

Balloon Reset Mortgages

Frequently Asked Questions

Listed below are frequently asked questions about balloon/reset mortgages. After reviewing each, if you still need further assistance, please call (800) FREDDIE.

1. If I am trying to rate lock a loan after the 45th calendar day, what disposition code do I transmit?

You must transmit disposition code 'S' (Servicer-delegated review path) for reset rate locks after the 45th calendar day.

2. If the borrower responds after the 45th calendar day prior to the balloon maturity date, how can I update the disposition code?

You can update the disposition code until the last business day prior to the balloon maturity date by transmitting the applicable code through MIDANET[®] or by calling (800) FREDDIE.

3. I originally notified Freddie Mac that the borrower intended to refinance or payoff the loan. However, the borrower would now like to reset. Can the borrower still reset?

You must get the request to reset in writing, and then check to see that all the reset conditions are met (Section 83.7 of the *Single-Family Seller/Servicer Guide, Volume 2*). Once this is done, you can obtain a rate lock by updating the disposition code in MIDANET or by calling (800) FREDDIE.

If the update is between the 60th and 45th calendar days prior to the balloon maturity date and the borrower meets all of the reset conditions, you must update the disposition code from 'I' (Intended Payoff) to 'R' (Elects to Reset).

If the update is taking place between the 44th calendar day prior to maturity and the last business day prior to the balloon maturity date and there are other unmet reset conditions but those unmet conditions can be approved by you, you must update the disposition code from 'I' to 'S'. If there are unmet reset conditions that cannot be approved by you, you must update the disposition code from 'I' to 'P' (Problem loan to be sent to Freddie Mac for review).

4. The borrower intends to pay off the loan but the funds will not be received by the balloon maturity date. What do I do?

If the borrower does not reset the loan or pay it in full by the balloon maturity date, you must not accept any principal and interest payments from the borrower after the balloon maturity date other than the full balloon payment that satisfies all amounts due on the mortgage. You must report the loan as delinquent within the required time frames.

5. Borrowers occasionally respond to the Required Notice prior to the 60th calendar day before the balloon maturity date. Can I transmit a rate lock request and obtain the Freddie Mac required net yield (RNY) earlier than 60 calendar days prior to the balloon maturity date?

No, you cannot obtain the Freddie Mac RNY prior to the 60th calendar day before the balloon maturity date. The only disposition codes that can be transmitted before the 60th calendar day are 'I' (Intended Payoff) and 'P' (Problem). You must wait until the 60th calendar day prior to the balloon maturity date to transmit disposition codes 'R' (Elects to reset) or 'S' (rate lock through the Servicer-delegated review path).

6. If the 44th calendar day prior to the balloon maturity date falls on a Saturday, when should I report the "No Response From Borrower" disposition code?

If the 44th day falls on a non-business day (weekend or holiday), you must report the applicable disposition code by 4:30 p.m. Eastern time on the next business day.

7. If a balloon/reset mortgage pays off two business days prior to the 44th calendar day prior to the balloon maturity date, do I still need to transmit a disposition code?

Yes, your Investor Accounting area has two business days to report and remit the payoff activity to us. In order to meet Freddie Mac's requirement for timely disposition code transmissions, you should still transmit the intends to payoff disposition code.

8. I have a loan with an 8/1/20xx balloon maturity date that resets timely. When do I report the new rate to Freddie Mac? What is reported to Freddie Mac for the accounting cycle cutoff that happens during the month of maturity?

The new accounting net yield and reset terms for a balloon/reset loan with a maturity date of 8/1/20xx would be reported at the 9/15/20xx cutoff, assuming that the reset was received timely and certified by Freddie Mac's Document Custodial Operations (DCO). For the accounting cycle cutoff during the month the loan matures (8/15/xx), you would be reporting and remitting interest at the original accounting net yield rate.

9. If Freddie Mac's DCO is the note holder, what documentation is required in order to complete the reset transaction and when is it due? What if I use a custodian other than Freddie Mac?

If Freddie Mac's DCO is the note holder, you must deliver Form 1034B, *Custodial Certification Schedule*, along with an original, unrecorded *Balloon Loan Modification*, Form 3293, no later than 10 calendar days after the balloon maturity date.

If you use a custodian other than Freddie Mac's DCO, you must deliver Form 1034B and an original, unrecorded *Balloon Loan Modification*, Form 3293, to that custodian for certification. The custodian then retains Form 3293 and returns the completed and executed Form 1034B back to you. You must ensure that the custodian receives and certifies the documents in sufficient time to allow you to send the completed Form 1034B to Freddie Mac's DCO no later than 10 calendar days after the balloon maturity date.

10. How do I obtain MIDANET software and the reports needed to process and manage my maturing balloon/reset mortgage information?

Call (800) FREDDIE to order a free copy of MIDANET software. Request that your assigned MIDANET site is set up to receive the following balloon reset files:

- Balloon Rate Lock Data
- Balloon Reset Notification Letters
- Balloon Reset Daily Response and Rate Lock Rejection Letters
- Form 1074

11. How do I set up a separate MIDANET site location to transmit and receive balloon/reset information?

We recommend that you set up a separate site location to transmit and receive balloon/reset information. Call (800) FREDDIE to order a free copy of MIDANET software. If you choose to not set up a separate site location, please ensure that your existing MIDANET site number is set to transmit and receive balloon/reset information as stated in question 10 above.

12. How do I access the balloon rate lock function to report a disposition code through MIDANET?

1. Select **Option 4** then **Option 1** to communicate with Freddie Mac to receive data.
2. From the Main Menu select **Option 2, Service Mortgages**.
3. Select **Option 8, Balloon Rate Lock**. The Select Rate Lock Data screen will display.
4. Select the balloon/reset mortgages to view by keying in the appropriate status code or balloon maturity date. Indicate your sorting preference by the Freddie Mac loan number or the balloon maturity date. The balloon data defaults to the investor reporting MIDANET site unless another MIDANET site number has been designated.

13. Using MIDANET, how and when do I access the Form 1074, Freddie Mac Reset Mortgage Confirmation after I have rate locked a balloon/reset mortgage?

1. Select **Option 4** then **Option 1** to communicate with Freddie Mac to receive data.
2. From the Main Menu, select **Option 2, Service Mortgages**.
3. Select **Option 7, Process Form 1074**. The List of 1074 Forms Received will be displayed.

If the rate lock transmission is received by Freddie Mac between 10:00 a.m. and 4:30 p.m. Eastern time, Form 1074 will be sent the next business day following the date of transmission. If Freddie Mac receives the transmission after 4:30 p.m. and before 10:00 a.m. Eastern time, you will receive Form 1074 two business days following the date of the transmission.