



## Initial Interest Adjustable-Rate Mortgages

### Interest-only payments provides added flexibility

We offer 3/1, 5/1, 7/1, and 10/1 Constant Maturity Treasury (CMT)- or London Interbank Offered Rate (LIBOR)-indexed Initial Interest<sup>SM</sup> Mortgage options. Each includes an interest-only period of 3-, 5-, 7- or 10-years, respectively, then a fully amortizing adjustable-rate period for the remainder of the 30-year term. We also offer 3/1, 5/1, and 7/1 CMT- or LIBOR-indexed ARMs with a 10-year interest-only period, then a fully amortizing adjustable-rate period for the remainder of the 30-year term.

#### > Key Features

- Purchase and no cash-out refinance
- CMT or LIBOR indexes
- Eligible for assessment through Loan Prospector®
- Minimum commitment amount of \$1,000 through WAC ARM Guarantor for Initial Interest Mortgages, or sell for cash through the WAC ARM Cash execution

#### > Borrower Benefits

- Minimize financing costs for borrowers who don't plan to stay in their home past the interest-only period
- Make principal curtailment payments during the interest-only period to increase home equity
- Free up cash flow for borrowers who fully understand their payment will increase after the initial interest-only period

ORIGINATION & UNDERWRITING REQUIREMENTS	
<b>Eligible Property Types</b>	<ul style="list-style-type: none"> <li>▪ 1-unit primary residence, including condominiums, PUDs and leasehold estates</li> <li>▪ Second home</li> <li>▪ Manufactured homes and co-ops are <b>not</b> eligible</li> </ul>
<b>Eligible Mortgages</b>	<ul style="list-style-type: none"> <li>▪ Purchase and no cash-out refinances</li> <li>▪ 3/1, 5/1, 7/1 and 10/1 CMT- or LIBOR-indexed Initial Interest Mortgages (3/1 ARMs margins of 400 basis points or more are <b>not</b> eligible for sale under flow purchase paths)</li> <li>▪ Prepayment Penalty Mortgages (eligible for sale under the selling system WAC ARM Guarantor program only)*</li> <li>▪ Initial Interest Mortgages cannot be originated with any other Freddie Mac mortgage product except Financed Permanent Buydown Mortgages and Mortgages for Newly Constructed Homes (Newly Built Home Mortgages – site built only).</li> <li>▪ Super conforming mortgages. See Guide Chapter L33 for requirements</li> <li>▪ Convertible ARMs are <b>not</b> eligible.</li> <li>▪ Refer to <i>Single-Family Seller/Service Guide</i> (Guide) Chapter J33.5 for information regarding required uniform instruments.</li> <li>▪ The second home must be a 1-unit property meeting the requirements of Guide Section 22.22(a).</li> </ul> <p>*If the Initial Interest ARM includes a prepayment penalty provision, the borrower should understand that selling, refinancing or making a payment on the mortgage principal during the prepayment penalty period may reduce or eliminate the benefits of the Initial Interest ARM. See Guide Section J33.8 for more information.</p>
<b>Maximum LTV, TLTV and HTLTV Requirements</b>	<ul style="list-style-type: none"> <li>▪ 1- unit primary residence (purchase and no cash-out refinance): <ul style="list-style-type: none"> <li>○ Max. LTV without secondary financing: 95%</li> <li>○ Max. LTV with secondary financing: 90%</li> <li>○ Max. TLTV with secondary financing: 95%</li> <li>○ Max. HTLTV: 95%</li> </ul> </li> <li>▪ Second home (purchase and no cash-out refinance): <ul style="list-style-type: none"> <li>○ Max. LTV without secondary financing: 85%</li> <li>○ Max. LTV with secondary financing: 80%</li> <li>○ Max. TLTV with secondary financing: 85%</li> <li>○ Max. HTLTV: 85%</li> </ul> </li> </ul> <p>See Guide Chapter L33.3 for maximum LTV/TLTV/HTLTV ratio requirements for super conforming mortgages</p>
<b>Borrower Eligibility Requirements</b>	<ul style="list-style-type: none"> <li>▪ Loan Prospector Accept only: <ul style="list-style-type: none"> <li>○ Use Loan Prospector Offering Identifier 232 for 3/1, 5/1, 7/1 and 10/1 ARMs with 3-, 5-, 7- and 10-year interest-only periods, respectively.</li> <li>○ Use Loan Prospector Offering Identifier 233 for 3/1, 5/1 and 7/1 ARMs with 10-year interest-only periods.</li> </ul> </li> <li>▪ All mortgages must meet the risk class and/or minimum Indicator Score requirements in Exhibit 25 where applicable</li> <li>▪ Invalid, Ineligible, and Incomplete assessment statuses are <b>not</b> eligible.</li> <li>▪ The borrower is qualified using monthly housing expense that includes, but is not limited to, the principal and interest payment on the mortgage that is calculated as described in Guide Section 37.15.</li> <li>▪ For the purpose of qualifying the borrower, the principal and interest payment must be based on a fully amortizing payment schedule for the term of the mortgage.</li> <li>▪ The borrower is qualified using payments calculated at the higher of the note rate or the fully indexed rate. The fully indexed rate is the sum of the margin plus a value of the applicable Index at any time within 90 days preceding the note date, rounded to the nearest one-eighth of 1% (0.125%).</li> <li>▪ The initial note rate cannot be more than three percentage points below the fully indexed rate.</li> </ul>
<b>Cap Structures</b>	<ul style="list-style-type: none"> <li>▪ 3/1 ARM: 2/2/6, 2/2/5 (CMT only) 3/2/less than or equal to 6 (WAC ARM Guarantor only)</li> <li>▪ 5/1 ARM: 2/2/5, 2/2/6, 5/2/5, 5/2/6</li> <li>▪ 7/1 ARM: 5/2/5, 5/2/6</li> <li>▪ 10/1 ARM: 5/2/5, 5/2/6</li> </ul>
<b>Interest-Only Periods</b>	<ul style="list-style-type: none"> <li>▪ 3/1 ARM: 30-42 months</li> <li>▪ 5/1 ARM: 54-66 months</li> <li>▪ 7/1 ARM: 78-90 months</li> <li>▪ 10/1 ARM: 114-126 months</li> <li>▪ 3/1, 5/1, and 7/1 ARMs with 10-year interest only period: 114-126 months</li> </ul>
<b>Collateral Assessment</b>	<ul style="list-style-type: none"> <li>▪ An appraisal or inspection that meets Freddie Mac requirements is required in compliance with Loan Prospector's minimum assessment feedback (MAF); however, regardless of the Loan Prospector MAF, the Property Inspection Alternative (PIA) cannot be used to originate Initial Interest Mortgages.</li> <li>▪ For Non-Loan Prospector mortgages, an appraisal with an interior and exterior inspection is required.</li> </ul>
<b>Principal Curtailments</b>	<ul style="list-style-type: none"> <li>▪ Principal curtailments are permitted at any time.</li> <li>▪ Principal curtailments made during the interest-only period will trigger re-amortization, which will be reflected in subsequent monthly payments. See Guide Section 59.2 for servicing requirements related to principal curtailments.</li> </ul>

## DELIVERY REQUIREMENTS

<b>Eligible Executions</b>	<ul style="list-style-type: none"> <li>▪ WAC ARM Guarantor execution, with reduced minimum commitment amount of \$1,000</li> <li>▪ WAC ARM Cash</li> <li>▪ MultiLender Swap</li> </ul>										
<b>Delivery Requirements</b>	<ul style="list-style-type: none"> <li>▪ You must represent and warrant that you have implemented processes and controls to ensure that borrowers with Initial Interest Mortgages received written disclosure addressing payment shock, negative amortization (if any), prepayment penalties and the cost of reduced documentation loans, as appropriate. Such disclosure must be provided in a timely manner as discussed in the <i>Interagency Guidance on Nontraditional Mortgage Product Risk</i> and our July 13, 2007 Guide Bulletin.</li> <li>▪ You must deliver all mortgage data required by Form 13SF and must complete certain fields on this form as follows: <table border="1" style="margin-left: 20px; border-collapse: collapse; width: 60%;"> <thead> <tr> <th style="text-align: left;">Title of Field</th> <th style="text-align: left;">Completion Instructions</th> </tr> </thead> <tbody> <tr> <td>Date of First P&amp;I Payment</td> <td>Date the first interest-only payment is due.</td> </tr> <tr> <td>Monthly P&amp;I Payment</td> <td>Amount of the first interest-only payment specified in the Initial Interest Note.</td> </tr> <tr> <td>Ref Code</td> <td>0012; indicating the loan is an Initial Interest Mortgage.</td> </tr> <tr> <td>Mod/Conv Date</td> <td>First Amortizing Payment Date – the date stated in the Initial Interest Note of the first amortizing principal and interest payment.</td> </tr> </tbody> </table> </li> <li>▪ 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 eligible only for negotiated sale through our bulk sales path.</li> </ul>	Title of Field	Completion Instructions	Date of First P&I Payment	Date the first interest-only payment is due.	Monthly P&I Payment	Amount of the first interest-only payment specified in the Initial Interest Note.	Ref Code	0012; indicating the loan is an Initial Interest Mortgage.	Mod/Conv Date	First Amortizing Payment Date – the date stated in the Initial Interest Note of the first amortizing principal and interest payment.
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<b>Pooling and Disclosure Requirements</b>	<p>Except as indicated below, standard pooling requirements for ARMs under the WAC ARM Guarantor program apply:</p> <ul style="list-style-type: none"> <li>▪ The underlying ARMs in each Initial Interest PC pool must have an original term of 30 years (360 months).</li> <li>▪ The underlying ARMs in each Initial Interest PC pool must have the same original interest-only period.</li> <li>▪ The commitment amount is \$1,000 through WAC ARM Guarantor.</li> <li>▪ The underlying ARMs in each Initial Interest PC pool must be Initial Interest ARMs.</li> </ul> <p>Use the following PC Pool Prefixes for delivery:</p> <ul style="list-style-type: none"> <li>▪ CMT-indexed ARMs: 1H</li> <li>▪ LIBOR-indexed ARMs: 1G</li> <li>▪ CMT-indexed 10-year interest-only ARMs: 1K</li> <li>▪ LIBOR-indexed 10-year interest-only ARMs: 1J</li> </ul>										
<b>Delivery Fees</b>	<ul style="list-style-type: none"> <li>▪ Initial Interest ARMs with LTV ratios greater than 90% will be subject to the Adjustable-Rate Mortgage delivery fee and the Initial Interest Mortgage delivery fee.</li> <li>▪ See Guide Exhibit 19 for details on applicable fees at <a href="http://www.FreddieMac.com/singlefamily/pdf/ex19.pdf">www.FreddieMac.com/singlefamily/pdf/ex19.pdf</a>.</li> </ul>										

## SERVICING REQUIREMENTS

<b>Servicing Requirements</b>	<ul style="list-style-type: none"> <li>▪ Minimum servicing spread is 0.250%.</li> <li>▪ Servicer must have the ability to produce monthly payment statements to borrowers and to send timely notices of changes in the monthly payment to the borrower.</li> <li>▪ If a borrower makes a principal curtailment during the interest-only period, the next interest-only payment must be recalculated based on the new unpaid principal balance. See Guide Chapter 51.20(d) for complete requirements.</li> </ul>
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**Learn more about Initial Interest Mortgages:**

- Refer to Chapter J33 of the *Single-Family Seller/Servicer Guide*
- Call (800) FREDDIE
- Visit [www.FreddieMac.com](http://www.FreddieMac.com)