

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 on the Balloon Maturity Date is due as a lump sum after either five or seven years, unless the Borrower exercises the Reset Option pursuant to the Balloon Note Addendum and the Balloon Option of Modification. This chapter describes the Document Custodian's responsibilities if the Borrower elects to reset their Balloon/Reset Mortgage. [Guide Section 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 Document 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 Document 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 Element	Is there a discrepancy?
Freddie Mac loan number	No:
Mortgaged Premises address <ul style="list-style-type: none"> ▪ Property street address ▪ Property city ▪ Property state ▪ Property Zip Code 	<ul style="list-style-type: none"> ▪ Certify the Balloon Loan Modification. Yes: <ul style="list-style-type: none"> ▪ Notify the Servicer immediately
Principal amount	<ul style="list-style-type: none"> ▪ Return the documentation to the Servicer for correction
Principal & Interest (P&I) amount	<ul style="list-style-type: none"> ▪ Wait for replacement documentation from the Servicer
Balloon Maturity Date	<ul style="list-style-type: none"> ▪ Execute Form 1034B when the correction is completed or you receive new documentation
Seller/Servicer	
Interest Start Date	
First P&I Payment Due Date	
Payment start date	

Processing Balloon/Reset Mortgages

Loan Modification Custody

The Servicer and Document 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 Document 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 second copy and the original to the Servicer.
4. Attach one executed Balloon Loan Modification to the Balloon Note, and retain it in the Note file.

The Document Custodian may deliver the certified [Form 1034B](#) directly to DCO with the Servicer's permission. The Servicer is ultimately responsible for ensuring that Freddie Mac receives [Form 1034B](#) no later than 10 calendar days after the Balloon Maturity Date.



A Document Custodian that is unable to locate the original Balloon Note must notify the Servicer, which must contact DCO for instructions.



A Document Custodian's delay in submitting the [Form 1034B](#) to DCO by the deadline may result in a penalty to the Servicer. See [Guide Section 83.103](#).