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**TO: Freddie Mac Sellers and Servicers**

November 15, 2013 | 2013-23

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## SUBJECTS

This *Single-Family Seller/Servicer Guide* (“Guide”) Bulletin updates and revises our **selling and Servicing** requirements, including:

- Withdrawing the requirement for Seller/Servicers to train third-party vendors about fraud-related matters announced in Bulletin 2013-18
- Announcing the availability of Quality Control Information Manager (QCIM)
- Reminding Seller/Servicers of certain requirements for Mortgages secured by properties with an outstanding Property Assessed Clean Energy (PACE) or PACE-like obligation (either referred to as a PACE obligation)
- Providing additional details about compliance with applicable laws

This Bulletin also updates and revises our **selling** requirements, including:

- Updating payment history verification requirements for Manually Underwritten Mortgages
- Announcing that the eligibility requirements applicable to Higher-Priced Mortgage Loans (HPMLs) that were announced in Bulletin 2013-16 in response to the Consumer Financial Protection Bureau (CFPB) final rule implementing the ability to repay provisions are applicable to higher-priced covered transactions (as defined in the CFPB final rule) and not solely to HPMLs
- Updating certain requirements for Freddie Mac Relief Refinance Mortgages<sup>SM</sup>
- Updating our requirements for verifying tax information for Borrowers with income derived from sources in Puerto Rico, Guam and the U.S. Virgin Islands
- Clarifying signature requirements for Security Instruments

In addition to the changes listed above, we are making further updates to our selling requirements, as described in the “Additional Guide Updates” section of this Bulletin.

## EFFECTIVE DATE

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

## SELLING/SERVICING REQUIREMENTS

### Fraud training

In Bulletins 2013-18 and 2013-20, we announced and extended the implementation deadline for new fraud training requirements for third-party vendors. In order to fully assess Seller/Servicer feedback and to refine the details of this requirement, we are withdrawing the requirement until further notice.

Guide Sections 7.2 and 57.2, each titled *Prevention and Detection*, have been updated to reflect this change.

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## Quality Control Information Manager (QCIM)

Freddie Mac is announcing the availability of QCIM, a secure web-based application that enables Seller/Servicers to manage performing and non-performing Mortgages through the quality control (QC) process. QCIM provides Seller/Servicers with direct and timely access to the status of QC loan file requests and all Freddie Mac repurchase and other remedy requests.

With the availability of QCIM, we are adding Section 2.26, *Quality Control Information Manager*, and Guide Exhibit 38, *Quality Control Information Manager Agreement*. The exhibit outlines the Seller/Servicer's responsibilities while using QCIM and supersedes any other QCIM terms of use document signed by the Seller/Servicer. Each Seller/Servicer using QCIM, by virtue of such use, will be deemed to have agreed to the terms and conditions set forth in Exhibit 38.

## Reminder: Mortgages secured by properties with a PACE obligation

Since 2010, the Federal Housing Finance Agency (FHFA) has taken the position that energy retrofit programs, such as PACE programs, which permit the imposition of a First Lien priority, "pose unusual and difficult risk management challenges for lenders, servicers and Mortgage securities investors," and change customary lending priorities. In Bulletin 2010-20, we announced our requirements regarding PACE obligations that provide for First Lien priority. With Bulletin 2011-2, we updated Guide Chapters 24, *Refinance Mortgages*, and B24, *Freddie Mac Relief Refinance Mortgages<sup>SM</sup> – Open Access*, to reflect the additional requirements applicable to refinance of Mortgages purchased by Freddie Mac before July 6, 2010 that are secured by properties subject to an energy retrofit loan originated before July 6, 2010 that provides for First Lien priority.

As a reminder, except for Relief Refinance Mortgages – Open Access originated in accordance with the requirements of Section 24.9, *Requirements for Refinance of Mortgages Secured by Properties Subject to an Energy Retrofit Loan*, Freddie Mac will not purchase Mortgages secured by properties subject to PACE obligations that provide for First Lien priority. Further, Seller/Servicers are responsible for monitoring State and local laws to determine whether a jurisdiction has a PACE program that provides for First Lien priority. In States or localities with PACE and PACE-like programs that provide for First Lien priority but require a "non-object" determination by the mortgagee, Seller/Servicers are required to object to the encumbrance of any Mortgage owned by Freddie Mac.

## Compliance with applicable laws

We are updating Sections 6.2 and 53.8, each titled *Compliance with Applicable Laws*, to state that Seller/Servicers cannot assume that because they comply with all applicable Freddie Mac requirements, that they therefore comply with all applicable federal, State and local laws, ordinances, regulations and orders. In light of recent agency regulations which impose obligations on Seller/Servicers that overlap with Freddie Mac requirements, Freddie Mac is reminding Seller/Servicers that they must take steps to ensure that they have fully evaluated, and complied with, all legal obligations as well as all obligations in Freddie Mac Purchase Documents.

## SELLING REQUIREMENTS

### Verification of payment history

The following changes are effective for Mortgages with Settlement Dates on or after **April 1, 2014**; however, Sellers are encouraged to implement them as soon as possible.

We are updating our requirements for verification of payment history for Manually Underwritten Mortgages.

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We are consolidating the documentation requirements for Tradelines, housing references and other Noncredit Payment References to provide consistency, eliminate redundancy and give Sellers additional guidance to ensure that required documentation is appropriate for the reference type. The changes include:

- Permitting the use of depository statements to document the Borrower's rental payment history (in addition to currently permitted canceled checks and receipts issued by the creditor)
- Requiring that, if the verification of a Noncredit Payment Reference on the credit report or direct verification is provided by a source other than a professional business, the Mortgage file must also include other documentation supporting the payment history
- Requiring that, if the Seller obtains canceled checks, receipts issued by the creditor or depository statements to document the Borrower's payment history, the Mortgage file must also contain documentation substantiating the terms of the debt
- Adding a requirement that receipts issued by the creditor are an acceptable form of documentation of payment history only when the payments were made in cash and there is no evidence in the Mortgage file indicating that payments were made by checks or direct bank transfers

Sellers should review Sections 37.4, *Establishing Borrower Credit Reputation*, 37.11, *Verification of Payment History*, and 37.20, *General Requirements for Verifying Documents*, for complete requirements.

## **Higher-priced covered transactions**

### **Effective for Mortgages with Application Received Dates on or after January 10, 2014**

In Bulletin 2013-16, we announced certain new eligibility requirements applicable to HPMLs, in response to the final rule of the Consumer Financial Protection Bureau (CFPB) implementing the ability to repay provisions under the Truth-in-Lending Act (TILA), as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("CFPB final rule"). Those eligibility requirements relate to Relief Refinance Mortgages and the qualifying rate for ARMs with Initial Periods of 7 or 10 years. In this Bulletin, we are announcing that those eligibility requirements are now applicable to higher-priced covered transactions (as defined in the CFPB final rule) and not solely to HPMLs. We are making these changes because an HPML is a mortgage loan secured by a principal dwelling, whereas a higher-priced covered transaction may be secured by a principal dwelling, a second home, or it may be an investor loan (not otherwise exempt from TILA), in each case with an annual percentage rate that exceeds the applicable rate spread specified in Regulation Z. The amended requirements, effective for Mortgages with Application Received Dates on or after January 10, 2014, are detailed below.

#### ***Relief Refinance Mortgages***

All higher-priced covered transactions, as defined in Regulation Z, 12 C.F.R. 1026.43(b), that are Relief Refinance Mortgages – Same Servicer and Open Access must meet requirements that include, but are not limited to, the following:

- Minimum Indicator Score of 620
- Maximum debt payment-to-income ratio of 45%
- Verification of income source and amount

For Relief Refinance Mortgages – Open Access that are higher priced covered transactions, Sellers must confirm that these requirements are met, regardless of the Loan Prospector<sup>®</sup> Risk Class.

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Sellers should review Sections A24.3, *Requirements for Freddie Mac Relief Refinance Mortgages<sup>SM</sup> – Same Servicer*, A24.4, *Delivery and Pooling Requirements*, and B24.3, *Requirements for Freddie Mac Relief Refinance Mortgages<sup>SM</sup> – Open Access*, for complete requirements.

### **Qualifying rate requirements for ARMs with Initial Periods of 7 or 10 years**

For all higher-priced covered transactions, as defined in Regulation Z, 12 C.F.R. 1026.43(b), that are ARMs with Initial Periods of 7 or 10 years (i.e., 7/1, 10/1, 7/6-month and 10/6-month ARMs), the Borrower must be qualified using the greater of the Note Rate or the fully-indexed rate.

Section 30.16, *Underwriting Requirements*, has been updated to reflect this change. Loan Prospector will be updated at a later date.

## **Relief Refinance Mortgages**

### **Eligibility date**

#### **Effective October 27, 2013**

As announced in our Single-Family Update e-mail on October 22, 2013, in order to make eligibility more transparent to Borrowers, we have revised our requirements for Relief Refinance Mortgages – Same Servicer and Open Access to provide that the eligibility of the Mortgage being refinanced is based on the Note Date instead of the Settlement Date. This includes Mortgages originated under the Home Affordable Refinance Program (HARP). The Mortgage being refinanced must have a Note Date on or before May 31, 2009.

Sections A24.3, B24.2, *Eligibility Requirements, Eligible Mortgages and Ineligible Mortgages*, and C24.3, *Requirements for Freddie Mac Relief Refinance Mortgages<sup>SM</sup> – Same Servicer with LTV Ratios Less than or Equal to 80%*, have been updated to reflect this change.

### **Land trusts**

We are updating Sections A24.3 and C24.3 to confirm that Mortgages secured by property in which the legal and equitable title is held by a land trust are eligible to be refinanced as Relief Refinance Mortgages – Same Servicer.

## **Requirements for verification of tax information for Borrowers with income from Puerto Rico, Guam and the U.S. Virgin Islands**

We are updating our requirements relating to verification of tax information for Borrowers with income derived from sources in Puerto Rico, Guam and the U.S. Virgin Islands that are exempt from federal income taxation under the Internal Revenue Code.

Sellers should review revised Sections A24.3, B24.3, C24.3, 37.13, *Stable Monthly Income and Asset Qualification Sources*, 37.22, *Streamlined Accept Documentation Requirements*, 37.23, *Standard Documentation Requirements* and 48.5, *Reverifications Made by Seller*, for complete requirements.

## **Signature requirements**

In response to Sellers' questions, we are clarifying that the Security Instrument must be signed by all individuals with an ownership interest in the Mortgaged Premises. Sellers should review Section 37.24, *Signatures Required*, for complete details.

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## ADDITIONAL GUIDE UPDATES

### Construction Conversion and Renovation Mortgages

In Bulletin 2013-11, we updated Section 2.2.1, *Introduction to Loan Prospector*<sup>®</sup>, to permit Sellers to resubmit Mortgages to Loan Prospector after the Note Date or the Effective Date of Permanent Financing for Construction Conversion and Renovation Mortgages. With this Bulletin, we are updating Section K33.10, *Underwriting*, to reflect these resubmission requirements. In addition we are eliminating requirements that are no longer applicable, such as those for Initial Interest Mortgages, which we no longer purchase, and are removing requirements from Section K33.10 that were duplicative of requirements included in Section 2.2.1.

### Home Possible<sup>®</sup> Mortgages

We are updating Section A34.2, *Defined Terms*, to remove the reference to money order receipts as they are not a permissible type of documentation of payment history.

### Home Ownership and Equity Protection Act of 1994 (HOEPA) updates

We are deleting the reference to HOEPA in Section F33.3, *Underwriting Financed Permanent Buydown Mortgages*. As stated in Section 22.33, *HOEPA Mortgages*, Mortgages that exceed the thresholds under HOEPA and its implementing regulations are ineligible for purchase by Freddie Mac.

## REVISIONS TO THE GUIDE

The revisions included in this Bulletin impact the following:

- Chapters 2, 6, 7, A24, B24, C24, 30, F33, K33, A34, 37, 48, 53 and 57
- Exhibit 38

## 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