



Initial InterestSM Fixed-Rate Mortgages

Fixed-rate mortgage with interest-only payments for an initial period

These mortgages offer borrowers who receive a Loan Prospector[®] Accept assessment lower interest-only monthly payments. For the initial interest-only period of 10- or 15-years, the borrower pays only interest, not principal, reducing their monthly payment amount until the loan begins to fully amortize. These loans will fully amortize by the end of a 30-year term.

> Borrower Profile

- Borrowers who want initial interest-only monthly payments so they can use monthly savings toward other investments
- Borrowers who fully understand their payment will increase after the initial interest-only period

> Key Features

- Purchase, no cash-out, and cash-out refinance
- 10/20 and 15/15 Initial Interest fixed-rate options
- Loan Prospector Accept mortgages only

> Borrower Benefits

- Use monthly cash savings toward other financial investments
- Make principal curtailment payments during the initial interest-only period to reduce their monthly payments if their investment objectives change

ORIGINATION & UNDERWRITING REQUIREMENTS

Eligible Property Types

- 1-unit primary residence, including condominiums, PUDs and Leasehold Estates
- Second home
- Manufactured homes and co-ops are **not** eligible

Eligible Mortgages

- Purchase, no cash-out and cash-out refinances
- 30-year term fixed-rate mortgages only
- Because of the special features of this product, Initial Interest Mortgages may not be used with many Freddie Mac offerings. See *Single-Family Seller/Servicer Guide* (Guide) Section J33.3 for eligible and ineligible products. Initial Interest Mortgages may be used with the Financed Permanent Buydown Mortgage and Mortgages for Newly Constructed Homes (Newly Built Home Mortgages – Site-built only).
- Refer to Guide Chapter J33.5 for information regarding required uniform instruments.
- The second home must be a 1-unit property meeting the requirements of Guide Section 22.22(a).

Maximum LTV and TLTV Requirements for 1-unit Primary Residences and Second Homes

| Loan Purpose | Max LTV w/o Sec. Financing | Max LTV with Sec. Financing | Max TLTV with Sec. Financing | Max HTLTV with Sec. Financing |
|-------------------------|----------------------------|-----------------------------|------------------------------|-------------------------------|
| Purchase | 95% | 90% | 95% | 95% |
| “No cash-out” refinance | 95% | 90% | 95% | 95% |
| Cash-out refinance | 85% | 80% | 85% | 90% |

Borrower Eligibility Requirements

- Loan Prospector Accept only
- Invalid, ineligible, and incomplete assessment statuses are **not** eligible.
- 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.
- 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.
- The borrower must be qualified using payments calculated using the note rate.

Collateral Evaluation

- Appraisal is required according to Loan Prospector’s minimum assessment feedback; however, the No-Appraisal Mortgage option cannot be used for Initial Interest mortgages.

Principal Curtailments

- Principal curtailments are permitted at any time.
- Principal curtailments made during the interest-only period will reduce the principal balance and result in lower subsequent monthly payments. See Guide Section 59.2 for Servicing requirements related to principal curtailments.

DELIVERY REQUIREMENTS

Eligible Executions

- Servicing-released Cash*
- Servicing-retained Cash
- Fixed-rate Guarantor and MultiLender Swap executions, subject to pools being posted

*See our Selling System Availability Matrix for a list of specific mortgages eligible for sale best efforts or mandatory, servicing released.

Delivery Requirements

- 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, and that such disclosure is provided in a timely manner as discussed in *the Interagency Guidance on Nontraditional Mortgage Product Risk* and our July 13, 2007 Guide Bulletin.
- Seller must deliver all mortgage data required by Form 11 and must complete certain fields on this form as follows:

| Title of Field | Completion Instructions |
|-------------------------------------|---|
| Date of 1 st P&I Payment | Date of the first interest-only payment |
| 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 |

DELIVERY REQUIREMENTS Continued**Pooling and Disclosure Requirements**

- Standard pooling requirements for fixed-rate mortgages under the Fixed-rate Guarantor and MultiLender Swap programs apply, except for the following:
 - The underlying mortgages in each Initial Interest PC pool must have an original term of 30 years.
 - The underlying mortgages in a 10/20 Initial Interest PC pool must have an interest-only period of 10 years.
 - The underlying mortgages in a 15/15 Initial Interest PC pool must have an interest only period of 15 years.
- Use the following PC Pool Prefixes for delivery:
 - 10/20 Initial Interest Mortgages: H0
 - 15/15 Initial Interest Mortgages: H1

Delivery Fees

- An Initial Interest postsettlement delivery fee will be assessed for Initial Interest Mortgages with LTV ratios greater than 90%.
- See Guide Exhibit 19 for details or access Guide Exhibit 19 online at <http://www.FreddieMac.com/singlefamily/pdf/ex19.pdf>.

SERVICING REQUIREMENTS

- Minimum servicing spread is 0.250% and is subject to requirements in Guide Sections 8.2.2 and 8.2.3.
- 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.
- 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.

Learn more about Initial Interest Mortgages:

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