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 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).

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| **Home Ownership [and] Equity Protection Act of 1994 (HOEPA)**       | - 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.  
- 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. |
| **Maximum Points and Fees Charged (Guide Section 22.32)**            | **Mortgages with Application Received Dates Prior to January 10, 2014**  
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 **include:**  
- Origination fees, underwriting fees, broker fees, or finder’s fees  
- Charges imposed as a condition for making the loan and paid to the Seller or a third party  

Points and fees **do not include:**  
- Bona fide discount points*  
- 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  
- Mortgage insurance or credit-risk price adjustments  
- Cost of title, property and flood insurance policies  
- State and local transfer fees and taxes  
- Tax and insurance premium escrow deposits  
- Miscellaneous fees and charges that do not exceed one-quarter of 1% (0.25%) of the loan amount  

*Bona fide discount points result in a meaningful reduction of the loan’s interest rate.**

Note: Vertical revision bars "|" are used in the margin of this quick reference to highlight new requirements and significant changes.
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| Compliance with Applicable Law            | • 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.  
• 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:  
  - Truth-in-lending laws,  
  - Licensing laws,  
  - Doing-business laws  
  - Usury laws, and  
  - Anti-predatory lending and similar laws  
  Any right of rescission involving the Mortgage under such laws, rules or regulations must have expired. |
| State Specific Requirements               | 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:  
• Arkansas  
• Colorado  
• Georgia  
• Illinois  
• Indiana  
• Kentucky  
• Maine  
• Massachusetts  
• New Jersey  
• New Mexico  
• New York  
• Oklahoma  
• Rhode Island  
• Tennessee |
| Higher-Priced Mortgage Loans              | 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.  
Effective for applications on or after October 1, 2009, Higher-Priced Mortgage Loans sold to Freddie Mac must be one of the following:  
• Fixed-rate Mortgage  
• 7/1 or 10/1 ARMs or 7/6-month or 10/6-month ARM  
Must not be one of the following:  
• Prepayment Penalty Mortgages  
• ARM with an Initial Period less than 7 years |
## Anti-predatory Lending Requirements

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| **Data Delivery of the Rate Spread**  
* (Guide Section 17.7)                         | For *all* Mortgages:  
- Determine the rate spread by calculating the difference between a Mortgage’s APR and the Average Prime Offer Rate (APOR) for a comparable transaction. Freddie Mac will not accept values less than 1.5%.  
- Deliver the rate spread 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.  
**Note:** The rate spread should be calculated consistent with the methodology provided in HMDA (Regulation C) and the requirements for determining Higher Priced Mortgage Loans (Regulation Z). To assist in determining the rate spread, refer to the Federal Financial Institutions Examination Council’s (FFIEC) rate spread calculator at [www.ffiec.gov/ratespread/newcalc.aspx](http://www.ffiec.gov/ratespread/newcalc.aspx). |
| **Higher-Cost Loan Products (Steering)**  
* (Guide Section 22.32)                        | 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. |
| **Mandatory Arbitration**  
* (Guide Section 22.34)                         | 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. |
| **Prepayment Penalty Mortgages**  
* (Guide Section B33.4.1)                        | Effective for Mortgages with Application Received Dates on or after January 10, 2014, Prepayment Penalty Mortgages are not eligible for sale to Freddie Mac.  
For Prepayment Penalty Mortgages sold to Freddie Mac with Application Received Dates prior to January 10, 2014 and Settlement Dates on or before July 31, 2014, the Seller represents and warrants the following:  
- The terms of the prepayment penalty were adequately disclosed to the Borrower  
- There is no penalty assessed in the event of a Borrower default  
- The mortgage provided a benefit to the Borrower, such as a rate or fee reduction, for accepting the prepayment penalty  
- The Borrower was offered the choice of another Mortgage that did not include the prepayment penalty  
**Note:** The prepayment penalty period cannot be more than three years. |
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<td>Credit Insurance</td>
<td>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:</td>
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<tr>
<td>(Guide Section 22.31)</td>
<td>• Prepaid single-premium credit-life,</td>
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<td></td>
<td>• Credit-disability,</td>
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<td>• Credit-unemployment,</td>
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<td>• Credit-property insurance policy, or</td>
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<td>• Other such products</td>
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<td>(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.)</td>
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