

Bulletin

NUMBER: 2012-21

TO: Freddie Mac Sellers

October 16, 2012

SUBJECTS

With this *Single-Family Seller/Servicer Guide* (“Guide”) Bulletin, we are revising certain requirements for ARMs and providing guidance and updates regarding Home Possible® Mortgages.

ARM RATE CAPS AND QUALIFICATION REQUIREMENTS

In our continuing effort to support sustainable homeownership and promote responsible lending, we are revising certain requirements for ARMs. These changes are intended to reduce the risk of payment shock associated with increases in monthly payments after the Initial Period and to help ensure that Borrowers will continue to be able to make their monthly payments should interest rates rise in the future.

Effective for Mortgages with Settlement Dates on or after July 1, 2013, we have revised our requirements for ARMs with Initial Periods less than or equal to five years to require that they must have Initial Caps and Periodic Caps that are less than or equal to 2%.

Freddie Mac continues to offer a comprehensive list of ARM products; however, as a result of the ARM changes announced in this Bulletin, ARM products with caps exceeding the revised limits will be retired. Examples of the impacted products that will be retired include, but are not limited to, 5/1 ARMs with a 5-2-5 cap structure, and all 3/6-month ARMs and 5/6-month ARMs.

In addition, for all ARMs with Initial Periods less than or equal to five years, including ARMs that are Financed Permanent Buydown Mortgages and ARMs with temporary subsidy buydown plans, Borrowers must be qualified at the greater of the Note Rate + 2% or the fully indexed rate.

Guide Chapter 30, *Special Eligibility Requirements for ARMs*, and Guide Exhibit 17S, *Available Mortgage Products*, have been revised to reflect these changes, which include an updated list of eligible ARM products. Other related Guide chapters have also been revised accordingly.

Loan Prospector® will be updated prior to July 1, 2013 to support these changes. Sellers will be notified when these changes are implemented.

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 July 1, 2013, to reflect the revised requirements for ARMs announced in this Bulletin.

HOME POSSIBLE MORTGAGES

Effective November 18, 2012

Area median income guidance

The Federal Housing Finance Agency has issued the area median income estimates for 2012.

Both Loan Prospector and the Affordable Income & Property Eligibility tool, which is available on FreddieMac.com at <http://ww3.freddie.mac.com/ds2/sell/affgold.nsf/frmHomePage?OpenForm>, will be updated on November 18, 2012 to reflect the 2012 area median income estimates. Sellers must use the 2012 area median income estimates on Manually Underwritten Mortgages with Application Received Dates on or after November 18, 2012. The 2012 area median income estimates will apply to Mortgages submitted or resubmitted through Loan Prospector on or after November 18, 2012.

Underserved Area

In conjunction with the update to the area median income estimates, we are revising our definition for “Underserved Area.”

Guide Section A34.7, *Eligible Borrowers*, provides that there is no income limit applicable to a Home Possible Mortgage if the property is located in an Underserved Area. Effective November 18, 2012, an Underserved Area will consist of either:

- Census tracts or block numbering areas in which median income does not exceed 80% of the area median income; minority census tracts where families reside and have an income that does not exceed area median income at the time of loan origination; and census tracts designated as disaster areas where families reside and have an income that does not exceed area median income at the time of loan origination; or
- Minority census tracts – census tracts that have a minority population of at least 30% and a median income of less than 100% of the area median income

The Glossary has been updated to reflect this change.

REVISIONS TO THE GUIDE

The revisions included in this Bulletin impact the following:

- Chapters 5, 6, A13, 17, 25, 30, F33 and A34
- Exhibit 17S
- 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