



Balloon/Reset Mortgages

Lower start rates and level payments with 5-year and 7-year balloon/reset mortgages

Freddie Mac purchases 5- and 7-year balloon/reset mortgages, where your borrower makes monthly payments for five or seven years but based on a 30-year amortization. Freddie Mac only purchases balloon mortgages that have a reset provision.

> Borrower Profile

- Borrowers who do not plan to stay in their home longer than five or seven years

> Key Features

- Purchase, no cash-out and cash-out refinance transactions
- Payments based on 30-year amortization schedule
- Loan Prospector® or manually underwritten

> Borrower Benefits

- Lower initial rates with stable monthly payments for the first five or seven years
- The security of a fixed rate and the option to reset when the initial balloon mortgage matures
- Enhanced purchasing power, particularly for borrowers who do not plan to stay in their homes for the entire term

ORIGINATION & UNDERWRITING REQUIREMENTS

Eligible Property Types	<ul style="list-style-type: none"> ▪ 1- to 4-unit primary residences ▪ 1- to 4-unit investment properties ▪ 1-unit second homes
Eligible Mortgages	<ul style="list-style-type: none"> ▪ Purchase, no cash-out and cash-out refinance mortgages ▪ The following are not eligible: <ul style="list-style-type: none"> ⊗ Home Possible® Mortgages ⊗ Initial Interest® Mortgages ⊗ Loan Prospector A-minus mortgages originated as 5-year balloon/resets (eligible for 7-year) ⊗ Affordable Merit Rate® Mortgages ⊗ Alt 97® Mortgages ⊗ Financed Permanent Buydown Mortgages ▪ LTV/TLTV ratios in accordance with <i>Single-Family Seller/Servicer Guide</i> (Guide) Section 23.4.1 ▪ Must have monthly payments based on 30-year amortization schedules, with the monthly payment due date and balloon maturity date the first day of the month. ▪ Seasoned balloon/reset mortgages are not eligible for sale to Freddie Mac.
Secondary Finance	<ul style="list-style-type: none"> ▪ Balloon/reset mortgages with secondary financing are eligible for purchase if: <ul style="list-style-type: none"> ⊗ The maturity date of the secondary financing is at least 12 months prior to the Balloon Maturity Date. ⊗ The secondary financing recorded security instrument language clearly subordinates the lien of the secondary financing to the balloon/reset mortgage and the reset mortgage after reset.
Uniform Instruments	<ul style="list-style-type: none"> ▪ Sellers must originate using one of the following combinations of Balloon Note Addendum and Balloon Note Rider: <ul style="list-style-type: none"> ⊗ Freddie Mac Form 3292 (1/01), <i>Uniform Instrument Multistate Balloon Note Addendum</i> and Freddie Mac Form 3191 (1/01), <i>Uniform Instrument Multistate Balloon Rider</i>. ⊗ Freddie Mac Form 3291 (1/01), <i>Uniform Instrument Multistate Balloon Note Addendum</i> and Freddie Mac Form 3190 (1/01), <i>Uniform Instrument Balloon Rider</i>. ▪ Fannie Mae Uniform Instrument Multistate Balloon Note Addendum—Single Family Form 3266, 1/01 and Multistate Balloon Rider—Single Family Form 3180, 1/01. Balloon/reset mortgages originated on the Fannie Mae Note Addendum and Balloon Rider with the tagline “1/01 (rev. 9/01)” are not eligible for sale to Freddie Mac. <ul style="list-style-type: none"> ⊗ Sellers must make the appropriate changes to these forms. See Guide Section 33.3. ▪ For balloon/reset mortgages secured by an investment property, the occupancy requirement (but not the ownership requirement) in the balloon note addendum and balloon rider must be deleted. ▪ For balloon/reset mortgages with secondary financing as of the delivery date that complies with Guide Section 33.2, the “no other liens or encumbrances” requirement in the balloon note addendum and balloon rider may be revised. See Guide Section 33.3 for more information. ▪ Title insurance, in compliance with Guide Chapter 39, is required. See Servicing below for additional requirements.
Eligibility/Underwriting	<ul style="list-style-type: none"> ▪ Loan Prospector® or manually underwritten ▪ Minimum Indicator Score of 620 unless otherwise specified in the Guide ▪ All mortgages must meet the risk class and/or minimum Indicator Score requirements in Exhibit 25A, where applicable. ▪ Maximum debt-to-income ratio of 45 percent for manually underwritten mortgages except Streamlined Refinance Mortgages. ▪ Temporary subsidy buydowns allowed.
DELIVERY REQUIREMENTS	
Eligible Executions	<ul style="list-style-type: none"> ▪ Servicing-released cash* ▪ Servicing-retained cash ▪ Fixed-rate Guarantor ▪ MultiLender Swap <p>*See our selling system availability matrix for a list of specific mortgage products eligible for sale best efforts or mandatory, servicing released.</p>
Pooling Requirements	<ul style="list-style-type: none"> ▪ See Guide Chapter 13 for pooling and disclosure requirements for balloon/reset mortgages sold under fixed-rate Guarantor and MultiLender Swap executions.
Delivery Fees	<ul style="list-style-type: none"> ▪ Postsettlement delivery fees apply for balloon/reset mortgages with certain characteristics. See Exhibit 19 of your <i>Single-Family Seller/Servicer Guide</i> for details, or visit our online Guide Exhibit 19 at www.freddiemac.com/singlefamily/pdf/ex19.pdf.
Delivery Requirements	<ul style="list-style-type: none"> ▪ Mortgages with delivery or settlement dates more than 120 days after the note date require an appraisal update meeting Chapter 44 requirements with an effective date no more than 60 days prior to the delivery or settlement date. If the property value has declined since the effective date of the original appraisal, the mortgage is only eligible for negotiated sale through our bulk sales path.

SERVICING REQUIREMENTS

Servicing Requirements

- Minimum servicing spread is 0.250%
- The reset conditions for a Balloon/Reset Mortgage are as follows:
 - ⊗ The borrower must still be the owner and occupant of the property, however, if the Balloon/Reset Mortgage was sold to Freddie Mac as an investment property mortgage, the borrower need not be the occupant of the mortgaged premises.
 - ⊗ Monthly mortgage payments must be current and there are no 30-days or more late payments on any of the 12 scheduled monthly payments due immediately preceding the balloon maturity date.
 - ⊗ No liens, defects or encumbrances against the property or adverse matters affecting title to the property arising after the security instrument were recorded.
 - ⊗ The reset note rate cannot be more than 5% above the original balloon note rate. Instructions for calculating the reset note rate are found on the applicable Uniform Instruments.
 - ⊗ The borrower must make a written request to the Servicer to exercise the reset option.
- For each reset mortgage, the Servicer must obtain one of the following ensuring title to the reset mortgage as a valid first lien:
 - ⊗ A modification title endorsement to the existing policy.
 - ⊗ A new title policy that complies with the provisions of Guide Chapter 39.
 - ⊗ Special reset mortgage title insurance coverage that complies with the provisions of Guide Section 83.11.
- Servicers should review Guide Chapter 83 for complete requirements for servicing balloon/reset mortgages, including special instructions for processing resets, handling resets of balloon/reset mortgages originated on Fannie Mae documents, and discount situations.

Learn more about Freddie Mac's Balloon/Reset Mortgages:

- Refer to Chapters 13, 33, and 83 of your *Single-Family Seller/Servicer Guide*
- Call (800) FREDDIE
- Visit www.FreddieMac.com