b)	0.00

Description	
Line 6a) Current Cycle's Total Cumulative Variance	Line 6a reflects the cumulative amount of all variance items which have occurred up to the end of the accounting cycle. Line 6a automatically calculates by subtracting the total liability calculated on line 5 from the adjusted bank balance calculated on line 1. This is a cumulative amount for all outstanding (i.e. unresolved) variance items which have occurred up to the end of the accounting cycle being reconciled.
Line 6b) Previous Cycle's Total Cumulative Variance	Enter the total cumulative variance (line 6a) from the previous accounting cycle's Form 59. If you have not been reconciling your P&I custodial account, you will need to go back to the previous cycle to complete Form 59 up to line 6a. You then have line 6a from the previous accounting cycle to record on line 6b of the current accounting cycle.
Line 6c) Total Variance for the Current Cycle	Line 6c automatically calculates by subtracting the amount you entered on line 6b from the amount calculated on line 6a.

The Current Cycle Variance

We calculate the current cycle variance to identify a specific variance amount that corresponds to the current accounting cycle. This enables us to take the total variance and perform a smaller reconciliation.

For example, if the current cycle's cumulative variance is $300 and the previous cycle's cumulative variance is $100, the current cycle's variance is $200. We know we are only reviewing current cycle transactions to identify a $200 difference, not the full $300 difference. Bracketing takes two known points, or amounts, and uses these points as references for isolating a target. By bracketing the variance, we identify a specific variance amount and a time period to search for the cause of the variance. Once you have identified the current cycle's variance you may work your way back to identify the previous cycle variances.

Understanding Delinquent Interest Amounts

Delinquent interest amounts are aggregate figures consisting of uncollected interest reported to us for the current cycle, and uncollected interest reported to us in previous cycles that remains uncollected as of the current accounting cycle.

We will draft monthly interest for all loans, except loans reported under the Alternate Method program, until you place loans into foreclosure and an inactive status. This means we will draft monthly interest for delinquent single-family loans, even though you have not collected the interest from the borrower.

You can use funds collected on our behalf, but not yet due, to offset any delinquent interest. Since delinquent interest is almost always greater than prepaid interest, an advance of funds from your corporate account may be required. However, any funds you collect before the next required draft date may be used to repay the corporate advance. We support this process because the delinquent interest which has been passed through is actually money owed to you, either from the borrower when they bring the loan current, or from us after the property is placed in real estate owned (REO) status.

Note: The delinquent interest calculation for custodial account reconciliation purposes is different from the monthly EDR reporting. An accurate delinquent interest total will include monthly interest for any payment not collected as of end of the accounting cycle being reconciled, whereas, accurate EDR reporting will include only loans for which the payment is not received as of the next payment due date.

Example of Delinquent Interest

In the following example, the due date of the last paid installment (DDLPI) is December 1, and a loan is inactivated in the fourth cycle of delinquency.

- In January, the forecasted scheduled interest due to Freddie Mac is $100 and the total delinquent interest is $100.
- In April the forecasted scheduled interest due to Freddie Mac for the current cycle is still $100, but the cumulative delinquent interest has increased to $400.
- In April, the loan is inactivated via a loan-level transaction.
- In months May through June, the Servicer no longer passes the forecasted scheduled interest to Freddie Mac (because the loan was inactivated in April) and the cumulative delinquent interest on the P&I Reconciliation Worksheet remains constant at $400, even though the actual amount of delinquent interest from the borrower continues to increase (typically on the loan record and internal trial balance reports). If the trail balance continues to increase the delinquent interest once the loan is inactive use the cumulative delinquent interest due Freddie Mac as shown below.

	Month (Cycle Reconciling)	**Forecasted Interest Processed the Prior Cycle**	**Cumulative Delinquent Interest Due Freddie Mac**	**Cumulative Delinquent Interest Due per Trial Balance**
Loan is active	January	$100	**$100**	$100
	February	$100	**$200**	$200
	March	$100	**$300**	$300
	April	$100	**$400**	$400
Loan is inactive	May	$0	**$400**	$500
	June	$0	**$400**	$600

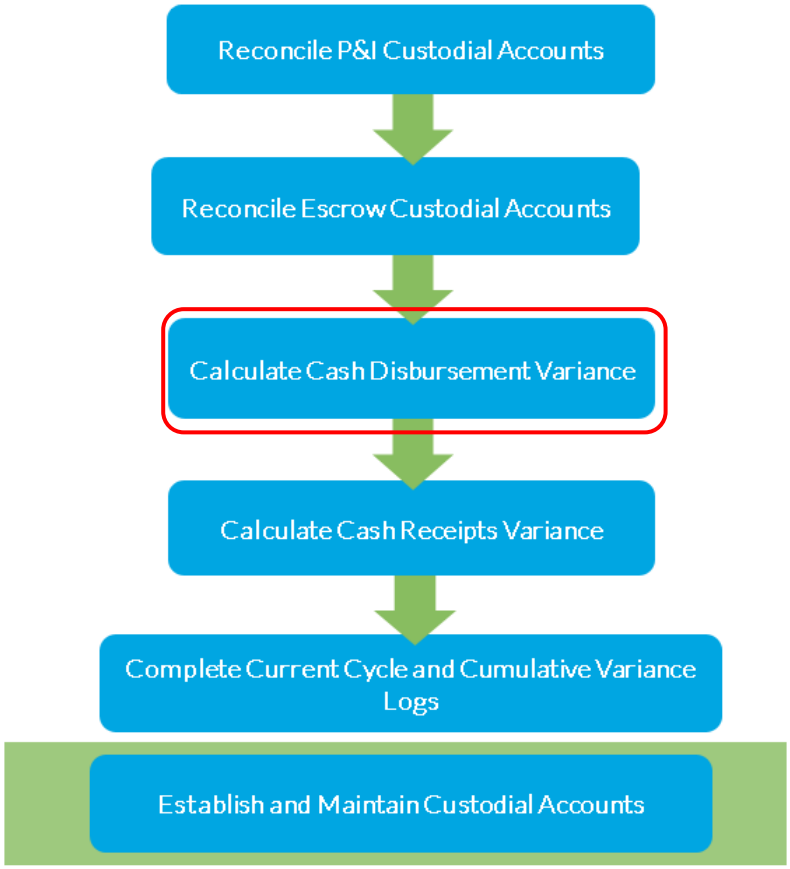
Chapter 5: Calculate Cash Disbursement Variance

A cash disbursement is anything that reduced your bank balance and may be individually designated as a debit, funds drafted by Freddie Mac, journal entry (JE), manual adjustment, reversal or something similar.

A cash disbursements variance occurs when funds are withdrawn from your principal and interest custodial account for any reason other than Freddie Mac drafting funds due.

This chapter:

- Introduces the *Cash Disbursements to Actual Amount Drafted Worksheet*.
- Explains how to identify and resolve a cash disbursement variance.



Reconciling the Cash Disbursements Variance

Complete the following high-level steps to reconcile your cash disbursements variance:

1. Calculate the amount of your cash disbursements variance by completing the *Cash Disbursements to Actual Amount Drafted Worksheet*.
2. Identify the transactions that make up your variance by reviewing your bank statement for any debits that are not funds drafted by Freddie Mac.
3. For each identified variance, determine if it is a cash or paper adjustment.

Cash Disbursements to Actual Amount Drafted Worksheet

Complete the *Cash Disbursements to Actual Amount Drafted Worksheet* to calculate the cash disbursements variance.

Freddie Mac
We make home possible®

Cycle as of:

Cash Disbursements to Actual Amount Drafted Worksheet- *Monthly Account Statement*

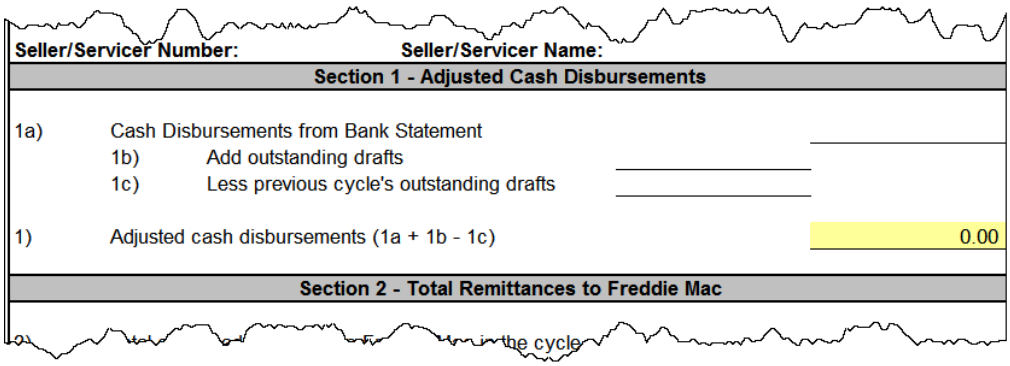
Seller/Servicer Number: **Seller/Servicer Name:**

Section 1 - Adjusted Cash Disbursements			
1a)	Cash Disbursements from Bank Statement		
	1b) Add outstanding drafts		
	1c) Less previous cycle's outstanding drafts		
1)	Adjusted cash disbursements (1a + 1b - 1c)		0.00
Section 2 - Total Remittances to Freddie Mac			
2)	Total cash made available to Freddie Mac in the cycle (Actual Amount Drafted from Monthly Account Statement)		
Section 3 - Total Variance			
3)	Total cash disbursement variance (line 1 - line 2)		0.00

Section 1: Adjusted Cash Disbursements

Section 1 of the *Cash Disbursements to Actual Amount Drafted Worksheet* is used to calculate the total amount of your disbursements that correspond to current cycle activity for the cycle you are reconciling. The total disbursements for the cycle may include a withdrawal for *previous* cycle activity and/or may *not* include a withdrawal for *current* cycle activity.

As an example, consider payment reversals that occur on the last day of the accounting cycle. The payment is reversed (debited from the bank account as a separate entry as opposed to netted with the daily collections) on the last day of the accounting cycle, which impacts the loan-level transaction reported and your delinquent or prepaid interest, but the amount is not withdrawn from the custodial account until the following business day which is the next accounting cycle. This is typical of the one-day lag between the day the transaction is initiated and the transaction appearing on the bank statement the following business day.



Seller/Servicer Number:		**Seller/Servicer Name:**	
Section 1 - Adjusted Cash Disbursements			
1a)	Cash Disbursements from Bank Statement		
	1b) Add outstanding drafts		
	1c) Less previous cycle's outstanding drafts		
1)	Adjusted cash disbursements (1a + 1b - 1c)		0.00
Section 2 - Total Remittances to Freddie Mac			
2)	[illegible] the cycle		

	Description
Line 1a) Cash Disbursements from Bank Statement	Enter the total disbursements (withdrawals/debits) from your bank statement for the cycle. Keep the following information in mind: ▪ Record your total cash disbursements for the cycle from your bank statement. ▪ Remember that a cash disbursement will include anything that reduced your bank balance during the cycle, regardless of the reason. ▪ Most bank statements will provide a total of all debits. If your bank statement cuts off at the end of the month, you can use the total provided on your bank statement.
Line 1b) Add Outstanding Drafts	▪ Enter on line 1b the total amount of outstanding debits recorded on line 1c of your current cycle's Form 59, *Principal and Interest Custodial Account Reconciliation Worksheet*. Make sure you use the same number on both worksheets. ▪ Your cash disbursements for the cycle increase for any transactions initiated by the last day of the accounting cycle that were not actually withdrawn from the bank account until the following business day (which is the following accounting cycle).
Line 1c) Less Previous Cycle's Outstanding Drafts	Enter on line 1c the total amount of outstanding debits recorded on line 1c of your previous cycle's Form 59. Your cash disbursements for the cycle decrease for any transactions withdrawn from your bank account this cycle that were accounted for in the previous cycle.
Line 1) Adjusted Cash Disbursements	Line 1 automatically calculates based on the values you entered on lines 1a through 1c. This total represents your adjusted cash disbursements for the cycle.

Section 2: Total Remittances to Freddie Mac

Section 2 of the *Cash Disbursements to Actual Amount Drafted Worksheet* is used to record the total amount of withdrawals from the bank account for the cycle that corresponds to the actual amount Freddie Mac drafted, as of the end of the accounting cycle.

	Section 2 - Total Remittances to Freddie Mac	
2)	Total cash made available to Freddie Mac in the cycle (Actual Amount Drafted from Monthly Account Statement)	_____
	Section 3 - Total Variance	
3)	Total cash disbursement variance (line 1 - line 2)	_____

Record on line 2 the total cash made available to us according to Actual Amount Drafted line from the *LLR Monthly Account Statement* (MAS) for the cycle being reconciled. This number will also correspond to the total of the Draft Amount column on the *Summary Draft Report* for the cycle being reconciled.

Section 3: Total Variance

Section 3 of the *Cash Disbursements to Actual Amount Drafted Worksheet* identifies whether a cash disbursement variance exists for the cycle you are reconciling.

Section 3 - Total Variance		
3)	Total cash disbursement variance (line 1 - line 2)	0.00

Line 3 automatically calculates by subtracting the value you entered on line 2 from the value calculated for line 1. The result is your total cash disbursements variance for the cycle. Line 3 should always be zero or positive. You should not have total adjusted withdrawals less than what Freddie Mac drafted. In other words, we would not show more cash being received than what was drafted from your bank account. In rare cases, this total may be negative if there is a manual cash adjustment (made by Freddie Mac) to the Actual Amount Drafted line on the MAS and on the *Detailed Adjustment Report*.

How to Identify and Resolve a Cash Disbursements Variance

When you have a cash disbursement variance, you need to:

1. Start a variance log.
2. Identify the cause(s) of the variance.
3. Determine if the items are cash or paper adjustments.

Start a Variance Log

The first thing you should do if you have a cash disbursements variance is record the cycle and type of variance (cash disbursements) at the top of a blank *Current Cycle Variance Log*. Record the total variance amount from line 3 of the *Cash Disbursements to Actual Amount Drafted Worksheet*.

The itemized transactions should equal the total variance. We recommend you carry amounts to be deposited to the bank account as positive adjustments and amounts to be withdrawn from the bank account as negative adjustments. Refer to *Carrying the Adjustments* in Chapter 7.

If the total variance is positive, there were more withdrawals from your bank account than funds drafted per the MAS.

If the total variance is negative, there were less withdrawals from your bank account than funds drafted per the MAS. Remember this would only happen in rare cases, for example, if there is a manual cash adjustment to the Actual Amount Drafted line on the MAS and on the *Detailed Adjustment Report*.

How to Identify the Cash Disbursement Variance

To identify cash disbursement variances, complete the following steps:

1. Review your bank statement(s) for the cycle and record on the *Current Cycle Variance Log* (cash disbursements) each withdrawal that was not a draft initiated by Freddie Mac, such as adjustments, journal entries, and manual debits.

   We suggest adjusting bank statement transaction descriptions, to make it easier to determine the reason for the withdrawal.

   - Record non-remittance withdrawals as positive numbers on your variance log. They are recorded as a positive adjustment, because if the withdrawal was incorrect, you would add the money back (redeposit) to the bank account.
   - Do not include any withdrawals from line 1b and 1c of the *Cash Disbursements to Actual Amount Drafted Worksheet* as reconciling items.

2. Analyze other billings by identifying adjustments we have made. If you have a *Detailed Adjustment Report* from us, review the report. If these adjustments have not been adjusted for in your custodial account, record all billings on your *Current Cycle Variance Log* with the same sign (positive or negative) as on your *Detailed Adjustment Report*.

Determine if the Cash Disbursement Variance is a Cash or Paper Adjustment

For each withdrawal identified on your *Current Cycle Variance Log* (cash disbursements), you need to determine whether the transaction is a cash or paper adjustment.

Paper adjustment - The adjustment is “paper” if it will clear when we process a transaction or billing or if it is offsets with another variance of the same amount in the opposite direction. For example, you may have a cash disbursement variance of $100 and a cash receipt variance of $100.

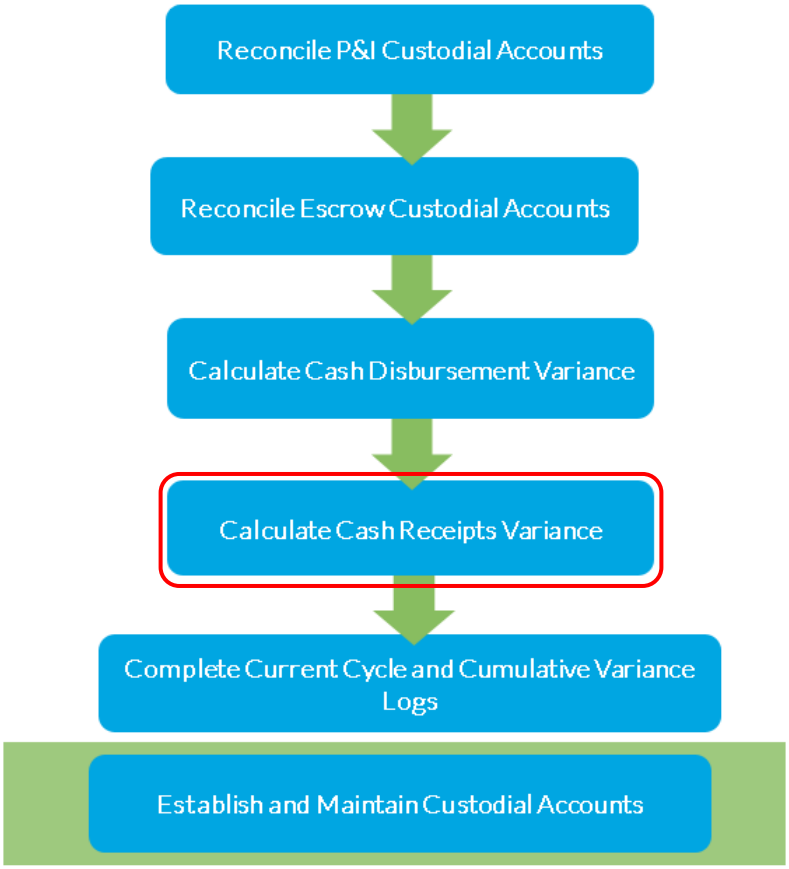
Cash adjustment - The adjustment is “cash” if it will clear when the amount is deposited or withdrawn from the custodial account.

Chapter 6: Calculate Cash Receipts Variance

This chapter explains how to identify and resolve differences between the cash receipts portion of your cash management process and the amount due reported to us in your investor reporting process (variances that occur as a result of our reporting requirements versus actual collections).

This chapter:

- Explains how to complete the *Cash Receipts Worksheet*.
- Describes how to identify and resolve cash receipt variances.
- Provides instructions on how to identify loan-level variances.



Cash Receipts

A cash receipt is any transaction that increases your bank balance, and may include the following:

- Collections
- Deposits
- Bank credits
- Journal entries

Most of your cash receipts will be for the amount you collected in your payment processing area (i.e., borrower payments and payoff proceeds). The cash receipts should have a specific transaction type or designation on your bank statement to make them readily identifiable.

Cash Receipts Variances

A cash receipts variance occurs when the amount of your deposits for the cycle is not equal to the total amount due Freddie Mac for the cycle. The total amount due us is comprised of loan-level transactions and other billings we processed.

Causes of a Cash Receipt Variance

Whenever your deposits for the cycle are not equal to the total amount due for the cycle, you will have a cash receipts difference. Some common causes of cash receipts variances are:

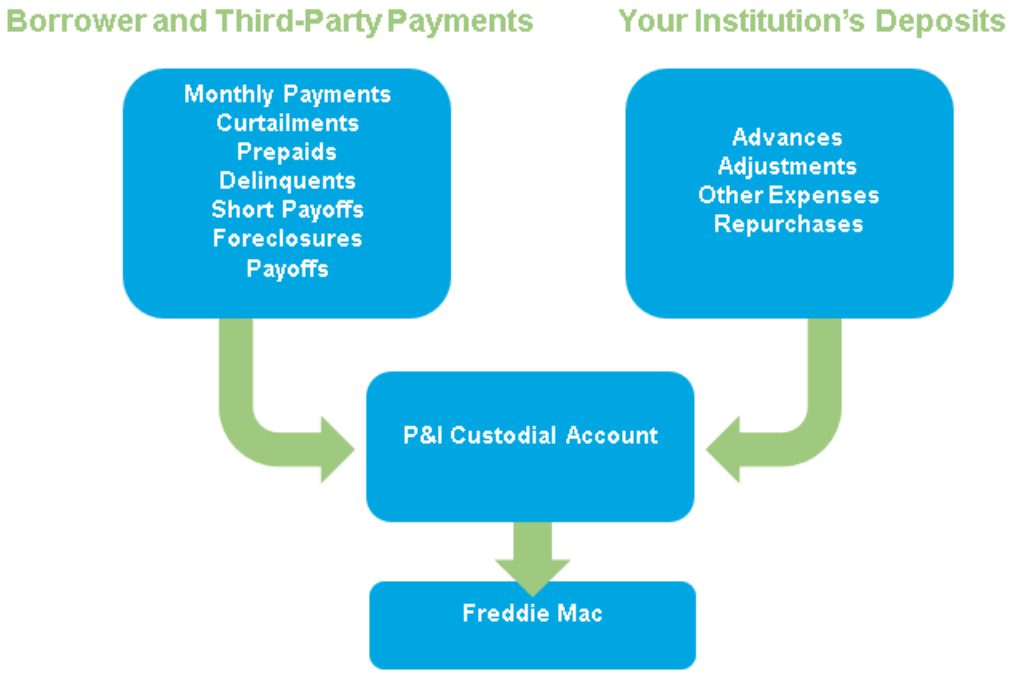
- Deposits other than loan-level collections
  - Manual deposits
  - Adjustments
  - Deposit errors
  - Advances
- Other Billings by Freddie Mac
  - Short payoff adjustments
  - SCRA
  - Loan modifications
- Loan-level differences
  - Reporting errors
  - Interest on new fundings
  - Amortization differences
  - Repurchases

Sources of Cash Receipts

There are two primary sources of funds you deposit into the principal and interest (P&I) Custodial Account.

1. The borrower or a third-party makes payments which you deposit for
   - Monthly principal and interest payments
   - Curtailments (additional principal)
   - Payoffs
   - Third-party sale foreclosure proceeds
2. Your institution makes deposits from your corporate account for
   - Advances
   - Expenses
   - Repurchase proceeds

The following illustrates the flow of funds from a borrower, third-party, or your institution into the custodial account, and then to Freddie Mac.



Amount Due

A liability is a financial obligation for which one business owes another. Each accounting cycle, you calculate and report your institution's liability to us. This liability is reported as an "amount due."

The total liability is the sum of all the amounts due, less the amounts remitted, plus/minus any adjustments made by us.

- Total liability increases as additional amounts become due.
- Total liability decreases as amounts are remitted.

Calculating Loan-Level and Portfolio-Level Amount Due

Calculating and reporting the amount due is done at two levels:

- Loan-level (reflected in your loan-level reporting to us)

  Principal + Interest = Total Loan-Level Amount Due

- Portfolio level (reflected on the *Monthly Account Statement* (MAS) that we send to you each month). We calculate the Amount Due at the portfolio level and report this amount to you on the MAS.

Loan-Level Amount Due and Cash Receipts

There may be variances between the amount you deposit and post for a mortgage, and the Amount Due you report to us.

- If you deposit the borrower's entire payment (including servicing fee) into our custodial account, there will be a difference between the amount you deposit and the amount due Freddie Mac. This is due to your servicing fee.
- If you only deposit the Freddie Mac share of the payment into the custodial account, then the amount deposited should equal the loan-level transaction amount due reported for the mortgage, provided the loan was and is current.
- Understanding Cash Receipts and Amount Due

Theoretically, both the amount you post to the borrower's mortgage record and the loan-level Amount Due you report to Freddie Mac should correspond to the amount you collected from the borrower (cash receipts).

This relationship between cash receipts and the amount due is always true for current mortgages. However, you will need to make adjustments for a mortgage that is, or was, delinquent or prepaid.

Calculation for Cash Receipts

The calculation for determining loan-level cash receipts is:

Loan-Level amount due (forecasted scheduled interest processed prior cycle, principal processed current cycle) – change in delinquent interest (difference between prior cycle and current cycle) + change in prepaid interest (difference between prior cycle and current cycle) = cash receipts (received with borrower's payment(s).

Calculation for Loan-Level Amount Due

The calculation for determining loan-level amount due is:

Cash receipts (received with borrower's payment(s) + change in delinquent interest (difference between prior cycle and current cycle) – change in prepaid interest (difference between prior cycle and current cycle) = loan-level amount due (forecasted interest processed prior cycle, principal processed current cycle).

Mortgage Status and Determining Loan-Level Amount Due

Refer to the table below to determine what must be included in the amount due versus what would be collected from the borrower.

If a mortgage is:	**Then the amount due:**
Delinquent, but still reported as active	Will include interest due from the borrower, but not yet collected.
Prepaid	Will not include interest from the borrower for the future cycle(s), which has been collected.

Interest Rates

The interest posted to the mortgage record will be at the note rate. The interest due to Freddie Mac will be at the accounting net yield (ANY).

Cash Receipts and Loan-Level Amount Due Examples

On the following pages, three examples are provided that show the relationship between cash receipts and the loan-level amount due.

- Example A illustrates the relationship for a mortgage that is current.
- Example B illustrates the relationship for a mortgage that is delinquent.
- Example C illustrates the relationship for a mortgage that is prepaid.

In the examples we use the following data:

- Data is for the April accounting cycle.
- The March ending unpaid principal balance (UPB) is $99,834.91.
- Forecasted interest reported in March is processed on the April MAS.
- Principal reported in April is processed on the April MAS.
- Refer to MAS loan-level detail report to determine loan- level principal and interest processed.

Status as of April 15	Example	March DDLPI	April DDLPI	Amount Due Freddie Mac for April Cycle ANY= 8.625%			April Cycle Ending UPB
				Principal	Interest	Total	
Current	A	3/1	4/1	55.86	717.56	773.42	99,779.05
Delinquent	B	3/1	3/1	0.00	717.56	717.56	99,834.91
Prepaid	C	3/1	5/1	112.14	717.56	829.70	99,722.77

Example	Cash Receipts	Delinquent Interest			Prepaid Interest		
		March	April	Change	March	April	Change
A	773.42	0.00	0.00	0.00	0.00	0.00	0.00
B	0.00	0.00	717.56	717.56	0.00	0.00	0.00
C	1,546.86	0.00	0.00	0.00	0.00	717.16	717.16

Example A: Mortgage is Current

A borrower makes their April payment in the April accounting cycle.

Activity: April payment received.

DDLPI: April 1

Total amount due is 773.42 (717.56 forecasted scheduled interest reported in March + 55.86 principal reported in April = 773.42)

Cash Receipts:

Total cash receipts equal:

	$773.42	Loan-level Amount Due (processed on April MAS)
−	0.00	Change in Delinquent Interest
+	0.00	Change in Prepaid Interest
	$773.42	Cash Receipts (received with borrower April payment)

The calculation for cash receipts is 773.42 - 0.00 + 0.00 = 773.42

Amount Due:

Amount due equals:

	$773.42	Cash Receipts (received with borrower April payment)
+	0.00	Change in Delinquent Interest
−	0.00	Change in Prepaid Interest
	$773.42	Loan-Level Amount Due (processed on April MAS)

The calculation for amount due is 773.42 + 0.00 - 0.00 = 773.42

Example B: Mortgage is Delinquent

A borrower makes their March payment in the April accounting cycle.

Activity: April payment not received.

DDLPI: March 1

Total amount due is 717.56 (717.56 forecasted scheduled interest reported in March + 0.00 principal reported in April = 717.56)

Cash Receipts:

Total cash receipts equal:

	$717.56	Loan-level Amount Due (processed on April MAS)
−	717.56	Change in Delinquent Interest
+	0.00	Change in Prepaid Interest
	$0.00	Cash Receipts (April payment not received)

The calculation for cash receipts is 717.56 – 717.56 + 0.00 = 0.00

Amount Due:

Amount due equals:

	$0.00	Cash Receipts (April payment not received)
+	717.56	Change in Delinquent Interest
−	0.00	Change in Prepaid Interest
	$717.56	Loan-Level Amount Due (processed on April MAS)

The calculation for amount due is 0.00 + 717.56 - 0.00 = 717.56

Example C: Mortgage is Prepaid

A borrower makes their April and May payment in the April accounting cycle.

Activity: April and May payment received.

DDLPI: May 1

Total amount due is 829.70 (717.56 forecasted scheduled interest reported in March + 112.14 principal reported in April = 829.70)

Cash Receipts:

Total cash receipts equal:

$829.70	Loan-level Amount Due (processed on April MAS)
− 0.00	Change in Delinquent Interest
+ 717.16	Change in Prepaid Interest
$1,546.86	Cash Receipts (received with borrower April and May payments)

The calculation for cash receipts is 829.70 – 0.00 + 717.16 = 1,546.86

Amount Due:

Amount due equals:

$1,546.86	Cash Receipts (received with borrower April and May payments)
+ 0.00	Change in Delinquent Interest
− 717.16	Change in Prepaid Interest
$829.70	Loan-Level Amount Due (processed on April MAS)

The calculation for amount due is 1,546.86 + 0.00 – 717.16 = 829.70

Cash Receipts to Current Amount Due Worksheet

Complete the *Cash Receipts to Current Amount Due Worksheet* to calculate the amount of the cash receipts variance.

Freddie Mac
We make home possible®

Cycle as of:

Cash Receipts to Current Amount Due Worksheet - *Monthly Account Statement*

Seller/Servicer Number: **Seller/Servicer Name:**

	Section 1 - Adjusted Cash Receipts		
1a)	Cash Receipts from Bank Statement		
	1b) Add: Deposits in Transit		
	1c) Less previous cycle's deposits in transit		
1)	Adjusted cash receipts (line 1a + 1b - 1c)		0.00
	Section 2 - Total Liability		
	Amount Due from Monthly Account Statement		
2a)	Subtotal Principal and Interest		
2b)	Adjustments to Balance Due Freddie Mac		
	2) Net Total Balance Due Freddie Mac		0.00
	Change in Delinquencies		
3a)	Current Cycle Delinquent Int. (line 3 current cycle P&I Wksht.)	0.00	
3b)	Previous Cycle Delinquent Int. (line3 previous cycle P&I Wksht.)		
	3) Net change in delinquencies (line 3a - 3b)		0.00
	Change in Prepaids		
4a)	Current cycle Prepaid Int. (line 4 current cycle P&I Wksht.)		
4b)	Previous cycle Prepaid Int. (Line 4 previous cycle P&I Wksht.)	0.00	
	4) Net change in prepaids (line 4a - 4b)		0.00
5)	Total Liability (lines 2 - 3 + 4)		0.00
	Section 3 - Total Variance		
6)	Total cash receipts variance (line 1- line 5)		0.00

Section 1: Adjusted Cash Receipts

Section 1 calculates the total cash receipts for the current accounting cycle. Keep in mind that total receipts for the accounting cycle may include a deposit for the previous cycle's activity and may not include a deposit for current cycle activity. A common example of this is a payment received on the last day of the accounting cycle. The payment is posted to the mortgage record on the last day of the accounting cycle which impacts your loan-level transactions reported but is not reflected on your bank statement until the following business day, which is the next accounting cycle.

Seller/Servicer Number:		Seller/Servicer Name:	
Section 1 - Adjusted Cash Receipts			
1a)	Cash Receipts from Bank Statement		
	1b) Add: Deposits in Transit		
	1c) Less previous cycle's deposits in transit		
1)	Adjusted cash receipts (line 1a + 1b - 1c)		0.00
Section 2 - Total Liability			
	Amount Due from Monthly Account Statement		

	Description
Line 1a) Cash Receipts from Bank Statement	Enter on line 1a the total receipts (deposits/credits) from your bank statement for the cycle. Keep in mind the following information: ▪ Remember that a cash receipt will include anything that increases your bank balance during the cycle. ▪ Most bank statements will provide a total credit amount. If your bank statement cuts off at the end of the month, you can use the total provided on your bank statement.
Line 1b) Add Deposits in Transit	Enter on line 1b the total amount of deposits in transit recorded on line 1b of your **current cycle's** Form 59, *Principal and Interest Custodial Account Reconciliation Worksheet*. Verify that you use the same number on both worksheets. On this line you are increasing your current cycle's cash receipts for transactions that were initiated by the end of the accounting cycle, but not actually credited to your bank balance until the following business day, which is in the next cycle.
Line 1c) Less Previous Cycle's Deposits in Transit	Enter the total amount of deposits in transit recorded on line 1c of your **previous cycle's** Form 59, *Principal and Interest Custodial Account Reconciliation Worksheet*. On this line you are decreasing your current cycle's cash receipts credited to your bank balance this cycle, which was accounted for as a deposit in transit on your previous cycle's reconciliation.
Line 1) Adjusted Cash Receipts	Line 1 automatically calculates based on the values you entered on lines 1a through 1c. This total represents your adjusted cash receipts for the cycle.

Section 2: Total Liability

Section 2 of the worksheet calculates the total current cycle liability, adjusting for changes in delinquencies and prepaids.

1)	Adjusted cash receipts (line 1a + 1b - 1c)		0.00
	Section 2 - Total Liability		
	Amount Due from Monthly Account Statement		
2a)	Subtotal Principal and Interest		
2b)	Adjustments to Balance Due Freddie Mac		
	2) Net Total Balance Due Freddie Mac		0.00
	Change in Delinquencies		
3a)	Current Cycle Delinquent Int. (line 3 current cycle P&I Wksht.)	0.00	
3b)	Previous Cycle Delinquent Int. (line3 previous cycle P&I Wksht.)		
	3) Net change in delinquencies (line 3a - 3b)		0.00
	Change in Prepaids		
4a)	Current cycle Prepaid Int. (line 4 current cycle P&I Wksht.)		
4b)	Previous cycle Prepaid Int. (Line 4 previous cycle P&I Wksht.)	0.00	
	4) Net change in prepaids (line 4a - 4b)		0.00
5)	Total Liability (lines 2 - 3 + 4)		0.00
	Section 3 - Total Variance		
6)	Total cash receipts variance (line 1- line 5)		0.00

	Description
Line 2a) Subtotal Principal and Interest	Enter on line 2a the amount from the Subtotal P&I line from your MAS. This is the total amount due for the accounting cycle.
Line 2b) Adjustments to Balance Due Freddie Mac	Enter on line 2b the amount from the Adjustments to Balance Due Freddie Mac line from your MAS. This is the total amount due for the cycle for "other billings." A *Detailed Adjustment Report* to support this number is available to you via the Loan Level Reporting tool.
Line 2) Net Total Balance Due Freddie Mac	Line 2 automatically calculates based on the values you entered on lines 2a and 2b. This is your net amount due for current cycle activity.
Line 3a) Current Cycle Delinquent Interest	Enter on line 3a the total amount on line 3 of your **current** cycle's Form 59, *Principal and Interest Custodial Account Reconciliation Worksheet*. Make sure you use the total from line 3, which includes delinquent interest on active and inactive mortgages.
Line 3b) Previous Cycle Delinquent Interest	Enter on line 3b the total amount on line 3 of your **previous** cycle's form 59, *Principal and Interest Custodial Account Reconciliation Worksheet*. Make sure you use the total from line 3, which includes delinquent interest on active and inactive mortgages.

	Description
Line 3) Net Change in Delinquencies	Line 3 automatically calculates based on the values you entered on lines 3a and 3b. This is your net change in delinquencies from the previous to the current cycle. If your net change in cumulative delinquencies is a positive number, it means that your delinquencies increased from the previous cycle. If it is negative, it means that your delinquencies decreased from the previous cycle.
Line 4a) Current Cycle Prepaid Interest	Enter on line 4a the total amount on line 4 of your current cycle's form 59, Principal and Interest Custodial Account Reconciliation Worksheet.
Line 4b) Previous Cycle Prepaid Interest	Enter on line 4b the total amount on line 4 of your previous cycle's Principal and Interest Custodial Account Reconciliation Worksheet.
Line 4) Net Change in Prepaids	Line 4 automatically calculates based on the values you entered on lines 4a and 3b. This is your net change in prepaids from the previous cycle to the current cycle. If your net change in cumulative prepaids is a positive number, it means your prepaids increased from the previous cycle. If it is negative, it means your prepaids decreased from the previous cycle.
Line 5) Total Liability	Line 5 automatically calculates based on the values calculated for lines 2, 3, and 4. This is your total adjusted amount due Freddie Mac for the current cycle.

Section 3: Total Variance

Section 3 of the *Cash Receipts to Amount Remitted Worksheet* identifies if a cash receipts variance exists for the cycle you are reconciling.

5)	Total Liability (lines 2 - 3 + 4)	0.00
	Section 3 - Total Variance	
6)	Total cash receipts variance (line 1- line 5)	0.00

Line 6 automatically calculates based on the values calculated for line 1 and line 5. This is your total cash receipts variance for the cycle. If line 6 is negative, it means you deposited less during the current cycle than you owed us for current cycle activity. If line 6 is positive, it means you deposited more during the cycle than you owed us for the current cycle.

How to Identify and Resolve a Cash Receipts Variance

When you have a cash disbursement variance, you need to

1. Start a variance log.
2. Identify the cause(s) of the variance.
3. Determine if the items are cash or paper adjustments.

Identifying cash receipts variances is usually the most difficult part of reconciling your custodial account, because there are many transactions involved, and many different types of potential issues.

Start a Variance Log

The first thing you should do if you have a cash receipts variance is record the cycle and type of variance (cash receipt) on the top of a blank *Current Cycle Variance Log*, then record the total variance amount (line 6 of your *Cash Receipts Worksheet*) on the "Total Variance" line.

The total identified transactions should add up to the variance amount, but with the opposite sign. We recommend you carry amounts to be deposited to the bank account as positive adjustments and amounts to be withdrawn from the bank account as negative adjustments.

If your total variance is negative, your bank account is short. If your total variance is positive, your bank account is over. The total variance is the amount that must be deposited to or withdrawn from the bank account to clear the outstanding items.

How to Identify the Cash Receipt Variance

You will complete the following three high-level analyses to identify your cash receipts variance:

1. Deposit analysis
2. Other billings analysis
3. Loan-level analysis

Deposit Analysis

Perform the following steps to complete a deposit analysis:

To perform your deposit analysis, complete the following steps.

1. Identify deposit errors. Compare the actual deposits to what should have been deposited. If the amounts are different, subtract the actual deposit from what it should have been and carry the difference on your *Current Cycle Variance Log*.

   Deposit that Should have been Made – Actual Deposit Made = Variance

2. Identify deposits made that were not part of your normal payment processing. Review the bank statement for any deposits that were not part of the normal loan-level collections. Record non-loan-level collections as negative amounts on your log.

Other Billings Analysis

Complete the following steps to perform a billing analysis:

1. Identify adjustments needed because of amounts we have billed or credited you. If you received a *Detailed Adjustment Report* from us, review the report. If these adjustments have not been adjusted for in your custodial account, record all billings on your *Current Cycle Variance Log* with the same sign (positive or negative) as on your *Detailed Adjustment Report*.
2. Identify other fees. If the institution that houses our custodial account charges fees for maintaining the account, you need to pay these fees with corporate funds. If your account was debited for such fees, it will be offset on your cash disbursements variance log.

Loan-Level Analysis – Method One

Complete the following steps to perform a loan-level analysis:

1. Identify discrepancies between what you reported and what you deposited for each loan. Apply the following formula to each loan in your portfolio:

   Amount Due Reported to Freddie Mac (forecasted scheduled interest reported prior cycle, principal reported current cycle)

   - Change in Delinquent Interest

   + Change in Prepaid Interest

   - Cash Receipts (borrower payment received)

   Loan-Level Cash Receipts Variance

   If you have discrepancies, record them with the same sign (positive or negative) as the formula results. We recommend you automate this process.

2. Identify discrepancies between what you reported and what we processed for each loan. Refer to the prior cycle's LRDR to view interest edits and the current cycle's LRDR to view principal edits for month you are reconciling. Record the differences on your *Current Cycle Variance Log*.

Loan-Level Analysis – Method Two

You may also use this alternate procedure to perform your Loan Level Analysis that combines the two steps.

Identify discrepancies between what we processed and what you deposited for each loan. The *LLR Monthly Account Statement (MAS) Loan-Level Detail,* available in the Loan Level Reporting tool, provides the loan-level information for what we processed that cycle. Apply the following formula to each loan in your portfolio:

Amount Due Processed by Freddie Mac (forecasted scheduled interest processed prior cycle, principal processed current cycle)

- Change in Delinquent Interest

+ Change in Prepaid Interest

- Cash Receipts (borrower payment received)

Loan-Level Cash Receipts Variance

If you have discrepancies, record them with the same sign (positive or negative) as the result of the formula.

Determine if the Cash Receipt Variance is a Cash or Paper Adjustment

At some point you need to determine if each reconciling item on your variance log is a cash or paper adjustment. You should wait until you finish your *Cumulative Variance Log* since many transactions may clear. In other words, if a transaction offsets with another item in the same cycle or previous cycle, it will not be carried forward to the *Cumulative Variance Log* (i.e., a +20.00 will offset with a -20.00 and net to 0.00). The majority of variances that carried to the cumulative log will be cash adjustments.

Cash adjustment - The adjustment is cash if it will clear when the amount is deposited or withdrawn from the custodial account.

Paper adjustment - The adjustment is paper if it will clear when we process a transaction or billing.

Deposit Analysis

A cash receipts variance may be caused by a deposit error, or by a deposit other than a loan-level collection.

Deposit Errors

A deposit error occurs when the deposit for the day's loan-level collections is not equal to our share of the total collections. If your process is completely automated, it is unlikely you would have a deposit error. However, if your process requires manual intervention to ensure the funds get moved into our custodial account, you could transpose numbers or switch accounts.

Example

You deposit $7,300 into the custodial account but collected $3,700. You subtract the actual deposit of $7,300 from the $3,700 that should have been deposited, resulting in an adjustment of ($3,600).

The adjustment is carried as a negative because you deposited too much money. To correct the problem, you need to reduce the custodial account balance by withdrawing $3,600.

Deposits Other than Loan-Level Collections

Variances caused by deposits other than loan-level collections are usually caused by deposits made for correcting adjustments and deposit errors. To identify transactions causing the variance you need to review your bank statement and record all deposits that were not for loan-level collections.

You may have the following types of deposits that are not for loan-level collections:

- Adjustments for prior cycle reconciling items
- Repurchase proceeds
- Payments flowing to the incorrect account for a loan that was set up incorrectly
- Corporate advances
- Delinquent interest advances

Carry manual deposits that are not for loan-level collections as negative adjustments on your *Current Cycle Variance Log* and analyze them for current cycle activity.

Analyze Payments for Current Cycle Activity

If any of your manual deposits are for an amount due on the MAS for the same cycle, do not carry the deposit as a reconciling item unless the offsetting item will also be picked up in the analysis.

Repurchases

Freddie Mac will draft the principal and interest on the fifth Business Day after the repurchase is successfully reported: The Servicer must report repurchases by the second Business Day after the activity. Report the UPB as reported in the previous Accounting Cycle as well as exception interest and delinquent/reinstatement interest (if applicable) due Freddie Mac as of the Payoff Determination Date

Repurchase and Drafting in Same Accounting Cycle	If the payoff draft date is on or before the last day of the accounting cycle, you should be depositing the funds in the same cycle as the transaction is listed on the MAS. In such cases, you will not have a variance on your *Cumulative Variance Log*. The manual deposit may need to be on the *Current Cycle Variance Log* to offset the variance depending on how you analyze your loan-level variances. *Scenario*: You report a repurchase that we process in the April cycle. You deposit corporate funds for the repurchase proceeds and delinquent interest before April 30th. *Result*: The delinquent interest portion of the manual deposit should be offset by the decrease in cumulative delinquent interest for this loan and should not be carried on any log. The amount of the deposit for the amount due us for the current cycle should be carried as a negative adjustment on your *Current Cycle Variance Log*. It will be offset by the loan-level difference between what you deposited and what we processed, thus there will be no variance on the cumulative log.
Repurchase and Drafting in Different Accounting Cycles	If you use a repurchase date within four business days before the end of the accounting cycle, you are not required to deposit the funds until after the accounting cycle. If the funds are not deposited as of the end of the accounting cycle, you will have a current cycle cash receipts variance for two cycles. ▪ You will have a positive adjustment the cycle you reported the repurchase, because there is a transaction on the MAS with no corresponding deposit in the custodial account for that cycle. The adjustment will also be on that cycle's *Cumulative Variance Log* and is positive because you have to increase your bank balance. ▪ The following cycle, there will be a deposit with no corresponding activity on the MAS so the manual deposit will be carried as a negative adjustment on your *Current Cycle Variance Log*. The positive adjustment on the previous cycle's cumulative log will offset with the current cycle's cash receipts log and net out to zero. *Scenario*: You report a repurchase with a payoff date of April 30th and deposit the funds on May 3rd. *Result*: In the April cycle (when you reported the repurchase), record a positive variance on your April *Current Cycle Variance Log* and your April *Cumulative Variance Log* for the amount of the repurchase transaction (because it was a transaction reported, but not deposited) and for the delinquent interest that dropped off the trial balance.

	In the May cycle (when you made the deposit), record a negative adjustment on your May *Current Cycle Variance Log* (because it will be a manual deposit made with no current cycle activity). This will offset with the positive April reconciling item when you compile the May *Cumulative Variance Log*.

Corporate Advances

You may not carry a negative account balance in our custodial account (i.e.- on your bank statement), even if the institution housing the account covers the draft. If your account balance will go below zero you must make a corporate advance.

Corporate advances:

- Are required if your custodial account balance is not sufficient to cover a remittance.
- Must be deposited by the time the account is drafted for a remittance.
- May be recouped immediately from any borrower's principal and interest collections.
- Are normally repaid by the following accounting cycle cutoff date, unless delinquencies are high.
- Are a loan to the account, not an expense.
- Are carried as a negative amount on the *Current Cycle Variance Log* for cash receipts, if the corporate advances are still outstanding as of the end of the accounting cycle.

How you carry the adjustments depends on:

- If you repaid yourself the full amount of the advance as of cutoff
- How you recoup the advance funds (withdrawal or netting deposits)
- Refer to the following to determine how to carry the adjustment:

	If you repay yourself for corporate advances to the custodial account by:	**Then:**
Advances Fully Repaid	Withdrawing funds	▪ The withdrawal will be a positive adjustment on the *Current Cycle Variance Log* for cash disbursements. ▪ The deposit will be a negative adjustment on the *Current Cycle Variance Log* for cash receipts. ▪ The two adjustments will net to zero and not flow to the *Cumulative Variance Log*.
	Netting deposits	The deposit is reduced by the amount you are repaying yourself, so neither should be carried as a variance.
Advances Not Fully Repaid	If you have not repaid yourself the full amount of your advances, the amount still due you as of the end of the accounting cycle will be carried as a negative adjustment on the *Current Cycle Variance Log* for cash receipts and on the *Cumulative Variance Log*.	

Depositing Delinquent Interest for Each Loan

If you deposit delinquent interest for each delinquent loan and only repay yourself when that borrower makes a payment, you need to account for the amount of the advances outstanding if an advance is not fully repaid.

Other Billing Analysis

This section highlights the impact of other billings on your custodial reconciliation process.

There are some transactions that cannot be processed as part of normal loan-level reporting and require us to post an adjustment to your account. Any adjustments will appear on the adjustments line on the MAS and on the *Detailed Adjustment Report*. Many Servicers will not receive any adjustments.

We call these adjustments “other billings” in our custodial account reconciliation process.

The most common adjustments are due to loan modifications and short sales.

Billings on the Detailed Adjustment Report

Detailed Adjustment Report billings:

- Are drafted by Freddie Mac.
- Must be deposited to the custodial account when they are due to us.
- Will appear on the MAS.
- Must be carried as reconciling items until the corresponding funds are deposited or withdrawn.

When you retrieve the *Detailed Adjustment Report*, review the report and record amounts for other billings on your *Current Cycle Variance Log*. If an adjustment has already been made, the billing and adjustment will offset each other when you compile the *Cumulative Variance Log*. Record the billing on the log using the same sign (positive or negative) as on the *Detailed Adjustment Report*.

Freddie Mac

Detail Adjustment Report

Run Date : 09/29/2023 10:26:12 AM

Cycle : 09/2023
Preliminary

FMLoan Number	Adjustment Post Date	Date Approved	Description	Comments	Adjustment Amount
	09/19/2023	08/14/2023	Soldiers & Sailors	Soldiers and Sailors adjustment 2023/07/31	($34.04)
	09/19/2023	08/16/2023	Loan Mod. Capitalized Interest		($8,036.13)
	09/19/2023	08/16/2023	Loan Mod. Capitalized Interest		($3,305.99)
	09/19/2023	08/16/2023	Loan Mod. Capitalized Interest		($25,296.84)
	09/19/2023	08/16/2023	Loan Mod. Capitalized Interest		($9,661.72)
	09/19/2023	08/16/2023	Loan Mod. Capitalized Interest		($894.18)
	09/19/2023	08/16/2023	Loan Mod. Capitalized Interest		($5,570.51)
	09/19/2023	08/16/2023	Reinstatement Interest		$4,615.20
	09/19/2023	08/16/2023	Reinstatement Interest		$12,500.37
	09/19/2023	08/16/2023	Reinstatement Interest		$4,836.35
	09/19/2023	08/16/2023	Reinstatement Interest		$1,484.98
	09/19/2023	08/17/2023	Loan Mod. Capitalized Interest		($6,194.08)
	09/19/2023	08/17/2023	Reinstatement Interest		$9.35
	09/19/2023	08/18/2023	Loan Mod. Capitalized Interest		($814.41)
	09/19/2023	08/18/2023	Loan Mod. Capitalized Interest		($354.13)
	09/19/2023	08/18/2023	Loan Mod. Capitalized Interest		($694.00)
	09/19/2023	08/18/2023	Loan Mod. Capitalized Interest		($570.54)
	09/19/2023	08/18/2023	Miscellaneous Principal	LMOD MISP	$624.07
	09/19/2023	08/18/2023	Miscellaneous Principal	LMOD MISP	$268.39
	09/19/2023	08/18/2023	Miscellaneous Principal	LMOD MISP	$394.26

Page 1 of 4

If applicable, the Freddie Mac loan

The date the adjustment posts to your *Draft Report*.

The total of all adjustments. This value displays on the Adjustments to Balance Due Freddie Mac line of the MAS.

Billings on the Consolidated Billing Statement

Billings on the Servicer Billing statement are part of the e-Bill. Therefore, they do not flow through the custodial account, and should not be carried as reconciling items. Freddie Mac will initiate an Automated Clearing House (ACH) draft to collect any fees billed on the e-Bill.

Loan-Level Analysis

The purpose of this section is to outline the steps and information needed to identify loan-level variances.

Loan-Level Variances

Most of your differences will be at the loan level. Loan-level cash receipts differences are primarily due to the following:

1. The amount due you reported to us is not equal to what you deposited. You will need to generate reports to identify these differences.
2. The amount due you reported to us is not equal to what we processed. You will need copies of the *Loan Reconciliation Difference Report* to identify these differences. Refer to the prior cycle's LRDR to view interest edits and the current cycle's LRDR to view principal edits for month you are reconciling. (This report is available to you at the end of the month via the Loan Level Reporting tool.)

Causes of Loan-Level Variances

A loan-level cash receipt variance identified in the first item listed above is usually caused by one of the following reasons:

- Transfer of servicing
- Amortization differences
- Interest on new fundings

A loan-level cash receipt variance identified in the second item listed above is usually caused by a reporting discrepancy.

How to Calculate Your Loan-Level Cash Receipts Variances

To calculate your loan-level cash receipts variances you need to apply the following formula to each mortgage in your portfolio.

Amount Due to Freddie Mac (forecasted scheduled interest processed prior cycle, principal processed current cycle)

- Change in Delinquent Interest

+ Change in Prepaid Interest

- Cash Receipts (borrower payment received)

Loan-Level Cash Receipts Variance

If your result is not zero, then record that amount (using the same sign) on your *Current Cycle Variance Log*.

Automating the Analysis for Total Loan-Level Cash Receipts Variance

We strongly suggest you automate the process of calculating your total loan-level cash receipts variance. Your system should already have the required data elements for collections, delinquencies and prepaids.

- You can also automate the loan-level cash receipts variance calculation analysis by only using information from your system. If your system does not store data about what you reported for your loan-level transactions, you can:
  - Use what you reported for the amount due in the loan-level cash receipts variance calculation.
  - Use the Loan Reconciliation Difference Report to identify differences between what you reported and what we processed. Refer to the prior cycle's LRDR to identify interest edits and the current cycle's LRDR to view principal edits for month you are reconciling.
- You can obtain the amount due we processed for each loan by downloading the *LLR Monthly Account Statement (MAS) Loan-Level Detail* from the Loan Level Reporting tool. You can automate the loan-level cash receipts variance calculation by applying the information you download from the *Draft Detail Report*.

Detailed Analysis of Principal Cash Receipts Variance and Interest Cash Receipts Variance

We suggest that you analyze principal cash receipts variances and interest cash receipts variances separately.

You can do this by applying the following formulas:

Cash Receipt Variance for Principal
Principal Due to Freddie Mac (principal processed current cycle) - Principal Portion of Cash Receipts (principal received from borrower payment) Loan-Level Cash Receipts Variance (Principal)
Cash Receipt Variance for Interest
Interest Due to Freddie Mac (forecasted scheduled interest processed prior cycle) - Change in Delinquent Interest + Change in Prepaid Interest - Interest Portion of Cash Receipts (interest received from borrower payment) Loan-Level Cash Receipts Variance (Interest)

Transfers of Servicing

If you have a loan-level variance and you also had mortgages that were transferred or acquired, verify that no errors have occurred.

The *transferor* (transferring mortgages) needs to ensure that:

- The amount received for delinquent interest and sent for prepaid interest ties to the amount that was carried on the previous cycle's reconciliation for those loans.
- The amount received for the net between delinquent and prepaid interest was deposited to the custodial account (withdrawn if the prepaid interest was greater than the delinquent interest).
- Any payments received on these mortgages after the transfer date are forwarded to the transferee.

The *transferee* (acquiring mortgages) needs to ensure that:

- The amount paid for delinquent interest and received for prepaid interest ties to the amount that was carried on the previous cycle's reconciliation for those loans.
- The amount paid for the net between delinquent and prepaid interest was withdrawn from the custodial account (deposited if the prepaid interest was greater than the delinquent interest).
- The loans are set up timely to ensure payments are correctly deposited into the custodial account.

Amortization Differences

Amortization differences occur when the interest due from the borrower is calculated on a loan balance that is different than the previous cycle's ending balance (or the funded balance if the mortgage is a new funding). Amortization variances are an expense of servicing and must be funded. The late charges you receive from the borrower should more than offset the expense.

Amortization variances occur when:

- Interest due us is calculated on a different unpaid principal balance than the interest due from the borrower.
- A mortgage was delinquent the previous cycle.
- A mortgage was prepaid the previous cycle.
- A curtailment (additional principal) was applied during the cycle before the monthly installment, and the monthly interest posted to the borrower's mortgage was calculated on the lower balance.
- A payment was applied, and the loan later paid off during the cycle, the daily interest charged the borrower was calculated on the lower balance.
- A mortgage amortizes on a biweekly basis (based on your negotiated contract)

Example: Determining Amortization Differences

Shown below is an example of how an amortization difference can occur on a delinquent mortgage.

Assume a borrower made five payments on April 1st to bring their delinquent loan current. Their principal balance was reduced after each payment was applied, reducing the amount of interest collected from each payment just as if the payments were made and applied when they were due.

The loan balance remained constant at the December balance when the monthly interest due us was calculated for the December through April payments. Thus, there is an amortization difference because the balance used to calculate the interest due to us was different from the balance used to calculate the interest due from the borrower.

Scheduled Method – Servicer calculates interest due from borrower

	Ending UPB	Rate	Interest	Principal	Difference
December	$131,864.26	8.00%	$879.10	$145.21	$0.00
January	$131,719.05	8.00%	$878.13	$146.20	($0.97)
February	$131,572.85	8.00%	$877.15	$147.21	($2.91)
March	$131,425.64	8.00%	$876.17	$148.22	($5.83)
April	$131,277.42	8.00%	$875.18	$149.24	($9.75)
			$4,385.73		

Net Yield Method – Servicer calculates interest due Freddie Mac

	Ending UPB	Rate	Interest	Principal
December	$131,864.26	8.00%	$879.10	$0.00
January	$131,864.26	8.00%	$879.10	$0.00
February	$131,864.26	8.00%	$879.10	$0.00
March	$131,864.26	8.00%	$879.10	$0.00
April	$131,864.26	8.00%	$879.10	$0.00
			$4,395.48	

AMORTIZATION DIFFERENCE ($9.75)

Amortization Difference - Amount of Interest Collected is Less than Amount Due

The amount of interest collected will be less than the amount due if:

- You did not receive a borrower's payment for the previous cycle by the end of the previous accounting cycle.
- You applied a partial curtailment to a borrower's mortgage record during the cycle before you applied their monthly installment, and you calculated and posted the monthly interest on the lower balance.
- A mortgage amortizes on a biweekly basis and less than three payments are due within the cycle.

You must carry these amortization differences as a positive variance on the *Current Cycle Variance Log* for cash receipts until you deposit funds into the custodial account.

Amortization Difference - Amount of Interest Collected is Greater than Amount Due

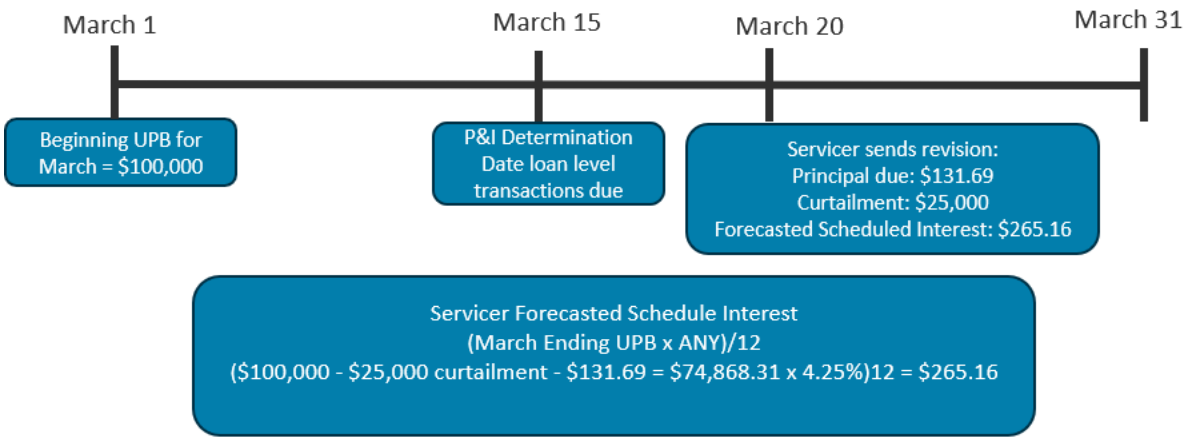
The amount of interest collected will be **greater** than the Amount Due if:

- You receive a borrower's payment for a future cycle.
- A mortgage amortizes on a biweekly basis and more than two payments are due and collected within the cycle.

You must carry these as a negative variance on the *Current Cycle Variance Log* for cash receipts until you withdraw funds from the custodial account.

Amortization Differences on Curtailments

Shown below is an example of an amortization difference on a curtailment. A curtailment is additional principal applied to the balance of a mortgage.



- The April 1st payment from the borrower is for March interest.
- If a $25,000 curtailment is applied on March 20 and March interest is calculated for the borrower's April 1 payment based on $100,000 part of the month and $75,000 for remaining of the month you will have an amortization difference. Forecasted scheduled interest due us is based on March's ending balance. You will need to determine the correct balance on which to calculate interest when a borrower sends a curtailment.

Interest on Newly Funded Mortgages

An interest variance will occur on a newly funded mortgage if:

- You close the mortgage in the same month that we fund the mortgage. You will not receive a scheduled payment to cover the first month's interest due to us. You must deposit funds to cover the interest due for the month of funding.
- The loan is prepaid when it is set up on your investor reporting system. Funds that were deposited into your corporate account must be transferred over to the custodial account.
- In both cases you must deposit one month's interest by the time we draft your custodial account.

Sources of Funds to Cover Variances

The sources of funds to cover variances that result from newly funded mortgages are collected from:

- The borrower (from the closing date through the end of the month; a 365-day year)
- Freddie Mac, at the time of funding (from the first of the month to the day before the funding date; a 360-day year)

Example

Shown below is an example of a loan that funded and originated in the same calendar month, with the corresponding interest collections and interest due Freddie Mac.

Interest from borrower (Originated 3/9)	23 days:	$504.11
Interest from us (FM funded 3/30)	29 days:	+ 644.44
Total interest collected (52):		= $1,148.55
Interest due us (30):		- 666.67
Interest income (22):		= $481.88

Reporting Variances

A reporting variance occurs when the loan-level amount due you reported to us is different from the loan-level amount due we processed. When there is a reporting difference, we send you an edit report the following day. After we complete our processing for the cycle, we summarize all the daily edits on the *Loan Reconciliation Difference Report*. We suggest you use the Loan Reconciliation Difference Report when reconciling your custodial account. You will also need your Loan-Level Missing Report if you had loans that were not reported on your original transmission.

Differences Within Your Records

A loan can have a difference between what you deposited and what you reported, AND between what you reported and what we processed. If you have a difference between what you reported and what you collected, it will show up when you do your loan-level to cash receipts analysis. Your *Loan Reconciliation Difference Report* will identify differences between what you reported and what we processed.

An example is a loan that originated and funded in the same calendar month and had the service fee input incorrectly resulting in an incorrect ANY and an error in interest due. There would be a difference between what you deposited and what you reported. There would also be a reporting difference between the interest you reported and the interest we processed. In other words, one loan can cause more than one type of variance.

Using the Loan-Level Missing Report

Record on the *Current Cycle Variance Log* for cash receipts the Amount Due for any loans that you did not initially report that you subsequently transmitted without any edits. These loans would have appeared on the *Loan-Level Missing Report* without an asterisk (*). Record all amounts subsequently reported as positive numbers on your variance log.

- Do not include loans without an asterisk if you deposited funds for the loan during the same cycle you are reconciling.
- Do not include loans without an asterisk that were transmitted under an invalid loan number that you later retransmitted under the correct loan number. The invalid loan number would have appeared with a 101 edit on the Edits to be Cleared Report, and again in Section 3 of the Loan Reconciliation Difference Report.
- Do not include loans without an asterisk that were transmitted under a valid, but incorrect, loan number that you retransmitted later under the correct loan number. (This is due to a loan number being assigned to more that one loan on your system.) The wrong loan number would have appeared with a 303 or 309 on the Edits to be Cleared Report and again in Section 1 or 2 of the Loan Reconciliation Difference Report.

Using Sections 1 and 2 of the Loan Reconciliation Difference Report

The amounts listed on the *Loan Reconciliation Difference Report* on the “LNH” line reflect what we processed. The differences between what you reported and what we processed need to be carried on your *Current Cycle Variance Log* for cash receipts. In most cases you can use the difference as it was calculated on the report. The difference is calculated by subtracting what you reported from what we processed. The transaction we used in this calculation is identified by an asterisk (*) in the “DIFF” column.

Using Section 3 of the Loan Reconciliation Difference Report

Record any amounts reported under invalid loan numbers that were not subsequently retransmitted under the correct loan number or processed by us for the same amounts in Section 1 of this report.

Carry the adjustments using the amounts from this report *but reverse the sign*. The sign is reversed because we are returning this transaction to you. Do not include amounts for loans you retransmitted under the correct loan numbers.

Using Section 4 of the Loan Reconciliation Difference Report

Record any amounts due you reported under invalid Servicer numbers that were not subsequently posted to your account as an adjustment.

Carry the adjustments using the amounts from this report *but reverse the sign*. The sign is reversed because we are returning this transaction to you.

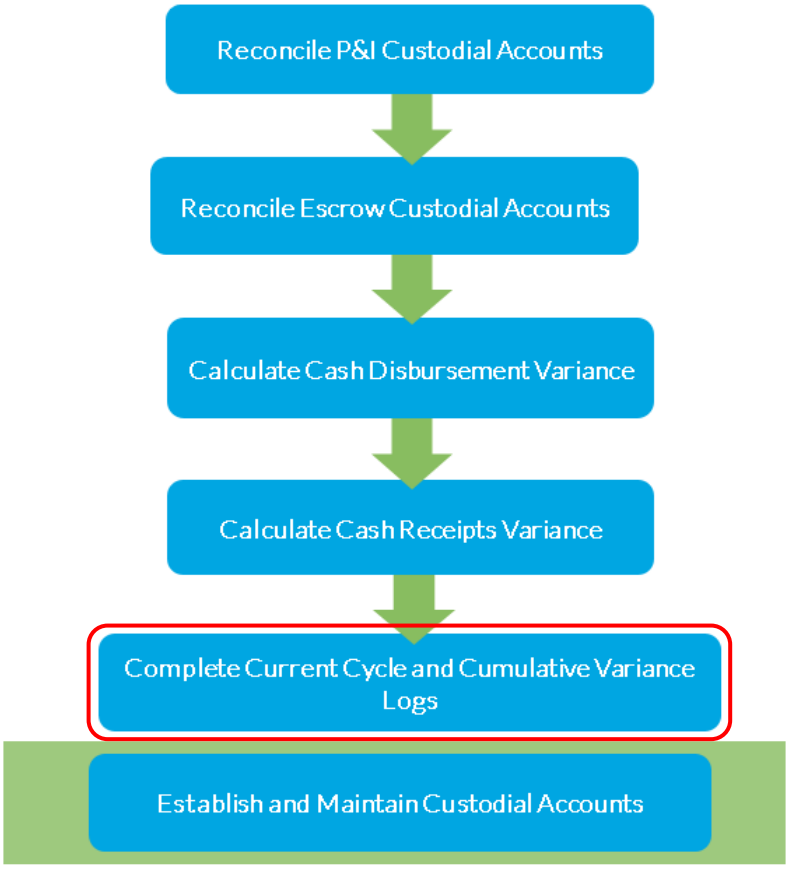
Using Section 5 of the Loan Reconciliation Difference Report

Record any simulated amounts due us that were not subsequently posted to your account. If applicable carry the adjustments as positive amounts.

Chapter 7: Current Cycle and Cumulative Variance Logs

After you have calculated your cash receipts and cash disbursements variances, you are ready to complete the *Current Cycle Variance Log*, and the *Cumulative Cycle Variance Log*, the final step of the P&I custodial account reconciliation process.

This chapter introduces and explains how to complete the *Current Cycle Variance Log*, and the *Cumulative Cycle Variance Log.*



Identifying and Resolving Current Cycle Variances

To identify causes of variances in the principal and interest custodial account, you need to identify what transactions have a difference between the investor reporting process (*Monthly Account Statement*) and the *cash management process* (bank statement).

The total variance can be sub-divided into:

- The cash disbursements variance and
- The cash receipts variance (which includes reporting variances)

Cash Disbursement Variance

Cash disbursements variances occur during the accounting cycle when the amount of funds withdrawn from the P&I custodial account are different from the amount of cash made available to us as stated on the Actual Amount Drafted line of the *Monthly Account Statement* (MAS).

You calculate your cash disbursements variances by completing the *Cash Disbursements to Actual Amount Drafted Worksheet*. Identify cash disbursements variances by comparing the total cash withdrawn from the principal and interest custodial account during the accounting cycle to the amount Freddie Mac drafted.

Refer to Chapter 5, *Calculate Cash Disbursement Variance*, for information on identifying the causes of your cash disbursement variance.

Cash Receipt Variance

Cash receipts variances occur when your deposits do not equal the amount due that we processed as shown on the MAS.

Calculate your cash receipts variances by completing the *Cash Receipts to Current Amount Due Worksheet*. Identify cash receipts variances by:

- Comparing the total custodial account deposits during the accounting cycle to the amount due you reported to us.
- Comparing what you reported to us to what we processed, as shown on the MAS.

Refer to Chapter 6, *Calculate Cash Receipts Variance* for information on identifying the cause(s) of your cash receipt variance.

The Current Cycle Variance Log

You should use a log to itemize the transactions you identify as causing a variance. We use a *Current Cycle Variance Log* to record and itemize all causes of variances for the current cycle only. (This is step 5 and step 6 of the Reconciliation Process described in Chapter 4.) You should complete a separate log for cash receipt and cash disbursement variances. Identify and record all causes of a variance at each step of the process, including any variances that are offset by cash receipts or disbursements variances.

The cash receipts variance total (line 6 of the *Cash Receipts Worksheet*), less the cash disbursement variance total (line 3 of the *Cash Disbursements Worksheet*) should equal the total variance for the current accounting cycle, as calculated on line 6c of Form 59, *Principal and Interest Custodial Account Reconciliation Worksheet – Monthly Account Statement*.

Current Cycle Variance Log
Date __MM/YYYY___

Orig Cycle	Type	Servicer Loan Number	Freddie Mac Loan Number	Transaction/Description	C/P	Date Adj. was made	Dollar Amount Indicate if a positive or a negative(-) amt.
				Identified Variance			0.00
				Total Current Cycle Variance			0.00
				Unidentified			**0.00**

Carrying the Adjustments

Use the *Current Cycle Variance Log* to document variances. It is important you are consistent on how you carry each reconciling item. Ask yourself “How would I clear the transaction if it were in error?” and then:

- Add (show as positive) amounts that need to be deposited to the bank account, or that you are waiting for us to process a credit for on the MAS.
- Deduct (show as negative) amounts that need to be withdrawn from the bank account, or that you are waiting for us to process a debit for on the MAS.

Positive Variances (Carry as a positive adjustment.)	Negative Variances (Carry as a negative adjustment.)
▪ Payments received before the loan was designated as ours ▪ Corporate funds due for repurchases ▪ Interest due for new fundings for which a payment is not due from the borrower for the current cycle ▪ Amortization differences ▪ Loan modification credits not yet processed by Freddie Mac ▪ Short sale credits not yet processed by Freddie Mac	▪ Payments deposited for loans not sold to us ▪ Interest on new fundings due in future cycles, and not included on the prepaid report ▪ Amortization differences when your prepaids are greater than your delinquents from the prepaid report ▪ Servicing spreads deposited into the custodial account

The Cumulative Variance Log

While the *Current Cycle Variance Log* allows you to record and itemize current cycle variances only, the cumulative variance log tracks all variances outstanding as of the end of the accounting cycle. Use the *Cumulative Variance Log* to track all unresolved variances as of the end of the accounting cycle regardless of the cycle it originated. In order to properly manage your principal and interest custodial account(s), corrective action must be taken to remedy all outstanding variances. (This is step 7 of the Reconciliation Process described in Chapter 4.)

Current Cycle Cumulative Variance Log
Date __MM/YYYY___

Orig Cycle	Type	Servicer Loan Number	Freddie Mac Loan Number	Transaction/Description	C/P	Date Adj. was made	Dollar Amount Indicate if a positive or a negative(-) amt.
				Identified Variance			0.00
				Total Current Cycle Variance			0.00
				Unidentified			**0.00**

How to Complete the Cumulative Variance Log

To use the *Cumulative Variance Log*:

1. Delete any transactions on the *Current Cycle Variance Log* that offset each other and/or offset with items found on the previous cycle's *Cumulative Variance Log*. For example, if the previous cycle's Cumulative Variance Log has $100 and the current cycle's cash receipts log has ($100), this will not flow to the *Current Cycle Variance Log*.
2. Delete any transactions on the *Current Cycle Variance Log* that offset with each other. Items can only offset if they are in the same amount and opposite signs. For example, a $20.00 cash receipt variance can cross off with a <$20.00> cash disbursement variance.

Record the remaining transactions from the *Current Cycle Variance Log* and the previous cycle's *Cumulative Variance Log* onto a new current *Cumulative Variance Log*. The total of the remaining transactions should equal, with the opposite sign, the "Total Cumulative Variance" (line 6a) of the current *Principal and Interest Custodial Account Reconciliation Worksheet*.

As stated earlier in this chapter, we recommend you carry amounts to be deposited to the bank account as positive adjustments and carry amounts to be withdrawn as negative adjustments.

If your total cumulative variance is negative, your bank account is short. If your total cumulative variance is positive, your bank account is over. This figure is the amount that must be deposited to or withdrawn from the bank account to clear the outstanding items.

Determine if the Variance is a Cash or Paper Adjustment

Determining whether a variance is a cash or paper adjustment will tell you what action is necessary to resolve the reconciling item. A *cash adjustment* will clear only after you make an adjustment (deposit or withdrawal) to your bank account. A *paper adjustment* will clear in the same cycle, or in a later cycle, after we process the corresponding transaction.

Chapter 8: Custodial Account Review

The Custodial Account Review is an analysis Freddie Mac performs of your Principal and Interest and Escrow custodial account reconciliations to determine compliance with our requirements. The process not only ensures our funds are safeguarded, but it can also help you better manage cash flow activities.

This chapter:

- Provides an overview of the Custodial Account Review
- Introduces the Custodial Account Review Customer Profile
- Identifies documentation to support each line item on your P&I and Escrow custodial account reconciliations.

Overview of the Custodial Account Review

Periodically, Freddie Mac conducts examinations of a Servicer's reconciliation of its Principal and Interest and Escrow Custodial Account(s). Each month, we send emails to select Servicers on a random basis, to request a Custodial Account Review.

All required documentation must be uploaded into Cash Manager via the Custodial Account Review tab. Custodial Account Review automation provides seamless communication, secure transmission of documentation and allows Servicers to track the status of the process.

For more information refer to *Single-Family Seller/Servicer Guide* (Guide) Section 8304.1 Managing Custodial Accounts.

Below is an example of a Custodial Account Review request email:

Dear Servicer,

Your institution has been selected for a custodial account review. Freddie Mac conducts monthly reviews of Servicers' custodial account reconciliation to verify compliance with the requirements detailed in Single-Family Seller/Servicer Guide Section 8304, Managing Custodial Accounts. This review also serves to evaluate your overall performance of cash and custodial account management practices.

Below are some links to custodial account reference material and tutorials offered by Freddie Mac.

- Form 59
- Form 59E
- Customer Profile
- Understanding Custodial Accounts Reference Guide
- Tutorial - Principal and Interest Custodial Account Reconciliation
- Tutorial - Escrow Custodial Account Reconciliation

Please follow the LOGIN link below to complete your review and submission.

Link to Login to Cash Manager

Our process covers a broad range of review activities. Upon receipt of your completed package, your materials will be reviewed for compliance. A letter outlining our findings and your overall compliance evaluation will be sent to you.

This request is specific to "Custodial Account Reconciliations Compliance" only. Your final Custodial Account evaluation will be based on the initial documentations received. Therefore, it is imperative for you to send us all the required documents by the requested date.

Thank you in advance for your cooperation. The review will help to ensure that your process is aligned with our mutual goals of reducing errors, increasing the level of data integrity and compliance, while maintaining quality servicing.

Please contact custodial_account_review@freddiemac.com, if you have any questions about this letter or require additional assistance.

We request reconciliations that you should already have completed. Therefore, complying with our request should simply be a matter of uploading the required reconciliation documentation into Cash Manager by the requested due date. As a reminder, your custodial accounts must be reconciled within 45 days of the end of the accounting cycle.

We review the reconciliation documentation upon receipt. You will receive feedback detailing our findings and overall evaluation assessment.

If you have any questions concerning your review, email custodial_account_review@freddiemac.com.

Custodial Account Review Customer Profile

The Custodial Account Review Customer Profile is available for download via Cash Manager. You must ensure you complete this profile and upload it back into Cash Manager as part of the required documentation. This provides additional information to assist Freddie Mac with the review of your custodial account reconciliations.

Custodial Account Review Customer Profile
SELLER/SERVICER NAME
SELLER/SERVICER NUMBER
NAME AND NUMBER OF CONTACT/PREPARER
EMAIL ADDRESS
DATE BANK ACCOUNT ADJUSTED
AMOUNT OF LAST CUMULATIVE P&I VARIANCE (Line 6A of the most current P/I worksheet provided)
NAME OF INVESTOR REPORTING SOFTWARE OR SERVICE BUREAU
PRINCIPAL AND INTEREST
1. Do you keep funds for other investors in the Freddie Mac P/I account?
2. How often do you deposit payments to the P/I account?
3. Are the majority of your borrowers set up on automatic draft payments? If so, what are the drafting dates?
4. Are you accounting for outstanding drafts on Form 59? If so, explain the nature of the adjustment.
5. Where do you deposit partial payments?
6. When do you deposit the interest on newly funded loans to the custodial account?
7. Do you have more than one P/I bank account for Freddie Mac loans? If, so, are you completing a consolidated reconciliation of all bank accounts?
8. Is the bank account a demand deposit account or an interest-bearing account?
LIABILITY
9. Do you write checks from the custodial account? For what purpose?

10. Do you use a lockbox or a clearing account before moving funds to the Freddie Mac custodial account?
11. Do you calculate prepaid and delinquent interest on a cumulative basis?
12. Do you service odd due date loans?
13. When was the last time you repurchased a loan from Freddie Mac?
14. Do you deposit your P/I payments net of service spreads?
15. Do you have an amount on Line 6A? If yes, a completed variance log is required.
16. Have you made a deposit/withdrawal to adjust the custodial account for the variance? If so, when and how much?
ESCROW
1. Do you keep escrow funds for other investors in the Freddie Mac account?
2. Are you reconciling your escrow account to the positive escrow balance?
3. Are the majority of your borrowers on automatic draft payment? If so, what are the drafting dates?
4. How often do you fund the custodial account for negative escrow?
LIABILITY
5. How many escrow loans do you service?
6. Does your loan level trial balance net the negative and positive escrow balances? If so, how do you account for negative escrow balances?
7. How do you account for partial payments?
8. How do you reconcile your buy-down funds? (Answer if applicable)
9. How do you account for escrow payments received on newly funded loans?
10. When do you deposit escrow payments on newly funded loans to the custodial account?
11. How often do you deposit escrow payments in the custodial account?
12. Do you have more than one escrow bank account for Freddie Mac loans?
13. Do you have an amount on Line 3A? If yes, a completed variance log is required.
14. Have you made a deposit/withdrawal to adjust the custodial account for the variance? If so, when and how much?

Required Documentation

Documentation for each line item on your reconciliation worksheets must be uploaded into the Custodial Account Review tab via Cash Manager for Freddie Mac to review your custodial account reconciliations. The following table lists required documentation to support each line item on your custodial account reconciliation worksheets. To complete our custodial account review, we must be able to identify where you obtain the numbers reflected on your reconciliation worksheets.

Principal and Interest Custodial Account Documentation

The following identifies the required documentation for Form 59*, Principal and Interest Custodial Account Reconciliation Worksheet*.

Form 59 Section	Line Item	Required Documentation
Adjusted Bank Balance	Bank Balance	Bank Statement (Disclose all bank accounts where Freddie Mac has an interest.)
	Deposits in Transit	The bank statement(s) or the monthly collections report(s) that reflect collections as of the end of the accounting cycle that are deposited the first business day after the cycle being reconciled.
	Outstanding Debits	The bank statement(s) or the monthly collections report(s) showing withdrawals initiated as of the end of the accounting cycle that are debited the first business day after the cycle being reconciled.
Total Liability	Ending MAS Balance	Ending balance of *Monthly Account Statement*. Include a copy of the final *Monthly Account Statement* for the cycle you are reconciling.
	Cumulative Delinquent Interest Advanced	Delinquent Interest on Active/Inactive Mortgages - Last page from your delinquent report showing totals. Indicate if the values are net or gross of servicing.
	Cumulative Prepaid Interest	Prepaid Interest - Last page from Prepaid report showing totals.
Total Variance	Repurchases	Copy of the cycle's payoff report with the loan highlighted.
	Newly Funded Loans	Copy of the *Funding Detail Report*.
	Investment Interest	Copy of bank statement with amount highlighted.
	Amortization Differences	Last page of schedule or report reflecting amortization differences.
	Unidentified Variances	Provide bank statements showing verification of deposit/withdrawal correcting the variances. Any variance, even if unidentified, must be funded within 90 days.

Escrow Custodial Account Documentation

The following identifies the required documentation for Form 59E*, Escrow Custodial Account Reconciliation Worksheet*.

Form 59E Section	Line Item	Required Documentation
Adjusted Bank Balance	Bank Balance	Bank statement (Disclose all bank accounts where Freddie Mac has an interest.)
	Deposits in Transit	The bank statement(s) or the monthly collections report(s) that reflect collections as of the end of the accounting cycle that are deposited the first business day after the cycle being reconciled.
	Outstanding Debits	The bank statement(s) or the monthly collections report(s) that reflect withdrawals initiated as of the end of the accounting cycle that are debited the first business day after the cycle being reconciled.
Total Liability	Escrow Balance	The last page of your trial balance that supports the total escrow liability.
	Negative Escrow	You are required to advance funds to maintain a positive escrow balance at all times. Provide supporting documentation for this activity such as the escrow trial balance or calculator tape of negative escrow balances with loans highlighted.
	Adjustments for Suspense Accounts	The last page of your trial balance that supports the total suspense liability.
	Adjustments for Mortgages not included on Trial Balance	Screen print of the loan history that verifies the escrow balance as of the end of the accounting cycle.
	Adjustments for Other Accounts	Any other funds held on behalf of the borrower (for example, buydowns or replacement reserves). Provide the last page of the trial balance that supports the amount itemized.
Total Variance	The following are examples of items that may comprise the total variance.	
	Posting error	Copy of the transaction that was made in error with the documentation for the correcting entry.
	Unidentified Variances	Provide bank statement(s) that reflect verification of deposit/withdrawal correcting the variances. Any variance, even if unidentified, must be funded within 90 days.

Chapter 9: Accounting for Odd Due Date Mortgages

A mortgage with payments due on the first day of the month is referred to as a *first-of-the-month due date mortgage*. The majority of mortgages originated have a payment due date on the first of the month. For example, if a mortgage has a payment due date of the first day of each month, then the April payment is due on April 1.

A mortgage with payments that are due on any day other than the first day of the month is referred to as an *odd due date mortgage*. For example, if a mortgage has a payment due date on the 10th day of each month, then the April payment is due on April 10th. This is an odd due date mortgage because the payment due date is not the 1st day of each month.

This chapter:

- Provides an overview of odd due date mortgages.
- Describes how to account for odd due date mortgages in your custodial account reconciliations.
- Explains how to calculate the following for odd due date mortgages:
  - Prepaid interest collected
  - Monthly interest
  - Prepaid and delinquent interest adjustments
  - Daily interest for payoffs

Payment Due Date and Payment Received Date

It is the *payment due date*, not the *payment received date* that determines a first-of-the-month or odd due date mortgage.

- The payment due date is the effective date stated on the note on which the payment is due every month.
- The payment-received date is the date on which the payment is actually received from the borrower.

Example: Due and Received Dates for a First-of-the-Month Mortgage

The following example explains the payment due date and payment received date for a mortgage with a first-of-the-month due date.

A mortgage has a payment due date of the 1st day of each month. You automatically draft the payment from the borrower's account each month. The April payment is due on April 1st, but you collect and apply the payment after the 1st. This is a first-of-the-month due date, even though the payment received date is after the 1st of every month.

Example: Due and Received Dates for an Odd Due Date Mortgage

The following example explains the payment due date and payment received date for a mortgage with an odd due date.

A mortgage has a payment due date of the 25th of each month. You automatically draft the payment from the borrower's account after the 25th of the month. The April payment is due on April 25th, but you collect

and apply the payment on May 1st. This is an odd due date even though the payment received date is the 1st of May.

Odd Due Date Mortgages and Cash Flow Variances

A cash flow variance is created by odd due date mortgages because the interest due period is different than for a first-of-the-month mortgage. The interest due Freddie Mac is based on the same time period as a first-of-the-month mortgage.

Determining Interest Due Freddie Mac

When reporting to Freddie Mac, we assume a first-of-the-month due date. Interest due Freddie Mac is determined the same way for both first-of-the-month and odd due date mortgages. The following are some general rules:

- Monthly interest is calculated based on the current accounting cycle's ending unpaid principal balance (UPB).
- You will calculate forecasted scheduled interest based on the current cycle's ending unpaid principal balance and the accounting net yield (ANY).
- The monthly interest calculation is based on a 12-month calendar and 360-day year. The monthly interest always corresponds to the interest due for the current calendar month.
- Daily interest due for payoffs is calculated from the first of the month up to, but not including, the payoff date.

Determining Interest Due from the Borrower

While reporting to Freddie Mac, and the funds Freddie Mac drafts, is not affected by the payment due date, the corresponding cash flow from the mortgage is. Interest due from the borrower is determined the same way for both first-of-the-month and odd due date mortgages. The difference is the time period covered.

- Monthly interest is calculated based on the previous month's ending balance.
- The interest in arrears method is used.
- The monthly interest calculation is based on a 12-month calendar and 360-day year. The interest will only correspond to the previous calendar month for a first of the month due date.
- Daily interest due for payoffs is calculated from the due date of last paid installment (DDLPI) up to, but not including, the payoff date. For a first of the month mortgage the DDLPI would be the first of the month.

Principal and Interest Adjustments

Since you report to Freddie Mac as if a loan had a first-of-the-month due date, but calculate the amount due from the borrower based on the actual due date, you need to make adjustments to the principal and interest (P&I) custodial account for interest due on odd due date mortgages when:

- Interest is deposited for new fundings
- Delinquent and prepaid interest are calculated
- Interest is deposited for payoffs

New Funding and Adjustments for Odd Due Date Mortgages

When there is a new funding that is an odd due date mortgage, you must calculate an amount of adjustment to make to your P&I custodial account.

Interest Deposit Required for Odd Due Date Mortgages

For a first-of-the-month due date mortgage, you need to fund the P&I custodial account for a month's interest if the mortgage originates with the borrower in the same calendar month as you sell the mortgage to Freddie Mac ("funding").

For an odd due date mortgage, you need to fund the custodial account if the first payment is due in the calendar month after we purchase the loan. If there is a scheduled payment in the month of funding, you need to withdraw funds. For more information, refer to the examples provided later in this chapter.

If the first payment is due:	**Then:**
The same month the mortgage funded	Withdraw the portion of the first payment that represents interest for the previous calendar month.
The month after funding	Deposit interest to cover the number of days from the first day of the month of funding to the first day covered by interest by a scheduled payment.

Source of Funds for Adjustment

The sources of funds used to make a deposit for an interest adjustment for an odd due date mortgage are the same as for a first-of-the-month due date mortgage. The sources are as follows:

- The interest we paid to you when you sold the mortgage to Freddie Mac
- The prepaid interest you collected from the borrower at origination (you need to advance for calculated differences)

Interest Collected from Freddie Mac at Funding

If you choose to report forecasted scheduled interest during the month of funding, Freddie Mac will collect the full month of scheduled interest.

We do this because in the following calendar month you will report a full month's interest to us for the calendar month of funding. The interest payment to you at funding reimburses you for the number of days in the calendar month we did not own the mortgage. Interest is calculated on a 365-day year. Following are examples of interest we pay for new fundings.

If a mortgage funds on the:	Then we pay you:
14th	13 days interest.
1st	No interest.
31st	30 days interest.

Prepaid Interest Collected from the Borrower

The first payment will include the interest due starting one month prior to the first payment due date. You collect interest from the borrower from the day of closing through the day prior to one month before the first payment due date. Examples are provided below.

For a more detailed understanding of interest collected at closing, please refer to Determining Prepaid Interest Collected in this chapter.

If a mortgage settles on:	And the first payment is due:	Then you collect interest from:	And the first payment is for:
April 5th	June 1st	April 5th – April 30th	June 1st (Includes interest for May 1st – May 31st.)
April 5th	May 5th	None.	May 5th (Includes interest for April 5th – May 4th.)
April 5th	May 10th	April 5th – April 9th	May 10th (Includes interest for April 10th – May 9th.)

Adjustments to the Custodial Account

Deposits to the principal and interest custodial account are necessary to cover the amount of interest due Freddie Mac that will not be included in the borrower's next payment. Withdrawals are necessary to cover the amount of interest that is <u>not</u> due Freddie Mac, which will be included in the borrower's next payment.

Odd Due Date Mortgage with First Payment Due the Month of Funding

If a payment is due the same month we fund a loan, part of that scheduled payment will be for the previous calendar month and will need to be withdrawn.

- Calculate the share of the interest for the current calendar month by subtracting 1 from the payment due date and dividing by 30. For example, if the payment due date is the 10th, then 9/30ths of the payment is for the current month's interest.
- Subtract the results of Step 1 from 30/30 to get the share of the interest for the previous calendar month. For example, a loan with a payment due date on the 10th would have 21/30th (30/30 less 9/30) of the interest for the previous calendar month.
- Withdraw from the custodial account the share of interest for the previous calendar month.

Adjustments for a First-of-the-Month Due Date Mortgage

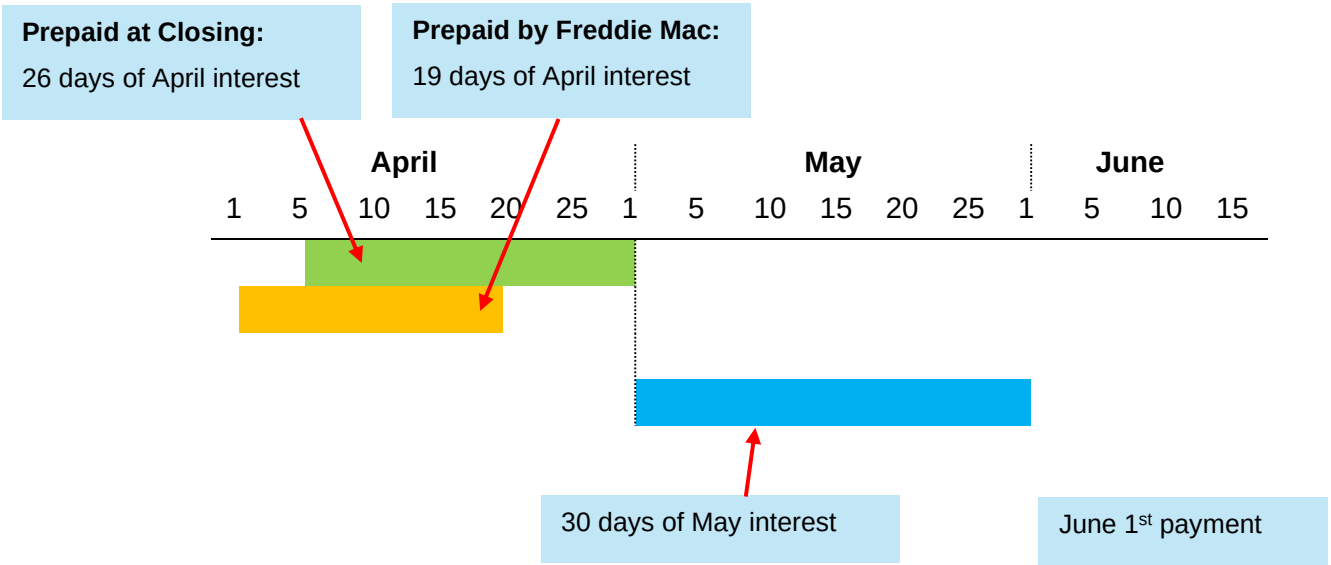
You must deposit 30 days of interest into the custodial account for a first-of-the-month due date mortgage if it settles and funds in the same calendar month.

However, when a mortgage originates on the first day of the month and the first payment is due on the first day of the following month, then the first payment will provide the interest for the calendar month of funding and no adjustment is necessary.

Example: Same Month Origination and Funding for First-of-the-Month Due Date Mortgage

Shown below is an example of adjustments that are required to the principal and interest custodial account for a first-of-the-month mortgage that originates and funds in the same calendar month. Statistics for this example are:

- The mortgage originated on April 5th.
- We funded the mortgage on April 20th.
- The first payment due date is June 1st.



26 days of April interest collected at closing from the borrower
+ 19 days of April interest collected from us at funding
= 45 days of April interest collected

30 days of April interest due to us at the May accounting cycle
+ 0 days of April interest will be due with the first payment
= 0 days of April interest must be deposited into the principal and interest account

45 days of April interest collected
- 30 days of April interest must be deposited into the principal and interest account
= 15 days interest income to you

Adjustments for Odd Due Date Mortgages with the First Payment Due the Month After Funding

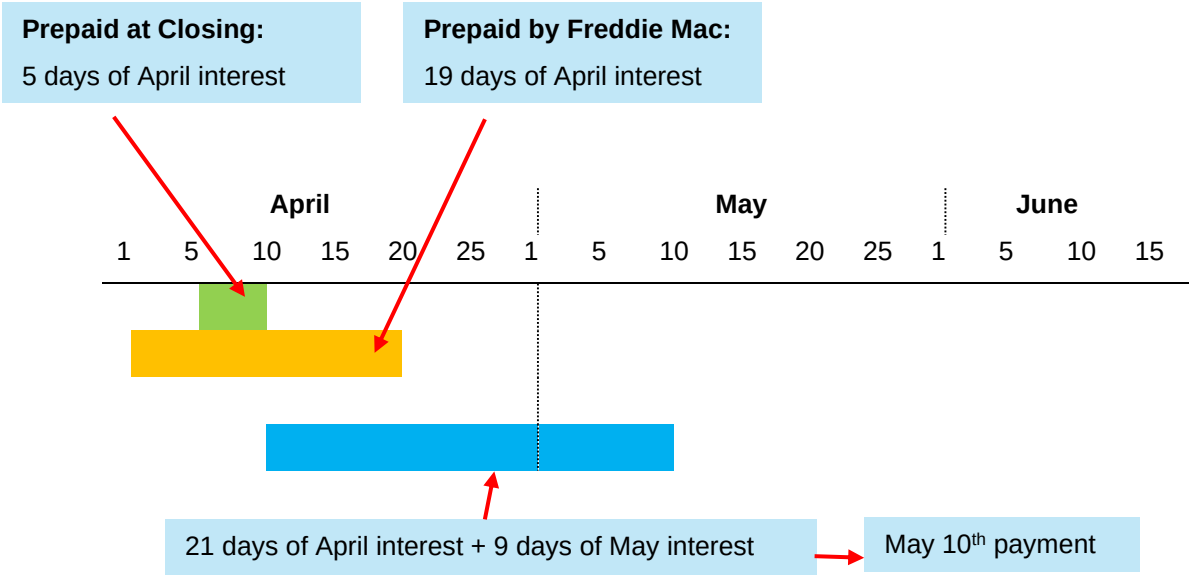
If the first payment is due in the calendar month after we purchase the loan, part of the first scheduled payment will be for the calendar month of funding, but it will not cover the entire month. The difference needs to be deposited. To calculate how much to deposit, perform the following steps.

- Calculate the share of the interest not covered by the first payment by subtracting 1 from the payment due date and dividing by 30. For example, if the payment due date is the 10th then 9/30ths of the month's interest will not be covered by the first payment, and 21/30ths will.
- The amount correlating to the percentage not covered by the first payment needs to be deposited into the custodial account (9/30ths of the monthly interest in this example).

Example: Odd Due Date Mortgage with Payment Due the Month Following Funding

Shown below is an example of an odd due date mortgage with a first payment due the month following funding. Statistics for this example are

- The mortgage funded on April 20th and the first payment is due May 10th.
- The mortgage originated April 5th.
- Nine days of interest must be deposited into the principal and interest account.
- The May 10th mortgage payment includes 9 days of May interest and 21 days of April interest.
- Nine days of interest must be adjusted.



5 days of April interest collected at closing from the borrower
<u>+ 19 days of April interest collected from us at funding</u>
= 24 days of April interest collected

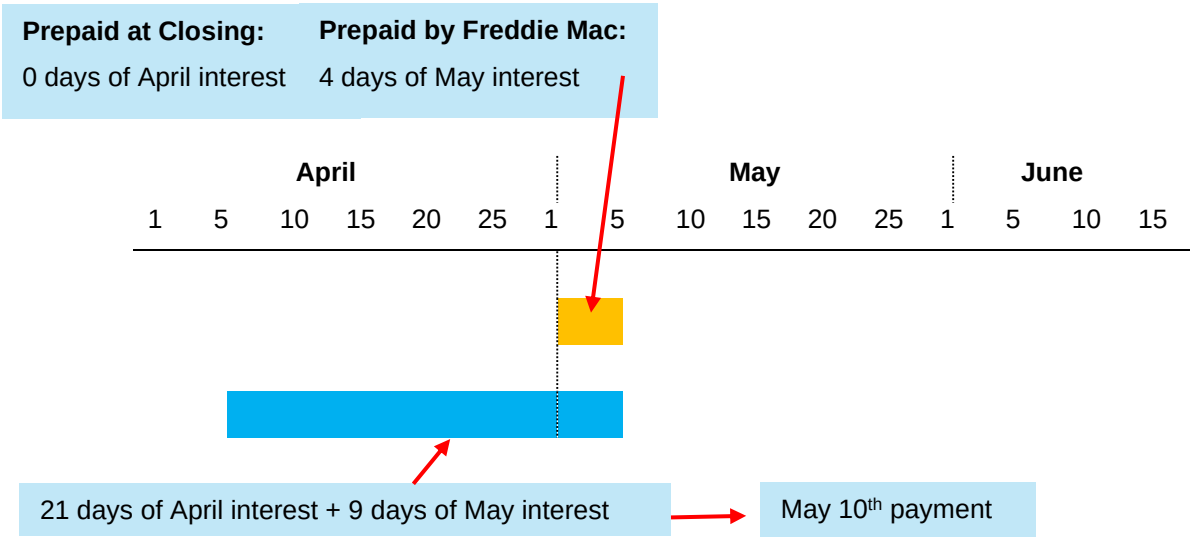
30 days of April interest due to us at the May accounting cycle
<u>- 21 days of April interest will be due with the first payment</u>
= 9 days of April interest must be deposited into the principal and interest account

24 days of April interest collected
<u>- 9 days of April interest must be deposited into the principal and interest account</u>
= 15 days interest income to you

Example: Odd Due Date Mortgage with First Payment and Funding in the Same Month

Shown below is an example of an odd due date mortgage for which the first payment and funding occur in the same month. Statistics for this example are:

- The mortgage funded on May 5th
- The first payment is due May 5th.
- 26 days of interest must be withdrawn from the principal and interest account (if the May payment is deposited in full).
- The May 5th payment includes 4 days of May interest and 26 days of April interest.
- 26 days of April interest must be adjusted.



4 days of May interest is collected at funding

<u>+ 4 days of May interest is collected with the May payment</u>

= 8 days of May interest collected

<u>- 4 days of May interest deposited with the May payment</u>

= 4 days of interest income to the Servicer

0 days of April interest is due to us

<u>- 26 days of April interest is due with the May payment</u>

= 26 days of April interest must be withdrawn
(if the May 5 payment is deposited in full) from the principal and interest account

Determining Prepaid Interest Collected

This following compares the calculations and time periods for the prepaid interest you collect from the borrower at the time of mortgage origination (settlement) for both first-of-the-month and odd due date mortgages.

Prepaid Interest

At mortgage origination, interest is collected for the time period beginning with the settlement date up to, but not including, the first payment due date. This is often called prepaid or per diem interest collected at closing. The settlement date and the first payment due dates are used to determine prepaid per diem interest.

Definitions: Settlement Date and First Payment Due Date

The definitions for settlement date and first payment due date are provided below:

- The settlement date is the date of the mortgage note, also known as the origination date.
- The first payment due date is the date that the borrower's first monthly installment of principal, interest, and, if applicable, escrow is due. This date is documented on the mortgage.

First Payment Due Date for First-of-the-Month Mortgages

The maximum number of days allowed between mortgage origination and the first payment due date is 62.

First-of-the-month mortgages usually have the first payment due on the first day of the calendar month two months after the origination month.

- Mortgages that originate in April have the first payment due June 1st.
- Mortgages that originate in May have the first payment due on July 1st.

First Payment Due Date for Odd Due Date Mortgages

The first payment due date for an odd due date mortgage is determined differently than for a first-of-the-month due date mortgage. The first payment due date is based on either the settlement date or a specific calendar date.

If the first payment due date will be on the same calendar date in the following month as the settlement date, the borrower does not have to pay prepaid interest at settlement. The following table provides examples of first payment due dates based on the settlement date.

If a mortgage settles on:	**Then the first payment is due on:**
April 5th	May 5th
April 16th	May 16th

The following tables provide examples of first payment due dates based on specific calendar dates:

If a mortgage will have payments due on the 10th of the month and the mortgage settles on:	Then the first payment is due on:
April 5th	May 10th (June 10th will be past the 62 day maximum)
April 11th	June 10th
April 21st	June 10th

If a mortgage will have payments due on the 20th of the month and the mortgage settles on:	Then the first payment is due on:
April 5th	May 20th
April 11th	May 20th
April 21st	June 20th

Calculating the Amount of Prepaid Interest Collected from the Borrower

The settlement sheet provided at settlement will list the actual dollar amount of prepaid interest collected from the borrower and the exact dates the interest covers.

Following is the calculation for the amount of prepaid interest to collect from a borrower.

Unpaid principal balance x Note Rate x Number of actual days from settlement to the end of the month (or period not covered by the first payment) ÷ 365

- For a refinance, the calculation uses the number of actual days from settlement to after the rescission date.
- The number of days of prepaid interest should be the number of days from (and including) the settlement date through (and including) the date that is one month and one day before the due date of the first monthly payment, up to but not including the first payment due date.

Prepaid Interest Collected for a First-of-the-Month Due Date Mortgage

The table below provides examples of the number of days of prepaid interest that are collected for first-of-the-month due date mortgages.

If a mortgage originates on:	And the first payment is due:	Collect interest for:	For the period of:
April 5th	June 1st	26 days	April 5th – 30th

If a mortgage originates on:	And the first payment is due:	Collect interest for:	For the period of:
April 29th	June 1st	2 days	April 29th – 30th
May 5th	July 1st	27 days	May 5th – 31st

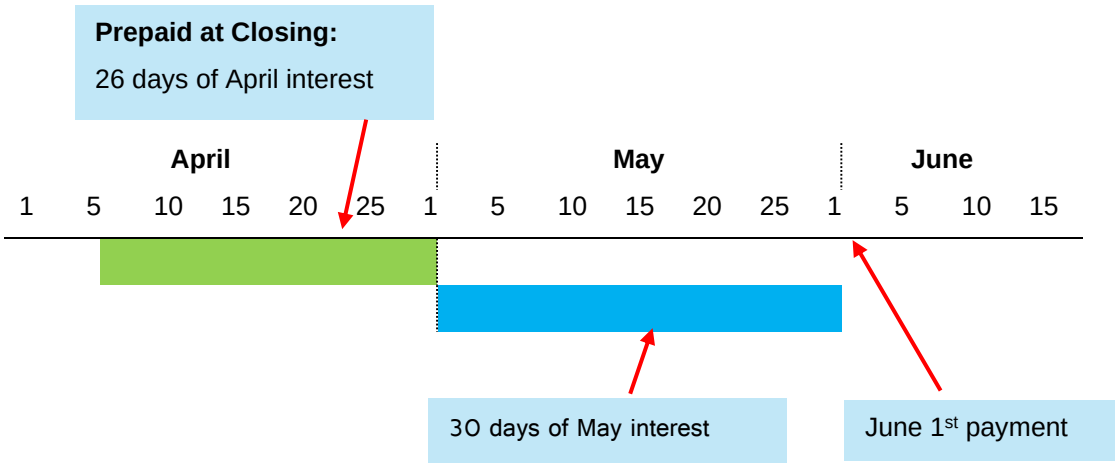
Prepaid Interest Collected for an Odd Due Date Mortgage

The table below provides examples of the number of days of prepaid interest that are collected from the borrower for odd due date mortgages.

If a mortgage originates on:	And the first payment is due:	Collect interest for:	For the period of:
April 5th	May 5th	0 days	N/A
April 5th	May 19th	14 days	April 5th – 18th
May 5th	July 10th	5 days	May 5th – 9th

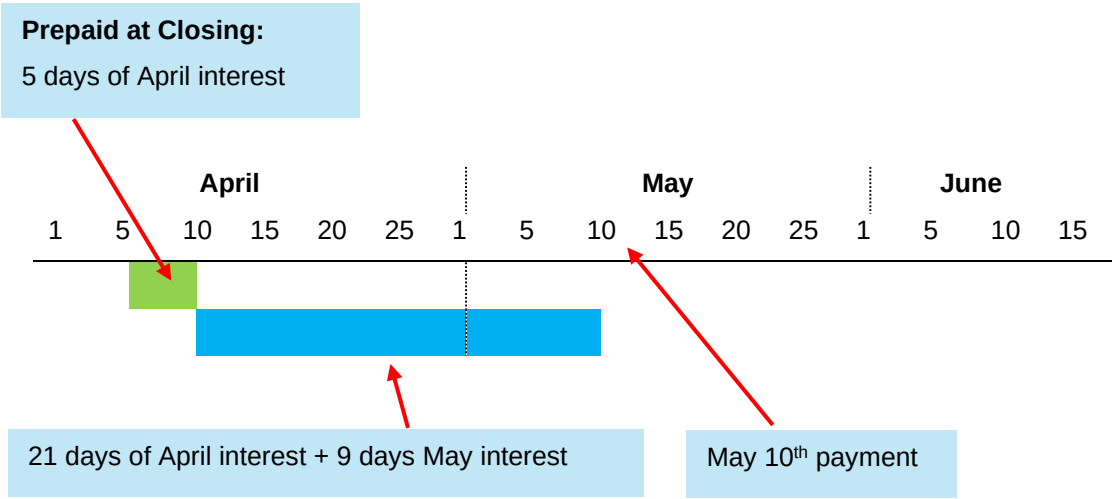
Example: First-of-the Month Due Date Mortgage

The timeline below shows a first-of-the-month due date mortgage that settles on April 5th, with a first payment due on June 1st.



Example: Odd Due Date Mortgage

The timeline below shows an odd due date payment date that originates on April 5th with a first payment due on May 10th.



Determining Monthly Interest

There are differences between the time periods covered by the monthly interest payment and the corresponding interest-paid-to-date for both first-of-the-month due date and odd due date mortgages.

Monthly Interest Due from the Borrower

You calculate monthly interest due from the borrower the same way for both first-of-the-month due date mortgages and odd due date mortgages.

- Monthly interest is calculated based on the balance after applying the previous month's payment.
- The interest in arrears method is used.
- The monthly interest calculation is based on a 360-day year: Unpaid principal balance x Interest rate ÷ 12

Time Period Covered by the Monthly Payment

For both first-of-the-month due date mortgages and odd due date mortgages, monthly interest is calculated using 30 days, regardless of the number of actual days in the time period. For example, monthly interest for February, March, and April is for 30 days each, even though the actual numbers of calendar days are different.

Interest Included in the Payment

The monthly payment includes interest for the calendar month through the day prior to the payment due date.

A payment due on

- May 1st includes interest from April 1st through April 30th
- June 1st includes interest from May 1st through May 31st
- June 10th includes interest from May 10th through June 9th

Interest-Paid-Through Date

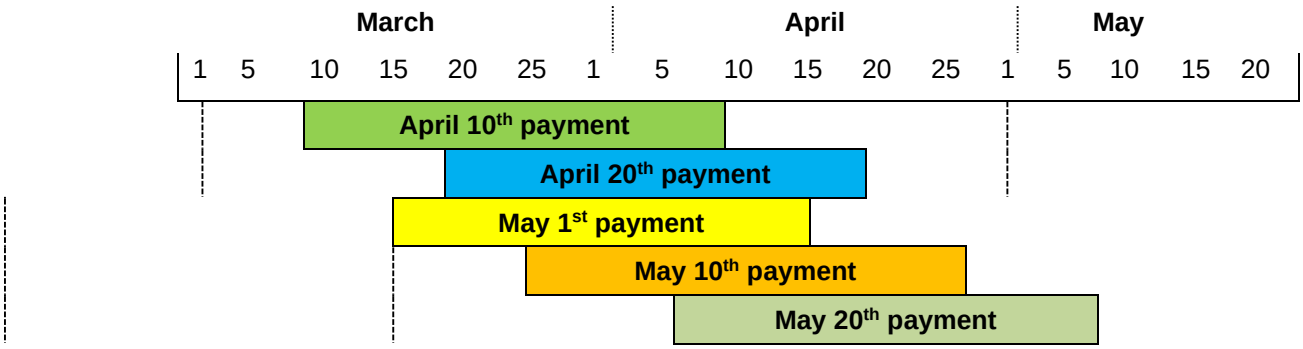
The interest-paid-through date on first-of-the-month and odd due date mortgages is the day prior to the due date of the last paid installment. For a first-of-the-month due date mortgage, the interest-paid-through date is the last day of the previous calendar month. For a mortgage with a payment due date of the 10th of the month, the interest-paid-through date is the 9th. For a mortgage with a payment due on the 20th of the month, the interest-paid-through date is the 19th.

Differences

Following are two examples of monthly interest collected for odd due date mortgages. Both mortgages calculate interest for a 30-day period, however one due date is the 10th and one is the 20th of the month. Since interest includes a total of 30 days, some for the previous calendar month and some for the current calendar month, the total monthly interest for a calendar month will be in two payments.

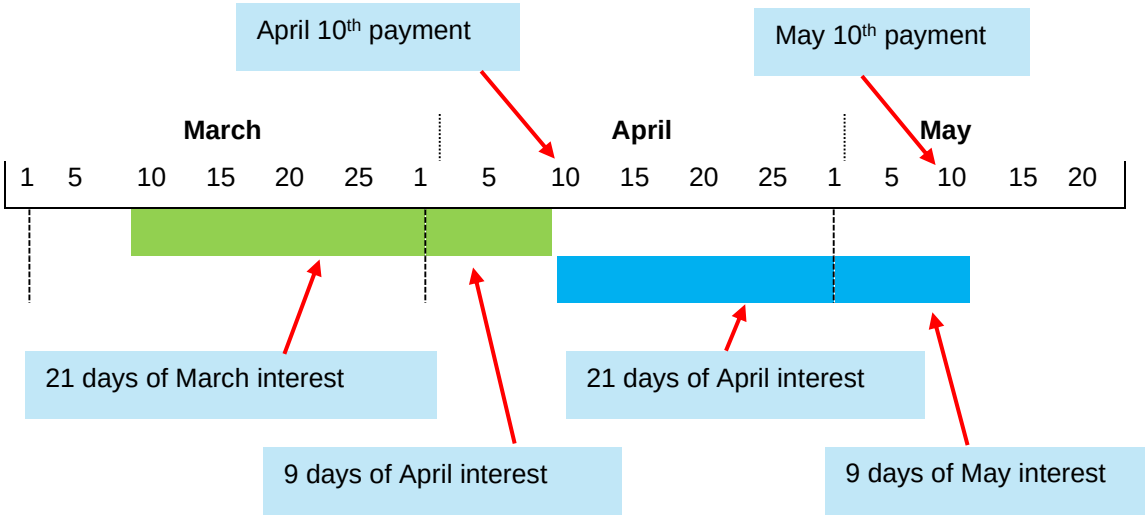
Timeline Example

The following timeline illustrates the different time periods covered by payments with different due dates. The timeline shows the time periods covered for the April and May payments for mortgages with due dates on the 1st, 10th and 20th of the month.



Example: Payment Due on the 10th of the Month

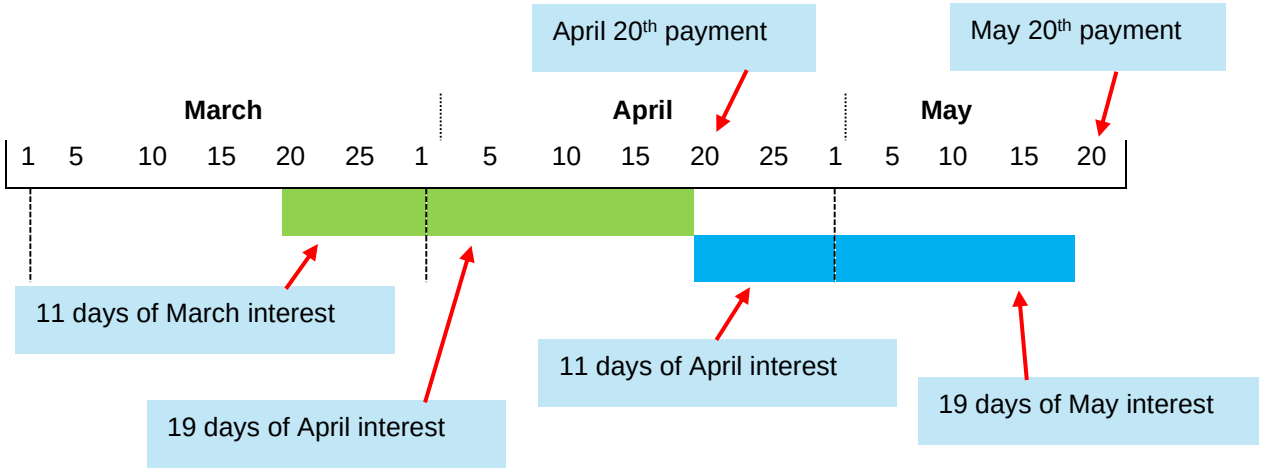
Shown below is a timeline illustrating the time period covered by a borrower's April and May mortgage payments due on the 10th of the month.



- The April 10th payment includes 21 days of March interest and 9 days of April interest.
- The May 10th payment includes 21 days of April interest and 9 days of May interest.

Example: Payment Due on the 20th of the Month

Shown below is a timeline illustrating the time period covered by April and May mortgage payments due on the 20th of the month.



- The April 20th payment includes 11 days of March interest and 19 days of April interest.
- The May 20th payment includes 11 days of April interest and 19 days of May interest.

Prepaid and Delinquent Interest Adjustments

This following explains how odd due date mortgages impact delinquent and prepaid interest calculations. Principal is not impacted regardless of the accounting method you use.

Overview

When you complete Form 59, *Principal and Interest Custodial Account Reconciliation Worksheet*, you make an adjustment for delinquent and prepaid interest. The adjustment for delinquent interest is necessary because you reported interest that has not been collected. The adjustment for prepaid interest is necessary because you collected interest that has not been reported.

Since the interest due reported to Freddie Mac is based on a first-of-the-month due date, there is a different time period for interest on an odd due date mortgage. This difference requires an adjustment to your account for delinquent and prepaid interest on your Form 59.

Two Methods

Listed below are the two ways to account for odd due date mortgages when calculating delinquent and prepaid interest. The first bullet is recommended.

- Splitting the interest between calendar months.
- Assigning the interest to a calendar month.

Interest Splitting Method

The interest splitting method involves splitting the interest portion of a payment to allocate part of the interest to the previous calendar month and part to the current calendar month. Every odd due date mortgage will always have some delinquent or prepaid interest, even when it is current.

The interest allocation ratio for the current month is: (The due date - 1) ÷ 30

The interest allocation ratio allocated to the previous calendar month is: (1 - The current month ratio)

Example:

The table below shows the interest split for payments with due dates of April 10th and April 20th. Each portion of the interest is allocated to the applicable month it accrued.

If the due date is:	The current month allocation ratio is:	The previous month allocation ratio is:	The interest split is:
April 10th	9 days (10-1) divided by 30 (10-1)/30 = 9/30	21 days 1-(9/30) = 30/30-9/30 = 21/30	9/30ths of the interest is April interest and 21/30ths of the interest is March interest
April 20th	19 days (20-1) divided by 30 (20-1)/30 = 19/30	11 days 1- (19/30) = 30/30 - 19/30 =11/30	19/30ths of the interest is April interest and 11/30ths of the interest is March interest

Delinquent and Prepaid Adjustment

The interest portion of a payment received that is allocated to the month of the current accounting cycle is carried as prepaid interest. The interest portion of a payment not received, that is allocated to the previous calendar month is carried as delinquent interest.

For example, in the April cycle you are reporting March interest. For a first-of-the-month due date mortgage, the entire interest amount is either prepaid or delinquent. When you split the interest for an odd due date mortgage, you have to account for each part of the split according to the calendar month it is for.

Example: Payment Received

Shown below is an example of a payment due in the April cycle with interest received as of the April accounting cycle.

If the due date of last paid installment is:	And, as of the April accounting cycle, the amount of March Interest received is:	Then the amount of prepaid interest is:
April 1st	All 30 days	Zero.
April 10th	All 30 days, plus 9 days of April interest	9 days. (April interest is not reported until the May accounting cycle.)

Example: Payment not Received

Shown below is an example of a payment due in the April cycle with all or most of the interest not received as of the April accounting cycle.

If the due date of last paid installment is:	And, as of the April accounting cycle, the amount of March Interest received is:	Then the amount of delinquent interest is:
March 1st	0	30 days. (March interest was reported at the April accounting cycle.)
March 10th	21 days	21 days. (March interest was reported at the April accounting cycle.)

Example: Next Reporting Cycle's Payment Received as of Cutoff

Shown below is an example of the interest from the next reporting cycle's payment is received as of the April accounting cycle.

If the due date of last paid installment is:	And, as of the April accounting cycle, the amount of March interest received is:	Then the amount of delinquent interest is:
May 1st	One month of April interest	30 days. (April interest is reported in May.)
May 10th	30 days of April interest, plus 9 days of May interest	39 days. (April interest is reported in May and May interest is reported in June.)

Field Explanations for Interest Splitting Chart

The chart below provides explanations for the due date of last paid installment (DDLPI) fields in the Example Interest Splitting Chart shown below.

Field	Description
DDLPI is for previous cycle	The payment due in the current cycle was not received as of the end of the accounting cycle. For example, if it is the April cycle and the due date is the 1st, then the DDLPI is March 1st. If the due date is the 10th, the DDLPI is March 10; and if the due date is the 20th, the DDLPI is March 20.
DDLPI is for current cycle	The payment due in the current cycle was received as of the end of the accounting cycle. For example, if it is the April cycle and the due date is the 1st, then the DDLPI is April 1. If the due date is the 10th, the DDLPI is April 10; and if the due date is the 20th, the DDLPI is April 20.
DDLPI is for next cycle	Payment due in the following cycle was received as of the accounting cutoff. For example, if it is April cycle and the due date is the 1st, then the DDLPI is May 1. If the due date is the 10th, the DDLPI is May 10; and if the due date is the 20th, the DDLPI is May 20.

Interest Splitting Chart Based on DDLPI as of the Accounting Cycle

The following chart specifies what the delinquent (DI) or prepaid interest (PPI) due to Freddie Mac would be for each mortgage based on the DDLPI as of the accounting cycle being reconciled. The monthly interest for each mortgage is based on 30 days.

Due Date	**April payment split is:**		**DDLPI is for previous cycle:**		**DDLPI is for current cycle:**		**DDLPI is for next cycle:**	
	March	April	DI	PPI	DI	PPI	DI	PPI
1	30	0	30	0	0	0	0	30
2	29	1	29	0	0	1	0	31
3	28	2	28	0	0	2	0	32
4	27	3	27	0	0	3	0	33
5	26	4	26	0	0	4	0	34
6	25	5	25	0	0	5	0	35
7	24	6	24	0	0	6	0	36
8	23	7	23	0	0	7	0	37
9	22	8	22	0	0	8	0	38
10	21	9	21	0	0	9	0	39
11	20	10	20	0	0	10	0	40
12	19	11	19	0	0	11	0	41
13	18	12	18	0	0	12	0	42
14	17	13	17	0	0	13	0	43
15	16	14	16	0	0	14	0	44
16	15	15	45	0	15	0	0	15
17	14	16	44	0	14	0	0	16
18	13	17	43	0	13	0	0	17
19	12	18	42	0	12	0	0	18
20	11	19	41	0	11	0	0	19
21	10	20	40	0	10	0	0	20
22	9	21	39	0	9	0	0	21
23	8	22	38	0	8	0	0	22
24	7	23	37	0	7	0	0	23
25	6	24	36	0	6	0	0	24

Interest Assigning Method

The interest assigning method treats a payment due within an accounting cycle as if it were due the first of the month of the accounting cycle, with the interest for the previous calendar month. When an odd due date mortgage is current, it will not have any delinquent or prepaid interest. The difference in the amount deposited at funding for an odd due date mortgage will not be accounted for with the delinquent and prepaid interest using this method and must be accounted for separately.

Assigning Interest to a Calendar Month

When accounting for odd due date mortgages by assigning interest to a calendar month, a payment due within a cycle is treated as being due on the first day of the month of the accounting cycle.

Loans with Payments Due Between the 2nd and 15th

If the odd due date mortgage has a payment due date between the 2nd and the 15th of the month, and the payment is reported by the P&I Determination Date, report forecasted scheduled interest for the following month.

Example: April cycle mortgages with payments due between the 2nd and 15th

In the April cycle, March interest is reported. A payment due April 10 is treated as a payment due April 1 and is accounted for as March interest. For the custodial reconciliation, the interest is considered delinquent if the payment is not collected by the end of the accounting cycle, and is considered prepaid if the payment due the following month is received by the end of the accounting cycle.

Loans with Payments Due Between the 16th and the End of the Month

If the odd due date mortgage has a payment due date between the 16th and end of the month, report the loan by the current cycle P&I Determination Date, regardless of whether you received a payment. If you receive the payment after the current cycle's P&I Determination Date, report the payment activity and forecasted scheduled interest due to be drafted in the following month.

Example: April Cycle - Mortgages with Payments Due Between the 16th and the End of the Month

In the April cycle, March accrued interest is drafted. A payment due April 20th is treated as a payment due May 1st and is accounted for as April interest. This is not reported to Freddie Mac until the May accounting cycle. The payment that was due March 20th was for March interest and is reported to us in April.

Determining Daily Interest for Payoffs

This section explains how to identify custodial account differences due to the amount of payoff interest collected for first-of-the-month due date mortgages and odd due date mortgages.

Daily Interest Due from the Borrower

When a mortgage pays off, interest is collected from, and including, the due date of last paid installment (DDLPI) through the day prior to payoff. Delinquent interest is brought current so that the DDLPI is the most recent one before the payoff date. Daily exception interest is collected from and including the DDLPI to the day prior to the payoff date.

If the time period between the DDLPI and the payoff date is:	**Then you collect:**
Less than one month	Daily exception interest. (If the DDLPI is not the first day of the accounting cycle.)
Equal to one month (e.g., mortgage pays off on the due date)	Delinquent interest. (If the DDLPI is less than the current accounting cycle.)
Greater that one month	Delinquent interest and daily exception interest. (If the payoff date is not the first day of the accounting cycle.)

Time Period of Daily Interest Collected

You collect interest from the DDLPI through the day prior to the payoff regardless of the payment due date. In turn, the amount of daily interest collected from the borrower will be different for mortgages that have the same payoff date but have different payment due dates.

Daily Interest Collected for Payoffs on or After their Payment Due Date

For mortgages that pay off on or after their payment due date in the same calendar month, you collect the same number of days of interest for the month of payoff (regardless of the payment due date).

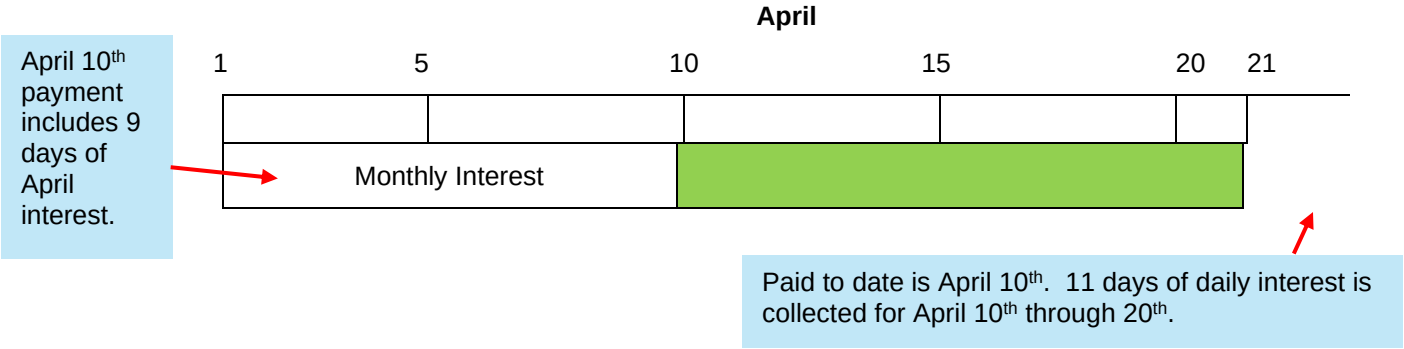
The only time you collect a different amount of total interest for an odd due date mortgage is when the mortgage pays off before the due date in the same calendar month, and the previous month did not have 30 days.

Examples: Interest Collected After the Payment Due Date

Below are two examples of timelines showing the interest collected for mortgages that pay off after the payment due date.

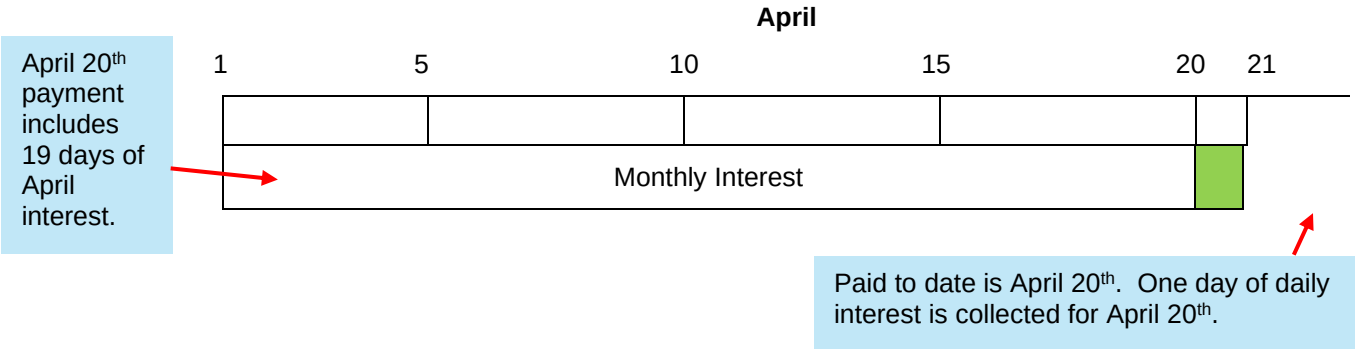
Example 1 is an odd due date mortgage with payments due on the 10th of the month. The mortgage paid off on April 21.

- Nine days of March interest were collected as monthly interest with the March 10th payment.
- Nine days of April interest were collected as monthly interest with the April 10th payment.
- 50 days of total interest were collected for March and April.



Example 2 is an odd due date mortgage with payments due on the 20th of the month. The mortgage paid off on April 21st.

- 19 days of March interest were collected as monthly interest with the March 20th payment.
- 19 days of April interest were collected as monthly interest with the April 10th payment.



Daily Interest Collected for Mortgages with a Payoff Date Before the Payment Due Date

When the payoff date for an odd due date mortgage is before the payment due date in the same calendar month, the total amount of interest collected for the preceding calendar month may be different than for a first-of-the-month due date mortgage with the same payoff date. There will always be a difference if the preceding calendar month does not have 30 days. This is because monthly interest is always based on a 30-day month for first-of-the-month due date mortgages, regardless of the actual number of days in the calendar month. For an odd due date mortgage, the part of the preceding calendar month after the payment due date is treated as daily interest instead of monthly interest. So, instead of collecting 30 days of interest for the month, you may collect 31, 29, or 28 days. The number of days of daily interest collected for the payoff month will be the same regardless of the payment due date.

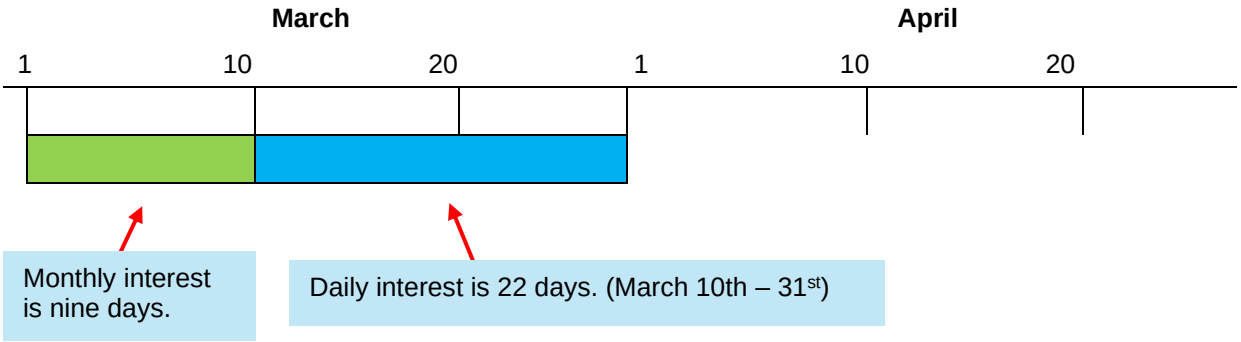
- When an odd due date mortgage pays off before its due date in January, April, June, August, September, or November, the amounts collected for monthly and daily interest for the preceding calendar month will total 31 days, one day more than if it were all monthly interest.
- When an odd due date mortgage pays off before its due date in March, the amounts collected for monthly and daily interest for the preceding calendar month (February) will be 28 days (29 in a leap year), 2 days less than if it were all monthly interest (1 day less in a leap year).

Examples: Mortgages that Pay Off on April 1st

Shown below are two examples of timelines showing mortgages that paid off on April 1st for which no interest was collected.

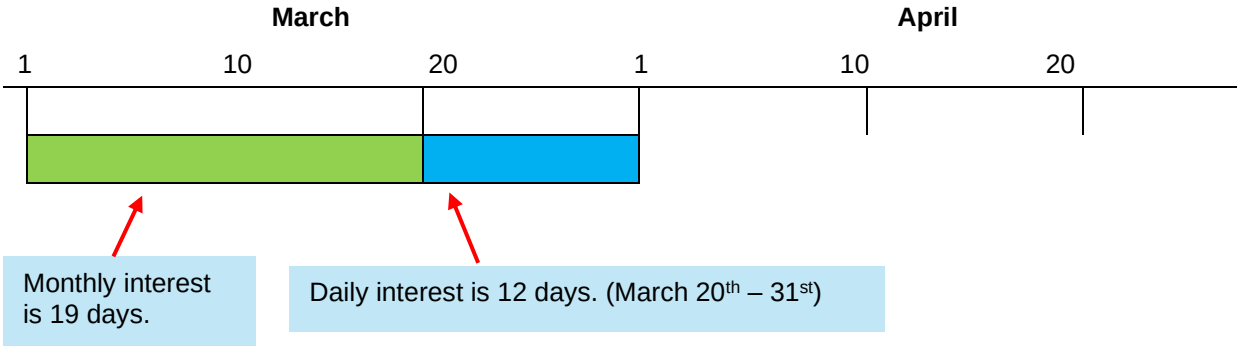
Example 1 is an odd due date mortgage with payments due on the 10th of the month, which paid off on April 1, before the payment due date.

- Nine days of March interest was collected as monthly interest with the March 10th payment.
- 22 days of March interest, collected as payoff daily interest (March 10th - March 31st).
- A total of 31 days of March interest was collected.



Example 2 is an odd due date mortgage with payments due on the 20th of the month, which paid off on April 1, before the payment due date.

- 19 days of March interest were collected as monthly interest with the March 20th payment.
- 12 days of March interest were collected as payoff daily interest (March 20th – 31st).
- A total of 31 days of March interest was collected.

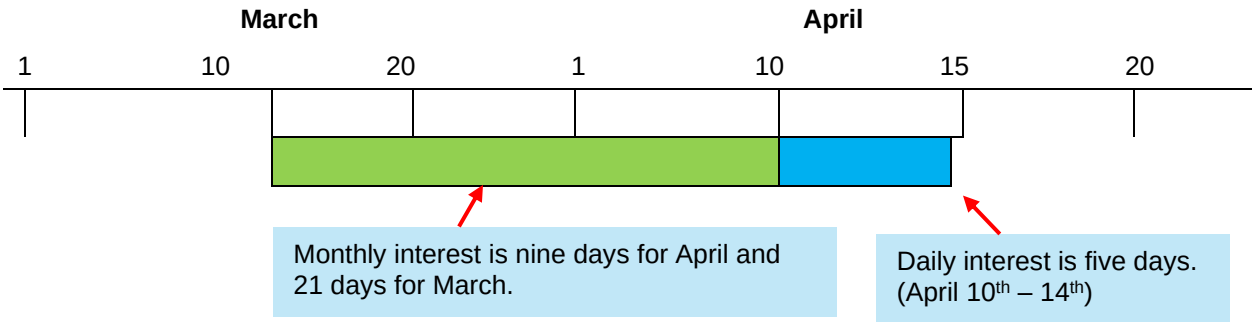


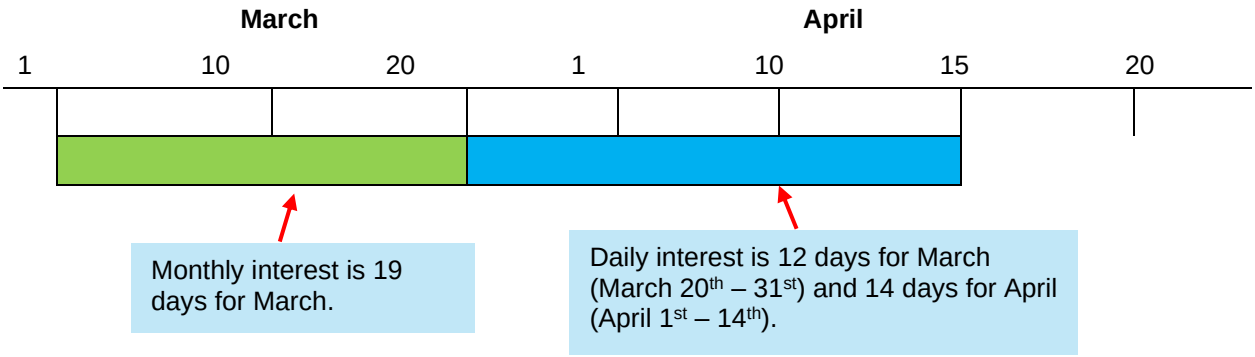
Examples: Mortgages that Pay Off on April 15th

Below are two examples timelines showing mortgages that paid off on April 15th, for which 14 days of interest were collected.

Example 1 is an odd due date mortgage with payments due on the 10th of the month. The mortgage paid off on April 15 (after the payment due date), for which 14 days of interest were collected.

- Nine days of March interest were collected as monthly interest with the April 10th payment.
- 21 days of March interest were collected as monthly interest with the March 10th payment.
- A total of 30 days of March interest was collected.
- Nine days of April interest were collected as monthly interest with the April 10 payment.
- Five days of April interest were collected as payoff daily interest (April 10th – 14th).
- A total of 14 days of April interest were collected.
- 44 days of total interest were collected for March and April.



Example 2 is an odd due date mortgage with payments due on the 20th of the month. The mortgage paid off on April 15th (after the payment due date), for which 14 days of interest were collected.

- 19 days of March interest were collected as monthly interest with the March 20th payment.
- 12 days of March interest were collected as payoff daily interest (March 20th – March 31st).
- A total of 31 days of March interest were collected.
- 14 days of April interest were collected as payoff daily interest (April 1st through April 14th).
- A total of 14 days of April interest was collected.
- 45 days of total interest were collected for March and April.