

Bulletin

NUMBER: 2012-19

TO: Freddie Mac Sellers

September 14, 2012

SUBJECTS

With this *Single-Family Seller/Servicer Guide* (“Guide”) Bulletin, we are making changes to the requirements for Freddie Mac Relief Refinance MortgagesSM, including those announced in our press release on July 31, 2012. Changes include:

- Aligning our eligibility requirements for Relief Refinance Mortgages with loan-to-value (LTV) ratios less than or equal to 80% with requirements for Mortgages with LTV ratios greater than 80%
- Making certain enhancements to our requirements for Relief Refinance Mortgages – Open Access

We are also making the following other changes to our selling requirements:

- Announcing that we will no longer purchase Balloon/Reset Mortgages
- Updating Guide Section 24.2, *General Requirements for All Refinance Mortgages*, to reflect that at least one Borrower on the refinance Mortgage must have held title to and resided in the Mortgaged Premises as a Primary Residence for the most recent 12-month period
- Updating and revising our requirements for the Freddie Mac Selling System (“Selling System”) Servicing Released Sales Process

EFFECTIVE DATE

All of the changes announced in this Bulletin are effective immediately unless otherwise noted.

RELIEF REFINANCE MORTGAGES

Sellers should review Guide Chapters A24, *Freddie Mac Relief Refinance MortgagesSM – Same Servicer with LTV Ratios Greater than 80%* (renamed *Freddie Mac Relief Refinance MortgagesSM – Same Servicer* effective November 19, 2012), B24, *Freddie Mac Relief Refinance MortgagesSM – Open Access*, and C24, *Freddie Mac Relief Refinance MortgagesSM – Same Servicer with LTV Ratios Less than or Equal to 80%*, to ensure they have an understanding of the revised requirements summarized below.

Relief Refinance Mortgages – Same Servicer

Effective for Mortgages with Application Received Dates on or after November 19, 2012

We are aligning our eligibility requirements for Relief Refinance Mortgages – Same Servicer with LTV ratios less than or equal to 80% with our requirements for Relief Refinance Mortgages – Same Servicer with LTV ratios greater than 80%. As a result, the following requirements apply regardless of the LTV ratio of the Mortgage:

- The Seller is not required to represent and warrant that the Mortgage being refinanced met Freddie Mac eligibility requirements related to Borrower creditworthiness, any other underwriting requirements, value, condition and marketability of the Mortgaged Premises and certain fraud requirements

- The proceeds of the new Mortgage must be used only to pay off the first Mortgage, pay related Closing Costs, Financing Costs and Prepaids/Escrows not to exceed the lesser of 4% of the current unpaid principal balance (UPB) or \$5,000, and disburse cash to the Borrower not to exceed \$250
- The new Mortgage does not have to represent the same occupancy as the Mortgage being refinanced
- The Seller is not required to provide the file for the Mortgage being refinanced to Freddie Mac Quality Control, unless requested by Freddie Mac
- Verification of funds for closing is not required unless the Borrower is qualified for the new Mortgage (e.g., when the principal and interest payment is increasing by more than 20%)

Effective immediately, we are making the following additional changes to our Relief Refinance Mortgage – Same Servicer requirements:

- Reducing income and asset documentation and evaluation requirements when the Borrower is qualified for the new Mortgage
- Permitting the Seller to verify reserves equal to 12 monthly payments of principal, interest, taxes and insurance (PITI) for the new refinance Mortgage in lieu of verifying a source of income. We are also clarifying that income sources must be eligible sources of income as stated in Section 37.13, *Stable Monthly Income and Asset Qualification Sources*.
- For Mortgages where a Borrower is being omitted from the Note:
 - Adding an option to qualify the remaining Borrower(s) for the new Mortgage in lieu of providing evidence of the Borrower making payments for the past 12 months; and
 - Removing the requirement that the Borrower(s) being omitted also must be removed from the deed and retain no ownership interest in the Mortgaged Premises

We are updating Chapters A24 and C24 to reflect the changes that are effective immediately. As a result of the alignment of requirements for all LTV ratios, Chapter C24 will be retired effective for Mortgages with Application Received Dates on or after **November 19, 2012**.

Relief Refinance Mortgages – Open Access

Effective immediately, in an effort to assist Sellers in managing capacity, improve efficiency and increase the offering's reach to eligible Borrowers, we are revising our Relief Refinance Mortgage – Open Access requirements as follows:

- Reducing income and asset documentation and evaluation requirements. For example, the Seller is not required to establish stability of income, including documenting its two-year history and determining reasonable expectation of continuance, or to evaluate account statements for large deposits and provide proof of liquidation of funds from non-depository accounts.
- No longer requiring that Mortgages secured by Investment Properties and second homes comply with the requirements related to the number of financed properties in Sections 22.22.1, *Investment Property Mortgages*, and 22.22, *Second Home Mortgages*, respectively
- No longer requiring the Seller to establish that a Condominium Project meets Freddie Mac's eligibility requirements, except that the Seller must represent and warrant the project is not a Hotel/Resort Project or houseboat project, a timeshare project, or a project with fragmented or segmented ownership. The project must have insurance that meets the applicable requirements.
- Removing the requirement that the Borrower(s) being omitted from the Note also must be removed from the deed and retain no ownership interest in the Mortgaged Premises

In addition, effective for Mortgages with Application Received Dates on or after **November 19, 2012**, the Mortgage proceeds of all Relief Refinance Mortgages – Open Access must be used only to pay off the first Mortgage, related Closing Costs, Financing Costs and Prepaids/Escrows not to exceed the lesser of 4% of the current UPB or \$5,000, and disburse cash to the Borrower not to exceed \$250. This change is a

component of the alignment of requirements for Mortgages with LTV ratios less than or equal to 80% with requirements for Mortgages with LTV ratios greater than 80%.

Property valuation for Relief Refinance Mortgages – Same Servicer and Relief Refinance Mortgages – Open Access

Effective immediately, when an appraisal is obtained for a Relief Refinance Mortgage – Same Servicer or Relief Refinance Mortgage – Open Access, the following requirements apply:

- The Seller is not responsible for the representations and warranties regarding the value, condition and marketability of the Mortgaged Premises
- Freddie Mac will accept appraisal reports with a Uniform Appraisal Dataset (UAD) condition rating of C5 or C6 and/or a UAD quality rating of Q6 completed on an “as-is” basis; the appraisal does not have to be completed “subject to” needed repairs being completed
- The Seller is not responsible for the completeness and accuracy of the appraiser’s description of the Mortgaged Premises, and the accuracy of, and support for, the appraiser’s opinion of market value of the Mortgaged Premises

Loan Prospector®

Loan Prospector feedback messages needed to support changes to Relief Refinance Mortgages – Open Access will be updated at a later date. Sellers will be notified when the changes are implemented. Until then, Sellers may apply the revised requirements stated above, as described in more detail in Chapter B24, and disregard the related feedback messages to the contrary. In addition, enhancements to Loan Prospector scheduled to go into effect shortly are expected to help more eligible Borrowers refinance through Relief Refinance – Open Access.

New representation and warranty framework reminder

In addition to the various enhancements to Relief Refinance Mortgages announced in this Bulletin, we are reminding Sellers of the new representation and warranty framework announced in Bulletin 2012-18, which provides for relief of certain representations and warranties for Relief Refinance Mortgages once the Mortgage establishes an acceptable payment history and if it meets certain eligibility criteria, as more fully described in Chapter 6, *General Warranties and Responsibilities of the Seller/Servicer*. The new framework is effective for Mortgages with Settlement Dates on or after January 1, 2013.

BALLOON/RESET MORTGAGES

Effective for Mortgages with Settlement Dates on or after January 1, 2013

Freddie Mac will no longer purchase Balloon/Reset Mortgages. Chapter 33, *Special Eligibility Requirements for Balloon/Reset Mortgages*, will be deleted and other applicable Guide chapters and exhibits will be revised to reflect this change.

Notice of changes to negotiated provisions

Pursuant to Section 12.3(d), negotiated provisions in Master Agreements and/or Master Commitments are amended effective for Mortgages with Settlement Dates on or after January 1, 2013 to reflect the retirement of Balloon/Reset Mortgages announced in this Bulletin.

GENERAL REQUIREMENTS FOR ALL REFINANCE MORTGAGES

We have updated Section 24.2 to reflect that at least one Borrower on the refinance Mortgage must have held title to and resided in the Mortgaged Premises as a Primary Residence for the most recent 12-month period. This updated language is now consistent with the other requirements within the section.

SELLING SYSTEM SERVICING RELEASED SALES PROCESS

We have updated and revised our requirements for Sellers and Servicers participating in the Selling System Servicing Released Sales Process.

We have updated Section 9.9, *Requirements for the Servicing Released Sales Process*, to:

- Clarify that the "other adjustments" previously referred to in Section 9.9(c) are temporary subsidy buydown funds
- Update the Freddie Mac notice address for Sellers requesting to screen out Transferee Servicers in Section 9.9(e)
- Clarify in Section 9.9(i) that Freddie Mac performs quality control activities relating to the sale representations with the Seller

We have updated Section 18.3, *Contracting with a Document Custodian*, to highlight and clarify the special requirements for Mortgages sold through the Selling System Servicing Released Sales Process. Both the Seller and the Servicer, including any subsequent Transferee Servicer, must establish a relationship with the Designated Custodian. Servicers are responsible for associated Designated Custodian-assessed custodial fees, including, but not limited to, fees for Note Certification, safekeeping and release.

We have updated Section 56.15, *Liabilities of the Transferor Servicer and Transferee Servicer*, to clarify that if a subsequent Transfer of Servicing of Mortgages sold under the Servicing Released Sales Process occurs, the subsequent Transferee Servicer becomes liable for Servicing representations, covenants and warranties in the Purchase Documents with respect to the transferring Mortgages.

Effective for Mortgages sold under Cash Contracts with Settlement Dates on or after

January 1, 2013, if the Mortgage is paid in full within 120 days, instead of 90 days, of the Servicer's purchase of the Servicing rights for such Mortgage, the Seller must refund 100% of the price paid by the Servicer for such Servicing rights. Guide Exhibit 28A, *Loan Servicing Purchase and Sale Agreement for the Servicing-Released Sales Process*, has been revised to reflect this requirement change.

In addition, Exhibit 28A has been revised to reflect requirements regarding the repurchase and quality control process, including, but not limited to, the requirement that the Seller's postclosing quality control sample includes Mortgages sold to Freddie Mac that become 60 days or more past due in the first six months following the Note Date, in accordance with Section 48.4(b). As required in Section 48.4(b), the Seller must carefully evaluate these Mortgages to determine the presence of any fraud or other deficiency. As provided in revised Exhibit 28A, the Servicer will notify the Seller of any such Mortgages.

REMOVAL OF GUIDE EXHIBITS 1 AND 2

We are deleting Exhibit 1, *Instructions for Completing the First-Time Homebuyer Indicator Field*, and Exhibit 2, *Loan Feature Code Letters*, because they relate to MIDANET[®] delivery requirements that are now outdated. We will be providing an updated Exhibit 1 reflecting instructions for First-Time Homebuyer Uniform Loan Data Delivery (ULDD) delivery requirements with a future Bulletin.

REMINDER: MORTGAGES ENCUMBERED WITH A PRIVATE TRANSFER FEE COVENANT INELIGIBLE FOR PURCHASE

To comply with the Federal Housing Financing Agency (FHFA) final rule issued March 16, 2012, in Bulletin 2012-11 Freddie Mac added Section 22.36, *Mortgages with Private Transfer Fee Covenants*, prohibiting the sale to Freddie Mac of Mortgages encumbered by certain private transfer fee covenants. Effective July 16, 2012, Mortgages on properties encumbered by private fee transfer covenants prohibited by 12 C.F.R. Part 1228 are ineligible for sale to Freddie Mac, if those covenants were created on or after February 8, 2011.

As a reminder, Freddie Mac may exercise any of its remedies under a Seller/Servicer's Purchase Documents for a breach of the representations and warranties regarding a Mortgage encumbered with a private transfer fee covenant prohibited by 12 C.F.R. Part 1228, including issuance of a repurchase request.

As further provided in Bulletin 2012-18, announcing the new representation and warranty framework **effective for Mortgages with Settlement Dates on and after January 1, 2013**, a Seller/Servicer is not relieved from Freddie Mac's enforcement of its representations and warranties with respect to Section 22.36 because they relate to First Lien enforceability; the Seller/Servicer remains responsible for such representations and warranties for the life of the loan.

REVISIONS TO THE GUIDE

The revisions included in this Bulletin impact the following:

- Chapters A1, 6, 8, 9, 11, 12, 13, B15, D15, 16, 17, 18, 22, 23, 24, A24, B24, C24, 25, 27, 33, B33, C33, F33, H33, L33, A34, 37, 42, 46 and 56
- Exhibits 1, 2, 4, 5, 17S, 19 and 28A
- Glossary

CONCLUSION

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

Sincerely,



Laurie A. Redmond
Vice President
Offerings Effectiveness