

# Anti-predatory Lending Requirements



Freddie Mac actively opposes predatory lending and has implemented a number of policies designed to combat it. Freddie Mac-approved Seller/Servicers should have policies designed to identify and avoid predatory lending practices.

This quick reference summarizes what a Seller must represent and warrant when selling a mortgage to Freddie Mac. For complete information, refer to *Freddie Mac Single-Family Seller/Servicer Guide* (Guide).

**Note:** The Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203 (July 21, 2010), makes certain mortgage reform changes, including changes to HOEPA's definitions and requirements. Freddie Mac will update its anti-predatory lending requirements when these changes become effective.

| Topic   | Requirement  |
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| <b>Home Ownership [and] Equity Protection Act of 1994 (HOEPA)</b><br><i>(Guide Sections 22.33 and 24.2)</i> | <ul style="list-style-type: none"> <li>▪ Although HOEPA itself only applies to refinances, both purchase money and refinance mortgages on primary residences are ineligible for purchase by Freddie Mac if they exceed HOEPA's annual percentage rate (APR) or points and fees thresholds.</li> <li>▪ The Seller must represent and warrant that on primary residences, purchase money and refinance mortgages do not exceed the APR or total points and fees thresholds established under HOEPA and its implementing regulations.</li> </ul>  |
| <b>Maximum Points and Fees Charged</b><br><i>(Guide Section 22.32)</i>                                      | <p>For Mortgages secured by a Primary Residence, points and fees charged in connection with the Mortgage do not exceed 5% of the original loan amount (or \$1,000 for loan balances of \$20,000 or less). Points and fees <b>include:</b></p> <ul style="list-style-type: none"> <li>▪ Origination fees, underwriting fees, broker fees, or finder's fees</li> <li>▪ Charges imposed as a condition for making the loan and paid to the Seller or a third party</li> </ul>   |
|   | <p>Points and fees <b>do not include:</b></p> <ul style="list-style-type: none"> <li>▪ Bona fide discount points*</li> <li>▪ Fees for actual services rendered such as attorney fees, notary fees, appraisal, credit report, survey, title examination and extract, flood and tax certification and home inspection</li> <li>▪ Mortgage insurance or credit-risk price adjustments</li> <li>▪ Cost of title, property and flood insurance policies</li> <li>▪ State and local transfer fees and taxes</li> <li>▪ Tax and insurance premium escrow deposits</li> <li>▪ Miscellaneous fees and charges that do not exceed one-quarter of 1% (0.25%) of the loan amount</li> </ul> <p>Bona fide discount points result in a meaningful reduction of the loan's interest rate.</p> |

Note: Vertical revision bars "|" are used in the margin of this quick reference to highlight new requirements and significant changes

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| <b>Compliance with Applicable Law</b><br><i>(Guide Section 6.2 and 22.28)</i> | <ul style="list-style-type: none"> <li>▪ The Seller must comply with all applicable federal, state and local laws, ordinances, regulations and orders as indicated in Guide Sections 6.2 and 22.28.</li> <li>▪ The Mortgage and Servicing of the Mortgage, Mortgage transaction, and Mortgaged Premises must be in compliance with all requirements of all federal, state and local laws, rules and regulations, including, without limitations:               <ul style="list-style-type: none"> <li>- Truth-in-lending laws,</li> <li>- Licensing laws,</li> <li>- Doing-business laws</li> <li>- Usury laws, and</li> <li>- Anti-predatory lending and similar laws</li> </ul> </li> </ul> <p>Any right of rescission involving the Mortgage under such laws, rules or regulations must have expired.</p>  |
| <b>State Specific Requirements</b><br><i>(Guide Section 22.18.1)</i>          | <p>Mortgages secured by properties in the following states that are designated as "high-cost," "high-risk" or similar Mortgages are not eligible for purchase by Freddie Mac:</p> <ul style="list-style-type: none"> <li>▪ Arkansas</li> <li>▪ Colorado</li> <li>▪ Georgia</li> <li>▪ Illinois</li> <li>▪ Indiana</li> <li>▪ Kentucky</li> <li>▪ Maine</li> <li>▪ Massachusetts</li> <li>▪ New Jersey</li> <li>▪ New Mexico</li> <li>▪ New York</li> <li>▪ Oklahoma</li> <li>▪ Rhode Island</li> <li>▪ Tennessee</li> </ul>   |
| <b>Higher-Priced Mortgage Loans</b><br><i>(Guide Section 22.35)</i>           | <p>A Higher-Priced Mortgage Loan is a first-lien Mortgage secured by a Primary Residence that has an annual percentage rate (APR) of 1.5% or more above the average prime offer rate (APOR) for a comparable transaction as of the rate lock date. APR and APOR are both defined in Regulation Z, the implementing regulation for the Truth in Lending Act. The APOR is published at least weekly by the Federal Reserve Board and is derived from pricing terms obtained from a survey of prime mortgage lenders.</p> <p>Effective for <b>applications</b> on or after October 1, 2009, Higher-Priced Mortgage Loans sold to Freddie Mac must be one of the following:</p> <ul style="list-style-type: none"> <li>▪ Fixed-rate Mortgage</li> <li>▪ 7/1 or 10/1 ARMs or 7/6-month or 10/6-month ARMs</li> <li>▪ 7-year Balloon Reset Mortgages</li> </ul> <p>May not be one of the following:</p> <ul style="list-style-type: none"> <li>▪ Prepayment Penalty Mortgages</li> <li>▪ ARMs with an Initial Period less than 7 years</li> <li>▪ 5-year Balloon Reset Mortgages</li> </ul> |

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| <b>Data Delivery of the Rate Spread</b>                                     | <p>Effective for all Mortgages with <b>applications</b> dated on or after November 1, 2009 and for all Mortgages with Note Dates on or after February 1, 2010, regardless of the application date:</p> <ul style="list-style-type: none"> <li>▪ Determine the rate spread by calculating the difference between a Mortgage's APR and the Average Prime Offer Rate (APOR) for a comparable transaction</li> <li>▪ Deliver the rate spread for <u>all</u> Mortgages with a rate spread equal to or greater than 1.5 percentage points, regardless: of whether the Mortgage is secured by a Primary Residence; whether the Seller originated the Mortgage and whether the Seller is a HMDA reporter.</li> </ul> <p><b>Note:</b> To assist in determining the rate spread, refer to the Federal Financial Institutions Examination Council's (FFIEC) rate spread calculator at <a href="http://www.ffiec.gov/ratespread/newcalc.aspx">www.ffiec.gov/ratespread/newcalc.aspx</a></p> |
| <b>Higher-Cost Loan Products (Steering)</b><br><i>(Guide Section 22.32)</i> | <p>No Borrower who qualified for a lower-cost loan product should be "steered" to a higher-cost loan product. A Seller should offer or direct applicants who seek financing through the Seller's higher-priced subprime or non-prime lending channel toward its standard Mortgage line if the applicants qualify for one of the standard products.</p>  |
| <b>Mandatory Arbitration</b><br><i>(Guide Section 22.34)</i>                | <p>Freddie Mac will not purchase any Mortgage if any of the Mortgage documents – including the Note, any Note addendum, the Security Instrument or any Security Instrument rider – contain a "mandatory arbitration" clause, that is, a clause that obligates the Borrower to submit to arbitration any dispute arising out of or relating in any way to the mortgage transaction.</p>  |
| <b>Prepayment Penalty Mortgages</b><br><i>(Guide Section B33.4.1)</i>       | <p>For Prepayment Penalty Mortgages, the Seller represents and warrants the following:</p> <ul style="list-style-type: none"> <li>▪ The terms of the prepayment penalty were adequately disclosed to the Borrower</li> <li>▪ There is no penalty assessed in the event of a Borrower default</li> <li>▪ The mortgage provided a benefit to the Borrower, such as a rate or fee reduction, for accepting the prepayment penalty</li> <li>▪ The Borrower was offered the choice of another Mortgage that did not include the prepayment penalty</li> </ul> <p><b>Note:</b> The prepayment penalty period cannot be more than three years.</p>   |
| <b>Credit Insurance</b><br><i>(Guide Section 22.31)</i>                     | <p>Mortgages originated with the following policy types are ineligible for purchase by Freddie Mac, regardless of whether the premium was financed in the Mortgage amount or paid from the Borrower's funds:</p> <ul style="list-style-type: none"> <li>▪ Prepaid single-premium credit-life,</li> <li>▪ Credit-disability,</li> <li>▪ Credit-unemployment,</li> <li>▪ Credit-property insurance policy, or</li> <li>▪ Other such products</li> </ul> <p>(This does not apply to credit insurance products where premiums are calculated, earned and paid on a monthly or other regular periodic basis, or to prepaid hazard, flood or mortgage insurance policies.)</p>  |

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