

# Processing Balloon/Reset Mortgages

# Chapter 6

## Contents

Topic	Page
Overview	2
Processing Balloon/Reset Mortgages	2
Certifying Balloon Loan Modifications	3
Loan Modification Custody	4

# Processing Balloon/Reset Mortgages

---

## Overview

A Balloon/Reset Mortgage is a fixed-rate, level payment Mortgage with principal and interest payments based on an amortization schedule that would pay off the principal balance in 360 months. The unpaid principal balance (UPB) of the Balloon Note is due as a lump sum after either five or seven years on the Balloon Maturity Date, unless the Borrower exercises the Reset Option pursuant to the Balloon Note Addendum and the Balloon Option of Modification. This chapter describes the Custodians responsibilities if the Borrower elects to reset their Balloon/Reset Mortgage. Guide Chapter 83 provides detailed information on the reset process and documentation.

## Processing Balloon/Reset Mortgages

Servicers must deliver the following documentation for the Reset Mortgage to the Custodian that holds the original Note in time for the documents to be certified:

- Multistate Balloon Loan Modification (Form 3293). See Guide Exhibit 4, Single-Family Uniform Instruments
- Custodial Certification Schedule Balloon Loan Modification (Form 1034B)

# Processing Balloon/Reset Mortgages

## Certifying Balloon Loan Modifications

The Form 1034B must be delivered to Freddie Mac no later than 10 calendar days after the Balloon Maturity Date. For any Form 1034B received after the 10th calendar day, the Servicer will be assessed a one-time late charge of \$100.

The Custodian must verify that the information on the executed Balloon Loan Modification (Form 3293) is complete and matches the information on Form 1034B as detailed in the following chart.

Data Elements	Is there a discrepancy?
Freddie Mac loan number	<p><b>No:</b></p> <ul style="list-style-type: none"> <li>▪ Certify the Balloon Loan Modification.</li> </ul> <p><b>Yes:</b></p> <ul style="list-style-type: none"> <li>▪ Notify the Servicer immediately.</li> <li>▪ Return the documentation to the Servicer for correction.</li> <li>▪ Wait for replacement documentation from the Servicer.</li> <li>▪ Execute Form 1034B when the correction is completed or you receive new documentation.</li> </ul>
Property address <ul style="list-style-type: none"> <li>▪ Property street address</li> <li>▪ Property city</li> <li>▪ Property state</li> <li>▪ Property Zip Code</li> </ul>	
Principal amount	
Principal & Interest (P&I) amount	
Balloon Maturity Date	
Seller/Servicer	
Interest Start Date	
First P&I Payment Due Date	
Payment start date	

# Processing Balloon/Reset Mortgages

---

## Loan Modification Custody

The Servicer and Custodian must both sign and date Form 1034B to acknowledge the delivery is complete and accurate, and that it satisfies the requirements for Balloon Loan Modification certification.

The Custodian must also:

1. Make two copies of Form 1034B.
2. Retain one copy, either as an image or for at least three months after the date of certification.
3. Send the remaining copy and the original to the Servicer.
4. Attach one executed Balloon Loan Modification to the Balloon Note.

After certification, the Custodian must attach the Balloon Loan Modification to the original Balloon Note held in the Note file.

The Custodian may deliver the certified Form 1034B directly to DCO with the Servicer's permission. The Servicer is ultimately responsible for ensuring that we receive Form 1034B no later than 10 calendar days after the Balloon Maturity Date, and may incur a penalty if the Form 1034B is not received by the deadline or if DCO cannot certify the Balloon Loan Modification. See Guide Section 83.103.



If the Custodian is unable to locate the original Balloon Note, the Servicer must contact DCO.