

Multifamily Seller/Servicer Guide

Chapter 52

Custodial Accounts

52.1 Freddie Mac Custodial Accounts (05/01/14)

The Servicer must establish and maintain all Custodial Accounts required by the Loan Documents and the Purchase and Servicing Documents and safeguard those accounts and any funds held for or owed to Freddie Mac. The Servicer is liable to Freddie Mac for any and all loss of funds deposited in Custodial Accounts, and for damages Freddie Mac suffers due to delays in obtaining custodial funds, regardless of whether the Servicer complied with the requirements of the Purchase and Servicing Documents.

The types of Custodial Accounts are

- Principal and interest Custodial Accounts
- Reserve Custodial Accounts
- Disbursement clearing Custodial Accounts

52.2 Definitions used in this chapter (12/16/15)

As used in this chapter, these terms are defined as follows:

1. Demand deposit

A deposit account from which funds may be withdrawn by the Servicer/depositor immediately and without any advance notice of intended withdrawal or any restrictions on the frequency of withdrawals

2. Disbursement clearing Custodial Account

A Custodial Account established by a Servicer, at its option, especially for drafting purposes, into which the Servicer deposits principal and interest payments immediately before remitting them to Freddie Mac

3. Eligible depository

A depository institution (including the Servicer itself) in which a Servicer may establish a Custodial Account or invest monies deposited into a Custodial Account

An eligible depository may be any one of the following:

- A Federal Reserve Bank

- A Federal Home Loan Bank, or
- A Federal Deposit Insurance Corporation (FDIC)-insured depository institution that meets the rating requirements in Section 52.2(a).

4. Interest-bearing deposit account

A deposit account such as a money market demand account or savings account from which funds may be withdrawn by the Servicer/depositor.

If the number of withdrawals is limited, the Servicer is responsible for any payments that result from excess withdrawals. The Servicer is also responsible for any losses, damages or withdrawal penalties.

5. Time deposit

Funds deposited under an agreement, bearing interest from the date of deposit through a fixed maturity date, upon which maturity date full payment of principal will be made.

6. Mutual Fund Service Agent

This option is only available for Cap Fee Reserve Funds or Principal Reserve Funds on TAH Bond Credit Enhanced Mortgages. Minimum Rating requirements for this type of Custodial Account are established at the fund level. See Guide Section 28. 18(b) or the loan-level Reserve Agreement for specific rating requirements.

a. Minimum rating requirements for an eligible depository (04/27/18)

An FDIC-insured depository institution must satisfy at all times the minimum rating requirements of at least two of the rating services identified below for (i) long-term senior unsecured debt obligation ratings or long-term deposit ratings and (ii) short-term unsecured debt obligation ratings or short-term deposit ratings to be considered an eligible depository.

MINIMUM RATING REQUIREMENTS

Rating Agency	Long-term Senior Unsecured Debt Obligations or Long-term Deposit Ratings	Short-term Unsecured Debt Obligations or Short-term Deposit Ratings
Standard & Poor’s Ratings	A	A-1
Moody’s Investor’s Service	A2	P-1
Fitch Ratings	A	F1

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 even if it meets Freddie Mac's minimum rating requirements and Freddie Mac may deem it to be ineligible. The Servicer should consider this when selecting or monitoring a depository.

b. Reserved

52.3 Principal and interest Custodial Accounts (12/16/15)

A Servicer must establish, and maintain at all times, a principal and interest Custodial Account in a demand deposit account or interest-bearing deposit account in an eligible depository, as described in Section 52.2, separate from any Reserve Custodial Account and separate from any general ledger account. If the Servicer itself is an eligible depository, the Servicer may establish and maintain an in-house principal and interest Custodial Account. The Servicer may record deposit of the funds in a general ledger account, provided that the Servicer establishes a separate demand deposit account and the general ledger account is not a substitute for the demand deposit account or interest-bearing deposit account.

The Servicer may deposit monies from a principal and interest Custodial Account in a time deposit account, provided the account meets the requirements set forth in Section 52.8.

The Servicer must deposit the following monies in a principal and interest Custodial Account:

- Principal and interest payments, including
 - All Mortgage principal and interest remitted by a Borrower to a Servicer
 - All Mortgage collections specified in Section 50.7
 - All guarantee fees
 - All monies owed on account of Mortgage repurchases reported in accordance with the provisions of Section 54.4
- Fees that a Servicer is required to remit to Freddie Mac and that the Servicer remits via Freddie Mac's automated cash remittance system (see Section 50.7 for the list of fees)
- Funds received on a Freddie Mac-owned loan and credited to a suspense account (see Section 53.3)

In establishing a principal and interest Custodial Account, the Servicer must use the Freddie Mac Seller/Servicer number that it used in connection with its agreement to service the Mortgage relating to that account. The agreement to service any particular Mortgage is found in the Letter of Commitment for that Mortgage.

A principal and interest Custodial Account must be designated exactly as shown in one of the following:

- (Name of Depositor/Servicer), as custodian and/or bailee for Freddie Mac and/or various owners of interests in Mortgages and/or mortgage-related securities and/or various mortgagors, or
- "Freddie Mac P & I Custodial Account." However, if the Servicer uses the abbreviated designation, then for all purposes of the Purchase and Servicing Documents and with respect to all rights and interests of Freddie Mac and/or various owners of interests in Mortgages and/or Mortgage-related securities and/or mortgagors, the abbreviated account designation will be deemed to be the same as the unabbreviated account designation and will be deemed to confer upon Freddie Mac and those persons the same rights and interests with respect to the principal and interest Custodial Account and the funds deposited or held in the account.

52.4 Reserve Custodial Accounts (09/25/15)

A Servicer must establish, and maintain at all times, one or more Reserve Custodial Accounts, separate from any principal and interest Custodial Account, and separate from any general ledger account, in an eligible depository, as described in Section 52.2.

If the Servicer itself is an eligible depository, the Servicer may establish and maintain these accounts in-house. The Servicer may record the deposit of funds in any of these Custodial Accounts in a general ledger account, provided that the Servicer establishes a separate account and the general ledger account is not a substitute for that account.

In establishing the Reserve Custodial Accounts, the Servicer must use the Freddie Mac Seller/Servicer number that it used in connection with its agreement to service the Mortgage relating to that account. The agreement to service any particular Mortgage is found in the Letter of Commitment for that Mortgage.

The Reserve Custodial Accounts must each be titled exactly in the following manner:

(Name of Depositor/Servicer), as trustee for Freddie Mac

The Servicer must deposit the following monies in the applicable Reserve Custodial Account:

- Reserve funds remitted to the Servicer by a Borrower
- Deficient payments credited to a Borrower's Reserve balance (see Section 53.3)

The Seller/Servicer must ensure that it establishes an appropriate number of Reserve Custodial accounts to:

- Meet the requirements of the Guide, the Loan Documents and the Purchase and Servicing Documents
- Enable the Seller/Servicer to properly account for, reconcile and report on all Reserve funds as required by Sections 54.10 and 54.13.

If a Seller/Servicer does not meet the requirements of this Section, Freddie Mac may require that one or more Reserve funds be deposited in a separate account.

52.5 Disbursement clearing Custodial Accounts (10/31/12)

A Servicer may, but is not required to, establish and use a disbursement clearing Custodial Account. A Servicer that uses a disbursement clearing Custodial Account must establish each such account in a demand deposit account, separate from any general ledger account, in an eligible depository, as described in Section 52.2. A Servicer that establishes a disbursement clearing Custodial Account may establish and maintain the account in-house if the Servicer itself is an eligible depository. The Servicer may record the deposit of the funds in a general ledger account, provided that the Servicer establishes a separate demand deposit account and the general ledger account is not a substitute for the demand deposit account. A disbursement clearing Custodial Account must be designated in exactly the same manner as a principal and interest Custodial Account.

52.6 Establishing a Custodial Account (05/01/14)

When a Servicer begins Servicing one or more Mortgages for Freddie Mac, the Servicer must immediately establish the types of Custodial Accounts required by this chapter in the manner prescribed.

When a Servicer establishes a Custodial Account, the Servicer must send to Freddie Mac *Customer Compliance Management*

- The remittance instructions for the new Custodial Account [Draft Letter of Authorization (Exhibit 5)]
- A copy of the bank statement or signature card for the new Custodial Account with the completed and executed applicable letter agreement prescribed by Section 52.6(a) or 52.6(b) (The documentation must identify the depository institution at which the account is maintained and the bank account number.)

Freddie Mac may require up to 15 Business Days from the date Freddie Mac receives this documentation to process remittance instructions for new Custodial Accounts. A Servicer should not use a newly established Custodial Account until after it has received notification from Freddie Mac that the new instructions have been processed.

When a Servicer closes a Custodial Account, the Servicer must send a notice to Multifamily_Eligibility@FreddieMac.com, along with a bank statement confirming a zero balance at the time the Custodial Account was closed.

a. Establishing an in-house Custodial Account (06/25/20)

A Servicer that maintains Custodial Accounts in-house must complete, execute and return to Freddie Mac, at the address indicated on the form, the following additional original forms, as applicable:

- Form 1059, Letter Agreement for Principal and Interest or P&I Disbursement Clearing Custodial Account (The letter agreement is not required for a principal reserve fund established for Multifamily Housing Bond Credit Enhancements and which is normally held by the bond trustee or, when so demonstrated by Servicer, other accounts established pursuant to the Trust Indenture.)

- Form 1060, Letter Agreement for Reserve Custodial Account

b. Establishing a Custodial Account in another institution (06/25/20)

A Servicer that does not maintain a Custodial Account in-house must complete, execute, and cause the depository institution that maintains the account to execute and return to Freddie Mac, at the address indicated on the form, the following additional original forms, as applicable:

- Form 1057, Letter Agreement for Servicer's Principal and Interest or P&I Disbursement Clearing Custodial Account
- Form 1057A, Letter Agreement Securities Custodial Account for Tax-exempt Bond Transactions for a principal reserve fund or Cap Fee Reserve established for Multifamily Housing Bond Credit Enhancements
- Form 1058, Letter Agreement for Servicer's Reserve Custodial Account

52.7 Deposits to Custodial Accounts

a. Borrower payment sent to the Servicer (10/31/12)

All principal and interest payments and all Reserve funds must be deposited into the applicable Custodial Accounts no later than the first Business Day after their receipt by the Servicer.

b. Borrower payments sent to a lockbox (12/16/15)

If a Servicer requires Borrowers to remit Mortgage payments (including partial payments and monies to be applied at a future date) to a lockbox service or other agent, the agent must deposit all payments into a Mortgage payment clearing account no later than the first Business Day after their receipt. The Servicer must then deposit all of the principal and interest payments and Reserve funds into the appropriate Custodial Accounts, in accordance with the requirements of this chapter, no later than the second Business Day after the date on which the agent deposits the payments into the Mortgage payment clearing account.

A lockbox service utilized by a Servicer must be maintained at an eligible depository, as defined in Section 52.2.

c. Borrower payments collected on or prior the Freddie Mac Funding Date (09/18/14)

Any unapplied principal and interest payments and all Reserve funds collected from the Borrower on or prior to the Freddie Mac Funding Date must be deposited into the applicable Custodial Accounts no later than two Business Days after the Freddie Mac Funding Date.

52.8 Time deposits for Custodial Account funds (10/31/12)

The Servicer may invest Custodial Account funds in a time deposit at an eligible depository, as described in Section 52.2. That time deposit must mature no more than seven days after any date

on which the monies are deposited, provided, however, that

- A time deposit of monies from a principal and interest Custodial Account or disbursement clearing Custodial Account may not mature on a date after any date on which a Servicer is required to use any of those monies to make an interim or monthly remittance of principal, interest and fees due to Freddie Mac, and
- A time deposit of funds from a Reserve Custodial Account may not mature on a date after any date on which the Servicer is required to use any of those funds to pay any amount due

The designation or title of the time deposit must be exactly the same as that of the Custodial Account from which the monies were withdrawn, as set forth in Sections 52.3, 52.4 and 52.5. A time deposit made pursuant to this section may not commingle funds from the principal and interest Custodial Account with funds from any other source. The Servicer may retain any interest earned on the monies so invested.

If the Servicer invests Custodial Account funds in an institution other than the existing Custodial Account depository or depositories, the Servicer must execute and return to Freddie Mac the applicable Letter Agreement or Letter Agreements in accordance with Section 52.6.

52.9 Monitoring institutional eligibility (02/29/16)

To determine a depository institution's eligibility status (see Section 52.2) for all Custodial Accounts, the Servicer must review the most recently available ratings.

If a Servicer's depository institution (including the Servicer itself, if it is its own depository institution) becomes ineligible, the Servicer must, within 30 days of the date all applicable ratings are released, establish a new Custodial Account held in an eligible depository (as described in Section 52.2) and meet all Freddie Mac requirements for establishing that new account (see Section 52.6).

Because depository institutions rated by Fitch Ratings, Standard & Poor's Ratings Group or Moody's Investors Service may receive rating changes at any time, the Servicer must monitor them continuously and no less frequently than monthly, in order to timely establish a new Custodial Account held in an eligible depository.

Upon notification from Freddie Mac that the remittance instructions have been processed for the new Custodial Account, the Servicer must transfer monies from the former Custodial Account at the former depository institution to the new Custodial Account at the new depository institution.

The Servicer is responsible for determining the eligibility status of each depository that maintains or remits custodial funds and may not consider notification by Freddie Mac as a condition to the Servicer's obligation to transfer funds to an eligible depository. To determine a depository institution's eligibility, a Servicer may contact Multifamily_Eligibility@FreddieMac.com or may subscribe to any of the rating services at the Servicer's own expense. Freddie Mac will not assume responsibility for notifying a Servicer of an institution's eligibility status.

In addition, if a Servicer at any time obtains actual knowledge that a depository institution (including the Servicer itself, if it is its own depository institution) in which it maintains a Custodial Account is no longer an eligible depository institution, the Servicer must establish a new Custodial Account held in an eligible depository.

52.10 Changes to depository institution (06/25/20)

If the depository institution where a Custodial Account is held merges with or is acquired by another institution, resulting in a name change for the original institution, the Servicer must determine the eligibility of the new institution (see Section 52.2). The Servicer must also complete and submit a new Letter Agreement (Form 1057, 1057A, 1058, 1059 or 1060, as applicable) to Freddie Mac at the address indicated on the form in accordance with Section 52.6.

52.11 Removal of Custodial Accounts from specified depositories

a. Freddie Mac required transfers (10/31/12)

In addition to the criteria set forth in Section 52.9, Freddie Mac may, from time to time, by written notice to one or more Servicers, require Servicers to remove Custodial Accounts from specified depositories that Freddie Mac, at its sole discretion, determines may no longer hold Custodial Accounts or hold time deposits of Custodial Account monies. This written notice will state that Custodial Accounts and/or related time deposits must be removed from the specified depositories within a specific number of days. To comply with the requirements set forth in the notice, a Servicer must remove the Custodial Accounts and/or related time deposits within the period of time specified in the notice and must establish new Custodial Accounts in another eligible depository selected by the Servicer, as described in Section 52.2. If the Servicer itself is the depository specified in the notice, the Servicer must transfer monies from all of its in-house Custodial Accounts to new Custodial Accounts in an eligible depository selected by the Servicer. Freddie Mac's exercise of its rights under this section may mean that a depository that is an eligible depository, as defined in Section 52.2, may nonetheless be expressly prohibited from maintaining Custodial Accounts.

A Servicer that is required to transfer monies to a new Custodial Account in a new depository in accordance with the provisions of this section must establish this account in accordance with Section 52.6.

b. Optional transfers (10/31/12)

A Servicer maintaining custodial funds at, or remitting custodial funds through, an eligible depository institution may choose to establish a new Custodial Account at another eligible depository institution at any time. A Servicer must establish a new Custodial Account at a new eligible depository institution in accordance with the provisions of Section 52.6.

52.12 Liability for transfers (05/01/14)

Freddie Mac will not be liable to a Servicer for any costs, fees, loss of interest income or any other expenses directly or indirectly resulting from a Servicer being required to transfer monies in a Custodial Account from one depository to another pursuant to the requirements of this chapter.

52.13 Issuance and payment of sight drafts against Custodial Accounts and time deposits (10/31/12)

Freddie Mac may at any time present a sight draft in substantially the same form as the Freddie Mac Sight Draft, Form 1062, including a photographic or facsimile copy of the form, against any Custodial Account.

Upon the presentation of such a sight draft by an authorized officer, employee, representative, agent or attorney of Freddie Mac, designated as such in a Certificate of Incumbency and Authority to Draft Against Custodial Accounts, in substantially the same form as Freddie Mac Form 1061, including a photocopy or facsimile copy of that form, to a Servicer that maintains a Freddie Mac Custodial Account in-house, the Servicer must pay to the order of Freddie Mac monies held in that account in accordance with the terms of the sight draft.

52.14 Recordkeeping and reporting requirements (09/18/14)

The Servicer must at all times maintain records for each Custodial Account that accurately reflect the following information:

1. The designation of the account (in accordance with the requirements of Section 52.3, 52.4 or 52.5)
2. The account number
3. The amounts of each Borrower's principal and interest payment and Reserves remitted to the Servicer, if applicable
4. The dates on which monies were deposited in the Custodial Account
5. Freddie Mac's vested and ascertainable interest in monies deposited into each Custodial Account

The principal and interest Custodial Account must be reconciled as of the 15th day of each month to the total amount due to Freddie Mac according to the Servicer Account Statement (see Section 54.10).

Freddie Mac, at its sole discretion, may request that a Servicer submit to Freddie Mac copies of Custodial Account records such as account statements, detailed trial balances and completed reconciliations, as well as supporting documentation for these records.

See Section 54.13 for detailed requirements concerning the quarterly submission of the Reserves Reporting Template.

52.15 Reserve advances (10/31/12)

Unless the relevant Mortgage or Loan Document provisions for a Reserve provide otherwise, if the amount held in a Reserve on behalf of a Borrower is insufficient to pay charges assessed against the Property or the Borrower when due, the Servicer must cover this deficiency by making an actual deposit of its own funds into the Reserve Custodial Account prior to remitting the payment. (See Section 39.2 for more information on Reserve requirements.) For Delinquent Mortgages, the

receivable that offsets this advance by the Servicer is reimbursable in accordance with the provisions of Section 45.3. For current Mortgages, the Servicer may recover its advance from subsequent Reserve payments. The actual Reserve Custodial Account balance must always equal the sum of all Borrowers' positive Reserve balances.

52.16 Delinquent Mortgages (10/31/12)

For Mortgages using the Scheduled/Scheduled or Net Yield reporting method, all custodial monies, including those relating to Delinquent Mortgages, must be held in eligible depositories. If the amount on deposit in a Custodial Account as of the remittance date is less than the amount of the monthly remittance due to Freddie Mac on the remittance date, the Servicer must deposit sufficient monies into the account to make the total amount on deposit in the Custodial Account equal to the amount of the monthly remittance that is due. To recover these advances, the Servicer may reimburse itself from Delinquent payments from Borrowers.

52.17 Reserved (03/31/11)