

# Bulletin

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NUMBER: 2009-24

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TO: Freddie Mac Sellers and Servicers

October 9, 2009

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## BACKGROUND

### Credit changes

In our continuing effort to improve the quality of the Mortgages we purchase, we are revising certain credit and property eligibility requirements in our *Single-Family Seller/Servicer Guide* (“Guide”), including changes to our requirements for Freddie Mac-owned streamlined refinance Mortgages and Freddie Mac Relief Refinance Mortgages<sup>SM</sup>. We are also announcing that certain higher-risk Mortgages will no longer be eligible for purchase.

In addition, we have relocated certain Guide sections to assist Seller/Servicers with locating requirements more easily.

### Best practices

We are providing Seller/Servicers with tools to combat predatory practices related to property flips, which can be found in [Attachment A to this Bulletin, Best Practices for Transactions Involving Possible Property Flips](#). Seller/Servicers are urged to review the attachment, and routinely review all of the best practices documentation we provide. Bulletin 2009-18 (Underwriting and Appraisals) provided underwriting and appraisal best practices, as well as tips for the prevention of fraud. In this Bulletin and in future Bulletins, as well as in our other communication vehicles, we will continue to provide Seller/Servicers with tools to help more individuals and families become successful long-term homeowners and rebuild a strong mortgage finance system.

### Bulletin 2009-18 changes to underwriting requirements – revised effective date

With this Bulletin, we are also announcing a further extension to the effective date for the changes to our underwriting requirements announced in Bulletin 2009-18.

### Bulletin 2009-18 fraud prevention reminder- revocation of requirement

With this Bulletin, we are revoking the requirement published in Bulletin 2009-18 that Seller/Servicers notify Freddie Mac when they file Suspicious Activity Reports on Freddie Mac-owned Mortgages.

## CREDIT CHANGES

### Relief Refinance Mortgages

As a benefit to our Seller/Servicers, we are making the following changes to Chapters A24, *Freddie Mac Relief Refinance Mortgages – Same Servicer*, and B24, *Freddie Mac Relief Refinance Mortgages – Open Access*, **effective immediately**:

- Removing the requirement that if an existing junior lien is refinanced simultaneously with the Relief Refinance Mortgage it must be serviced by the Seller of the Relief Refinance Mortgage. Sections A24.3(a) and B24.3(c) have been updated to reflect this change.

We are also updating the Guide to include delivery and pooling requirements for fixed-rate cash contracts announced in Bulletin 2009-21 (Relief Refinance Mortgages) for Relief Refinance Mortgages with LTV ratios greater than 105% and less than or equal to 125%

### **Refinance Mortgages**

As a benefit to our Seller/Servicers, these changes are *effective immediately*.

We are making changes to our general requirements for all refinance Mortgages except Relief Refinance Mortgages. These changes include the following:

- When an existing Mortgage will be satisfied as a result of a refinance transaction, one of the following requirements must be met:
  - At least one Borrower on the refinance Mortgage must have been a Borrower on the Mortgage being refinanced; or
  - At least one Borrower on the refinance Mortgage held title to and resided in the Mortgaged Premises as their Primary Residence for at least 12 months and the Mortgage file contains documentation evidencing that the Borrower, either:
    - Has been making timely Mortgage payments, including the payments for any secondary financing, for the most recent 12-month period; or
    - Is a Related Person to a Borrower on the Mortgage being refinanced; or
  - At least one Borrower on the refinance Mortgage inherited or was legally awarded the Mortgaged Premises by a court in the case of divorce, separation or dissolution of a domestic partnership

Chapter 24 has been revised to reflect these new requirements. For related requirements for Relief Refinance Mortgages, refer to Chapters A24 and B24.

### **Seller-Owned Modified and Seller-Owned Converted Mortgages**

*Effective for Mortgages with Settlement Dates on or after February 1, 2010*

To ensure that the Borrower's ability to repay is adequately assessed, the Seller-Owned Modified and Seller-Owned Converted Mortgage requirements are being revised to require that the Borrower be qualified using the converted or modified terms. In addition, Seller-Owned Modified and Seller-Owned Converted Mortgages must meet all of Freddie Mac's eligibility, underwriting and documentation requirements.

Guide Chapter 32 has been revised to reflect these new requirements.

### **Reminder**

Seller/Servicers are reminded that the Mortgage modification requirements described above are independent of those permitted under the Home Affordable Modification Program (HAMP). For specific requirements related to HAMP, refer to Chapter C65, *Home Affordable Modification Program*.

### **Freddie Mac-owned streamlined refinance Mortgages**

*Effective for Mortgages with Settlement Dates on or after February 1, 2010*

All streamlined refinance Mortgages must meet the revised requirements in Guide Section 24.4, *Freddie Mac-owned streamlined refinance Mortgages*. Changes include, but are not limited to, the following:

- Permitting the Mortgage being refinanced to be serviced by an Affiliate of the Seller
- Permitting the refinancing of an existing junior lien simultaneously with the refinancing of the First Lien Mortgage, subject to conditions
- Permitting the new refinance Mortgage to be originated to replace an Initial Interest<sup>SM</sup> Mortgage with a fixed-rate fully amortizing Mortgage

- Requiring the new refinance Mortgage to be manually underwritten and not submitted to Loan Prospector for evaluation
- Requiring that the Mortgage being refinanced be seasoned for at least three months (i.e., the Note Date of the Mortgage being refinanced must be at least three months prior to the Note Date of the Freddie Mac-owned streamlined refinance Mortgage)

Section 24.4 also provides the list of Mortgages that may not be Freddie Mac-owned streamlined refinance Mortgages.

### **Non-Freddie Mac-owned streamlined refinance Mortgages**

*Effective for Mortgages with Settlement Dates on or after February 1, 2010*

Freddie Mac will no longer purchase non-Freddie Mac-owned streamlined refinance Mortgages.

Chapters 17, 23, 24 and L33 have been revised to delete the requirements for non-Freddie Mac-owned streamlined refinance Mortgages.

### **Cash-out refinance Mortgages**

*Effective for Mortgages with Settlement Dates on or after February 1, 2010*

We are lowering the maximum loan-to-value (LTV) without and with secondary financing/total LTV (TLTV)/Home Equity Line of Credit TLTV (HTLTV) ratios for cash-out refinance Mortgages secured by a 1-unit Primary Residence from 85%/80%/85%/85% to 80%/75%/80%/80%, respectively.

Seller/Servicers must review Chapter 24 for our complete requirements for selling refinance Mortgages.

### **Initial Interest Mortgages**

*Effective for Mortgages with Settlement Dates on or after February 1, 2010*

We are amending the list of Mortgages that are not eligible for purchase as an Initial Interest Mortgage to include the following:

- Cash-out refinance Mortgages
- Special purpose cash-out refinance Mortgages

Chapters J33 and L33, and Exhibit 25, *Mortgages with Risk Class and/or Minimum Indicator Score Requirements*, have been amended to reflect these changes.

### **Investment Property Mortgages**

*Effective for Mortgages with Settlement Dates on or after April 1, 2010*

We are amending our requirements to require that the Borrower demonstrate at least a two-year history of managing 1- to 4-unit Investment Properties only if rental income is being used to qualify the Borrower.

Chapter 37 has been revised to reflect this new requirement.

### **Exhibit 19, *Postsettlement Delivery Fees: Cash-out Refinance Indicator Score/Loan-to-Value, super conforming Mortgages, and Mortgages with Secondary Financing fee grids***

Exhibit 19 is being amended as follows:

- Include changes to the LTV/TLTV/HTLTV ratio requirements for certain super conforming Mortgages, as announced in Bulletin 2009-9
- Update the grid for Mortgages with Secondary Financing to include a row for Relief Refinance Mortgages with LTV/TLTV ratios greater than 90%, and TLTV ratios greater than 90% but less than or equal to 95%. This row was inadvertently omitted when Exhibit 19 was previously updated.
- Effective for Settlement Dates on or after February 1, 2010:
  - Reflect the LTV/TLTV/HTLTV changes indicated above for cash-out refinance Mortgages

- ❑ Update the super conforming Mortgage delivery fee grid to reflect the changes indicated above for Initial Interest Mortgages

## **LOAN PROSPECTOR® UPDATE**

Loan Prospector will be updated on December 14, 2009 to support the changes announced in this Bulletin.

## **PROPERTY ELIGIBILITY CHANGES**

### **Manufactured Homes**

*Effective immediately*

We have revised Chapter H33, *Manufactured Homes*, to include references to the U.S. Department of Housing and Urban Development (HUD) codes, which refer to a series of regulations that establish requirements for Manufactured Homes in compliance with the National Manufactured Home Construction and Safety Standards Act of 1974, 42 U.S.C. 5401-5426.

We are revising our requirements to require that the installation and inspection of the Manufactured Home comply with the HUD Codes if the installation was on or after October 20, 2008. Manufactured Homes installed before October 20, 2008 must meet our prior requirements.

We have also moved the appraisal requirements for Manufactured Homes from Chapter 44, *Appraisals, Inspections and the Property Inspection Alternative (PIA)*, to Chapter H33.

### **Planned Unit Developments**

We are making changes to our eligibility requirements for Planned Unit Developments (PUDs), as follows:

- **Effective for Mortgages with Freddie Mac Settlement Dates on or after May 1, 2010**, we are expanding Chapter 43 to provide more detail concerning eligibility requirements for Mortgages secured by units in a PUD.

These changes are effective for Mortgages with Freddie Mac Settlement Dates on and after **May 1, 2010** to provide you with enough time to implement these changes in your processes.

- **Effective immediately**, we have moved the appraisal requirements for PUDs from Chapter 44, *Appraisals, Inspections and the Property Inspection Alternative (PIA)*, to Chapter 43, which contains all of the PUD requirements

### **Mortgages for Newly Constructed Homes**

*Effective for Mortgages with Settlement Dates on or after February 1, 2010*

We are amending the appraisal expiration date requirement for Mortgages for Newly Constructed Homes to align with the appraisal expiration date requirement in Section 44.7(d). If the effective date of an appraisal is more than 12 months prior to the Note Date of the Mortgage, the appraisal is expired.

Section K33.9 has been revised to reflect this new requirement.

### **Revising the structure of several chapters**

The following chapters have been revised to better organize the content:

- Chapter 41, *Special Warranties for Leasehold Estates*
- Chapter 42, *Special Warranties for Condominiums*
- Chapter 44, *Appraisals, Inspections and the Property Inspection Alternative (PIA)*

The chart below highlights the significant movement of sections:

<b>Chapter</b>	<b>Section Number</b>	<b>Section Change</b>
Chapter 41, <i>Special Warranties for Leasehold Estates</i>	41.2	Moved text from 42.8.6 to 41.2
		Moved text from 41.2 to 41.4
	41.5	Moved text from 41.6 to 41.5
	41.6	Deleted the section
Chapter 42, <i>Special Warranties for Condominiums</i>	42.1	Updated the Table of Contents
	42.5	Moved 42.4(d) to 42.5(b) and renumbered sections
	42.6.1	Deleted the Class III Eligibility section
	42.6.2	Deleted the Class II Warranties section
	42.7	Revised the section header and inserted new sub section numbers
	42.7.1	Deleted the Class II Eligibility section
	42.8	Moved Detached Condominium Projects to 42.7(b)
	42.8.1	Deleted the 2- to 4-unit Condominium Project Eligibility requirement section
	42.8.2	Deleted the 2- to 4-unit Condominium Project Warranties section
	42.8.3	Moved requirements to 42.7(c), which is a new sub section number for Live/Work Condominium Projects
	42.8.4	Moved requirements to 42.7(c), which is a new sub section number for Mixed-Use Condominium Projects and added information for clarity
	42.8.5	Moved requirements to 42.8(a), which is a new sub section for Financing of Limited Common Elements
	42.8.6	Moved requirements for Projects located on leasehold estates to 41.2
	42.8.7	Moved Appraisal Requirements for Units in Condominium Projects to 42.8(c)
	42.9.1	Class I eligibility requirements have been deleted
	42.9.2	Requirements for Class I Warranties have been deleted
	42.11	In the Additional Seller Condominium Project Warranties section, changed the title in 42.11(b) to <i>Mortgagee Consent</i> for clarity, and provided a new requirement in 42.11(c)
	42.11.1	Moved Uniform Underwriting and Transmittal requirements to 42.12(a)
Chapter 44, <i>Appraisals, Inspections and the Property Inspection Alternative (PIA)</i>	44.1	Updated the Table of Contents
	44.2(a)	Moved eligibility requirements for mixed-use properties from 44.2(a) to 44.15(r)
	44.7(a)	Defined the Seller warranties for value, condition and marketability
	44.13	Moved requirements for Addenda Required to 44.12 and updated. Moved 44.13(c) to 42.8(c)
	44.15(l)	Moved requirements for PUD Units to 43.4

Chapter	Section Number	Section Change
	44.15(m)	Moved requirements for Condominium Units to 42.8(c)
	44.15(n)	Moved requirements for Manufactured Homes to H33.6
	44.15(p)	Moved requirements for Leasehold Estates in Ground Lease Communities to 41.3
	44.22	Moved requirements for Appraisal Review Reports to 44.9(h)

### **Form 465S, Earthquake Insurance Analysis Addendum**

*Effective immediately*

We are updating Form 465S to conform with the Home Valuation Code of Conduct (HVCC) by removing the data element referring to loan amount and sale price. We are also making minor changes to the form to update it in accordance with current practices.

### **BEST PRACTICES**

[Attachment A, Best Practices for Transactions Involving Possible Property Flips](#), is provided to assist Seller/Serviceicers in their determination of the acceptability of the collateral in cases of loans involving property flips or suspected property flips. Freddie Mac promotes responsible lending and is committed to helping Seller/Serviceicers minimize the risks and costly impacts associated with defaults and repurchases. Improper flips have been associated with a higher incidence of fraud or misrepresentation, including inflated and falsified appraisals and misleading or falsified documentation, especially regarding the purchase terms and the chain of title for the property being flipped. Additionally, the homebuyers involved in improper flipping schemes are often unwitting victims who pay significantly more than market value for the property. Such transactions are considered to be predatory in nature and are unacceptable to Freddie Mac. Based upon internal analysis and lender feedback, we believe that additional due diligence is warranted in order to mitigate the additional risks inherent in loans secured by properties that have been involved in recent property flips or that may currently be in the process of being flipped. Freddie Mac's operational review of our Sellers will include an analysis of a Seller's implementation of our recommended best practices.

Freddie Mac recognizes the benefits provided by private investors who invest in the housing market by purchasing distressed properties that are legitimately renovated and resold at a fair market value. Thus, while we are strongly committed to preventing improper transactions, including property flips that are predatory, fraudulent or otherwise illegitimate, Freddie Mac encourages continued legitimate and sustainable investment in distressed properties and distressed neighborhoods.

### **BULLETIN 2009-18 CHANGES TO UNDERWRITING REQUIREMENTS – REVISED EFFECTIVE DATE**

In our September 25, 2009 Single-Family Advisory e-mail, we announced that the changes to Freddie Mac's underwriting requirements published in Bulletin 2009-18 – with respect to Borrower income, assets, creditworthiness and required documentation – would be effective for all Mortgages with application dates on or after November 1, 2009, and Freddie Mac Settlement Dates on or after February 1, 2010, instead of *October 1, 2009* and *January 1, 2010*, respectively.

With this Bulletin, we are announcing that we are further extending the effective date for these Bulletin 2009-18 changes. The changes to our requirements will now be effective for Mortgages with application dates on or after **December 14, 2009** and Freddie Mac Settlement Dates on or after **April 1, 2010**. This effective date extension provides you with additional time to implement the underwriting changes in your origination processes.

## **Related Loan Prospector® updates**

The Loan Prospector updates on December 14, 2009 will also support the Bulletin 2009-18 underwriting requirements changes, so Loan Prospector will be updated prior to the new effective date for the Bulletin 2009-18 underwriting requirements changes.

In the meantime, we continue to encourage Sellers to begin implementing these changes and underwrite in accordance with the new requirements prior to the new effective date. As a reminder, to assist you we have updated our online tool, now titled *Loan Prospector Processing Reminders for Mortgages with Submission Dates Prior to December 14, 2009*.

## **BULLETIN 2009-18 FRAUD PREVENTION REMINDER – CORRECTION**

In Bulletin 2009-18 published on July 10, 2009, Freddie Mac reminded Seller/Servicers about how they can support efforts to combat fraud in connection with Mortgages delivered to Freddie Mac.

In addition to reminding Seller/Servicers to be vigilant in efforts to detect fraud, Freddie Mac stated that Seller/Servicers must notify us when they file a Suspicious Activity Report on a Freddie Mac-owned Mortgage. Because Suspicious Activity Reports are confidential, we are revoking this requirement. Seller/Servicers **must not** notify Freddie Mac when they file Suspicious Activity Reports.

## **REVISIONS TO THE GUIDE**

The revisions included in this Bulletin impact the following:

- Chapters 17, 22, 23, 24, A24, B24, 25, 32, 33, H33, J33, K33, L33, 37, 41, 42, 43, 44 and 46
- Exhibits 19, and 25
- Forms 11, 13SF and 465S

## **CONCLUSION**

If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call (800) FREDDIE.

Sincerely,



Patricia J. McClung  
Vice President  
Offerings Management