



TO: Freddie Mac Sellers

October 15, 2014 | 2014-18

SUBJECT: SELLING UPDATES

This *Single-Family Seller/Service Guide* (“Guide”) Bulletin announces:

- Revisions to our Mortgage eligibility and credit underwriting requirements to:
 - Update our Home Possible® Mortgages offering
 - Update eligibility requirements and provide guidance applicable to Higher-Priced Covered Transactions (HPCTs) and Higher-Priced Mortgage Loans (HPMLs)
 - Permit third-party asset verifications
 - Permit the sale of one-year ARMs under WAC ARM Cash to Freddie Mac
- Revisions to our property eligibility requirements to:
 - Streamline and update our condominium requirements
 - Update certain property and appraisal requirements
- Updates and clarifications of certain Uniform Loan Delivery Dataset (ULDD) requirements reflected in the ULDD specification addendum published September 23, 2014

In addition to the above changes, we are making further updates and revisions, as described in the “Additional Guide Updates and Reminders” section of this Bulletin.

EFFECTIVE DATE

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

MORTGAGE ELIGIBILITY AND CREDIT UNDERWRITING

Home Possible Mortgages

Effective for Mortgages with Settlement Dates on or after November 24, 2014

We are removing certain restrictions on Home Possible Mortgages in our effort to make credit available to more Borrowers and support the purchase money market. In addition, we are expanding the benefits currently limited to Borrowers eligible for the Home Possible Neighborhood Solution® to apply to all Home Possible Borrowers, thereby maximizing the benefits for all qualifying members of the community. As a result of this expansion, the Home Possible Neighborhood Solution offering is being retired.

The changes include, but are not limited to:

- Permitting Freddie Mac’s standard requirements for temporary subsidy buydown plans on Mortgages secured by 1-unit and 2-unit properties
- Permitting any secondary financing meeting Freddie Mac requirements. Note that delivery fees will apply when the secondary financing is not an Affordable Second®.
- Permitting Mortgages, other than Mortgages secured by Manufactured Homes, to be manually underwritten without being submitted to Loan Prospector® first
- Permitting the use of gift funds to meet the minimum reserves requirements
- Revising the maximum monthly debt payment-to-income ratio for Manually Underwritten Mortgages from 43% to 45%

- Permitting zero contribution from Borrower Personal Funds on Mortgages secured by 2- to 4-unit properties and Manufactured Homes when loan-to-value (LTV)/total LTV (TLTV)/Home Equity Line of Credit TLTV (HTLTV) ratios are less than or equal to 80%
- Permitting Home Possible Mortgages to be Construction Conversion and Renovation Mortgages
- Permitting a 6% Life Cap for 5/1 ARMs
- Removing the requirement that the use of the Mortgage proceeds from a “no cash-out” refinance of a 2- to 4-unit property is limited to the unpaid principal balance and permitting Freddie Mac’s standard “no cash-out” refinance requirements for these Mortgages

Other updates include, but are not limited to:

- Requiring that the Seller verify that cash funds, when used as a source of Borrower Funds, are held in a financial institution prior to closing
- Updating Guide Exhibit 23, *Monthly Budget and Residual Analysis Form*, which is required when cash on hand is used
- Editorial changes to Guide Chapter A34, *Home Possible® Mortgages*, to simplify and improve ease of reference

Chapter A34, Guide Sections 2.2.1, *Introduction to Loan Prospector®*, 17.18, *Home Possible® Mortgages*, 25.2, *Refinance Mortgages with Secondary Financing*, 25.4, *Temporary Subsidy Buydown Plans*, 26.2, *Eligible Sources of Borrower Funds*, 26.5, *Reserves*, and K33.3, *Eligible and Ineligible Mortgages*, the Glossary, and Exhibits 23 and 25, *Mortgages with Risk Class and/or Minimum Indicator Score Requirements*, have been updated to reflect these changes. Additionally, for Seller convenience, we have posted Exhibit 23 as a fillable Portable Document Format (PDF) file.

Sellers are encouraged to review all impacted Guide sections and exhibits in their entirety to ensure understanding of all revised requirements for Home Possible Mortgages.

Loan Prospector and other Freddie Mac systems will be updated by November 24, 2014 to support these changes.

Higher-Priced Covered Transactions (HPCTs) and Higher-Priced Mortgage Loans (HPMLs)

On January 10, 2013, the Consumer Financial Protection Bureau (CFPB) issued a final rule implementing ability to repay provisions under the Truth-in-Lending Act, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“CFPB Final Rule”), which generally requires a Seller to make a reasonable, good faith determination of a Borrower’s ability to repay before originating a Mortgage and establishes certain protections from liability for qualified mortgages. In response to the CFPB Final Rule, Freddie Mac announced certain eligibility requirements applicable to HPMLs in Bulletin 2013-16. Those eligibility requirements were related to Freddie Mac Relief Refinance MortgagesSM and the qualifying rate for ARMs with Initial Periods of seven or ten years. Subsequently, Freddie Mac issued Bulletin 2013-23 to clarify that those eligibility requirements applicable to HPMLs were also applicable to HPCTs.

This Bulletin announces the following additional updates with respect to HPCTs and HPMLs:

Expansion of guidance

- Adding a Glossary definition for “Higher-Priced Covered Transactions” to include Primary Residences, second homes, and Investment Properties that are not exempt from the Truth-in-Lending Act. The HPCT Glossary definition is consistent with the guidance for HPCTs announced in Bulletin 2013-23.
- Deleting direct references to the regulatory definition of HPCT (i.e., as defined in Regulation Z, 12 C.F.R. 1026.43(b)) from the Guide as a result of the new Glossary definition
- Updating the Guide to include reference to HPML where HPCT is mentioned. While an HPML is also an HPCT secured by a Primary Residence, we decided to keep the term HPML in the Guide to ensure consistency with word usage and regulatory requirements set forth in Regulation Z. Under Regulation Z, 12 CFR 1026.35, HPMLs remain subject to regulatory requirements that are not applicable to HPCTs secured by second homes and Investment Properties, including escrow and appraisal requirements.

Loan Prospector feedback messages will be updated by November 24, 2014 to include reference to HPMLs where HPCTs are mentioned and to remove reference to the regulatory definition of HPCT.

Sellers should review Sections A24.3(h), *Requirements for Freddie Mac Relief Refinance Mortgages – Same Servicer*, B24.3(d)(i), *Requirements for Freddie Mac Relief Refinance Mortgages – Open Access*, 30.16, *Underwriting Requirements*, and the Glossary for the expanded guidance.

Updated HPCT and HPML requirements

- Renaming Section 22.35 from *Higher-Priced Mortgage Loans* to *Higher-Priced Mortgage Loans and Higher-Priced Covered Transactions*. The requirements within the section will now encompass and apply to all HPMLs and HPCTs.
- Expanding the eligible ARM products for HPMLs and HPCTs to include ARMs with Initial Periods of five years

These changes are effective for Mortgages with Application Received Dates on or after **October 15, 2014**.

Sellers should review Sections 22.35 and 30.3, *Eligible ARMs*, for the updated requirements. Additional applicable Guide sections have been updated to reflect these changes.

Resources

As a reminder, additional resources related to the updated requirements in response to the CFPB Final Rule referenced in this Bulletin can be found at the [Freddie Mac New Mortgage Eligibility Criteria web page](#). These resources include, but are not limited to, a list of frequently asked questions and a listing of additional Freddie Mac publications related to the CFPB Final Rule.

Determination of regulatory compliance

As stated in Bulletin 2013-16, Freddie Mac will not make the determination of whether a Mortgage is exempt from, or complies with, the CFPB Final Rule or whether a Seller's designation of the status of a Mortgage under the CFPB Final Rule is correct. These determinations of compliance with the CFPB Final Rule and other applicable laws are the Seller's responsibility.

Notice of changes to negotiated provisions

Pursuant to Section 12.3(d), *Changes to Master Agreements and Master Commitments*, negotiated provisions in Master Agreements and/or Master Commitments are amended as of the effective date announced in this Bulletin.

Third-party asset verifications

We are revising our requirements to permit third-party asset verifications in response to the emergence of third-party asset verification services. In addition, we are updating our requirements for third-party employment and income verifications. Sellers are reminded that they are responsible for ensuring the accuracy and integrity of the information provided by third-party verification services.

Section 37.20(c), *Third-Party Employment, Income and Asset Verifications*, has been updated to reflect these changes. Sellers should review this section for complete requirements.

One-Year ARMs purchased under WAC ARM Cash

Effective immediately, Freddie Mac will once again purchase one-year ARMs under WAC ARM Cash. We have updated Section 30.7(d), *Applicable Caps for Eligible ARM Products*, and Exhibit 17S, *Available Mortgage Products*, to reflect this change.

PROPERTY ELIGIBILITY

Special requirements for condominiums

In response to Seller feedback, we are providing additional details in Chapter 42, *Special Requirements for Condominiums*, about the sequential process flow of Freddie Mac's Condominium Project review and eligibility requirements, which supports an efficient and effective workflow.

Freddie Mac's Condominium Project eligibility requirements have two components:

- The general Condominium Project eligibility requirements in Section 42.2(b), *General Condominium Project Eligibility Requirements*
- The Condominium Project eligibility requirements for **one** of the particular project review types in either Section 42.4, *Streamlined Reviews*, 42.5, *Established Condominium Projects*, 42.6, *New Condominium Projects*, 42.7, *Other Condominium Projects*, or 42.9, *Reciprocal Project Reviews*

We are also updating our requirements and providing additional clarity in Chapter 42 including, but not limited to, the following:

- Reorganizing content by moving to Section 42.8(d) the provision on *Financing of Limited Common Elements* previously in Section 42.2(b)
- Removing a general project eligibility requirement in Section 42.2(b), an ineligible project type in Section 42.3, *Ineligible Projects*, and a reciprocal project eligibility review requirement in Section 42.9
- Deleting the list of examples in our New Condominium Project requirements for mortgagee consent in Section 42.6(i), *Mortgagee Consent*, as the list was not all inclusive
- Clarifying our streamlined review requirements for "spot" loan originations in Section 42.4
- Expanding the sources that may contain a requirement for timely written notice of certain events in Section 42.6(j), *Rights of Condominium Mortgagees and Guarantors*, for New Condominium Projects

Property and appraisal requirements

Information supplied to the appraiser

We are updating Section 44.3(h), *Information Supplied to the Appraiser*, to:

- Remove the requirement for the Seller to provide the appraiser with current homeowner association budgets because Freddie Mac does not require the appraiser to review the budget(s)
- Replace the term "Mortgage originator" with "a third party specifically authorized by the Seller." The use of this revised phrase is consistent with the requirements in Exhibit 35, *Appraiser Independence Requirements*.

Subject property occupancy standards

We are updating Section 44.2, *General Property Eligibility Requirements*, to match commonly used terminology by stating the property must be suitable for year-round occupancy.

In addition, we are removing repetitive and obsolete requirements in Sections 22.22, *Second Home Mortgages*, and 44.15(e), *Improvements Section*.

Uniform Collateral Data Portal[®] (UCDP[®]) messaging

We are updating Section 44.20(d), *UCDP Messaging*, to align with the functionality of the UCDP. We are also removing Exhibit 36, *Home Value Explorer[®] (HVE[®]) Messaging within the Uniform Collateral Data Portal[®] (UCDP[®])*, as information in this exhibit is outdated. All UCDP information pertaining to messaging is on our web site at http://www.freddie.com/singlefamily/sell/uniform_collateral_data_portal.html.

UNIFORM LOAN DELIVERY DATASET (ULDD) UPDATES

On September 23, 2014, Freddie Mac published the third quarter 2014 ULDD Addendum included in *Appendix A, Freddie Mac XML Data Requirements V3.4.0*, as "Tab 9Q3-ULDDS Addendum issued 9-23-14" (the "ULDD Addendum"). In addition to clarifications announced in Bulletin 2014-15, we are updating Chapter 17, *Mortgage Delivery Instructions*, to reflect updated requirements and clarifications from the ULDD Addendum including, but not limited to:

- Clarification to delivery instructions for ULDD Data Point *Current HELOC Maximum Balance Amount* (Sort ID 511). This revised instruction provides that if the maximum credit line has been modified, Sellers should enter the modified maximum credit line amount, even if the modified maximum credit line amount as of

the Note Date has been reduced to less than the disbursed HELOC amount entered in ULDD Data Point *HELOC Balance Amount* (Sort ID 512).

- Updates to delivery instructions for ULDD Data Point *Appraiser License Identifier* (Sort ID 525). These instructions provide that when the appraiser is a trainee and has a license identifier, Sellers should enter the trainee's license identifier in this field, and enter the supervisory appraiser's license identifier in ULDD Data Point *Appraiser License Identifier* (Sort ID 534, for Party Role Type "Appraiser Supervisor"). The instruction also provides that when the appraiser is a trainee and does not have a license identifier, Sellers should enter the word "trainee" in this field, and enter the supervisory appraiser's license identifier in ULDD Data Point *Appraiser License Identifier* (Sort ID 534).

These delivery instructions are consistent with those provided in the Uniform Appraisal Dataset (UAD) *Appendix D, Field-Specific Standardization Requirements*.

These revised instructions for ULDD Data Point *Current HELOC Maximum Balance Amount* (Sort ID 511) and ULDD Data Point *Appraiser License Identifier* (Sort ID 525) are effective for Mortgages with Freddie Mac Settlement Dates on or after **May 5, 2015**.

We have also updated applicable sections in Chapters 9, *Fixed-Rate Cash*, and 10, *WAC ARM Cash*, and Sections 17.4, *Cash Program Delivery Instructions*, and 17.33, *Mortgages Sold through the Servicing Released Sales Process*, to correct references to "Funding Date" for Mortgages purchased under the Cash program, as clarified in the ULDD Addendum.

Sellers should review the ULDD Addendum in its entirety to determine impacts to their systems or processes and for applicable effective dates.

ADDITIONAL GUIDE UPDATES AND REMINDERS

Systems license

Effective September 15, 2014

As announced in Bulletin 2014-16, to ensure that Guide licensing provisions appropriately cover the types of technology and intellectual property that Freddie Mac may provide or make available to Seller/Servicers in connection with the sale and/or Servicing of Mortgages, Freddie Mac has made the following changes:

- Deleted Section 2.17, *Software License*, which set forth terms and conditions applicable to Seller/Servicer's use of software and related documentation to the extent not covered by the terms of any other agreement between Freddie Mac and the Seller/Servicer
- Replaced deleted Section 2.17 with new Section 2.17, *Systems License*, which more broadly applies and sets forth terms and conditions applicable to Seller/Servicer's use of systems, software, applications and related documentation and output that are not covered elsewhere in the Guide or Purchase Documents by a separate license, user agreement, terms of use or similar document

As a result of these updates, we have deleted Section A1.8, *License Agreement*; this information can now be found within new Section 2.17.

Seller/Servicer institutional eligibility

To reflect the updates to Guide Form 16SF, *Annual Eligibility Certification Report*, announced in Bulletin 2014-2, we are:

- Updating Section 4.9, *Annual Eligibility Certification*, which was outdated and redundant
- Revising Section 4.10, *Annual Eligibility Reporting Requirements*, now retitled *Annual Reporting Requirements*

We are also removing references to Form 1107SF, *Seller/Servicer Change Notification Form*, from Section 4.10. Form 1107SF is completed and submitted by Seller/Servicers pursuant to Section 4.11, *Changes in Seller/Servicer's Organization or Status Reporting*, to notify Freddie Mac regarding specific events which have occurred or will occur rather than as an annual requirement.

Cross-references have been updated in applicable Guide sections as a result of these changes.

Equifax® FICO® score

Effective September 9, 2014

On September 9, 2014, Equifax changed the BEACON®, PinnacleSM and InScore® product names to be more consistent with FICO product names across the marketplace. Equifax's Automated Credit Reporting Online (ACRO) database now returns the "FICO" name in all of the applicable outputs (except XML output) where the "Beacon" name/verbiage was previously being displayed.

Therefore, we are updating Section 37.5, *Credit Scores*, to change references from "Beacon® Score" to "Beacon 5.0/Equifax FICO Score v5."

Directory 1 updates related to Document Custody eligibility

For Seller/Servicer convenience, we have reviewed our contact information for the notification and submission of information to Freddie Mac's Counterparty Credit Risk Management department and determined that the e-mail address, institutional_eligibility@freddiemac.com (which is used for many things, including the submission of Form 1107SF to Freddie Mac), may also be used as an option for the Seller/Servicer to notify Freddie Mac:

- In the event of any cancellation or non-renewal of any of the required insurance coverages for Document Custodians provided in Sections 18.2(b), *Basic Eligibility Requirements*, and 18.4(c), *Transit Insurance Requirements*
- The Document Custodian fails to comply with any eligibility requirement provided in Chapter 18, *Document Custody*

Directory 1 has been updated to reflect these changes.

Flexible payment loans

We are correcting Section 22.4, *Amortization*, to delete the reference to flexible payment loans, which are not eligible for sale to Freddie Mac.

Private mortgage insurance master policy reminder

As announced in Bulletin 2014-13, any Mortgage sold to Freddie Mac that requires private mortgage insurance and has an Application Received Date on or after **October 1, 2014** must be insured under one of the new private mortgage insurance master policies. Seller/Servicers should review Exhibit 10, *Freddie Mac Approved Mortgage Insurers*, periodically for current information on Freddie Mac-approved MIs, including the form numbers for the new master policies. Exhibit 10 can be accessed on FreddieMac.com at http://www.freddiemac.com/singlefamily/guide/mortgage_insurers.html.

Historical Guide Snapshot

For Seller/Servicer convenience, we have recently published the [September 15, 2014 Historical Guide Snapshot](#), which reflects the Guide requirements as of that date in PDF files. The snapshot includes two comprehensive files:

- A PDF file of the entire Guide, including a table of contents, easy-to-use navigational bookmarks and highlighting designating updates made to the Guide since the date of the last Guide snapshot
- A PDF file containing all of the Bulletins and Industry Letters issued since the date of the last Guide snapshot

All Guide snapshots are available at <http://www.freddiemac.com/singlefamily/guide/bulletins/snapshot.html>. As a reminder, these snapshots are not official versions of the Guide.

REVISIONS TO THE GUIDE

The revisions included in this Bulletin impact the following:

- Chapters 2, 4, 5, 6, 9, 10, 17, 22, 24, A24, B24, 25, 26, 30, K33, A34, 37, 42 and 44
- Exhibits 17S, 23, 25 and 36

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- Glossary
 - Directory 1

For a detailed list of the Guide updates associated with this Bulletin and the topics with which they correspond, refer to the Bulletin 2014-18 (Selling) Guide Updates Spreadsheet available at http://www.freddiemac.com/singlefamily/guide/docs/bl1418_spreadsheet.xls.

CONCLUSION

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

Sincerely,



Laurie Redmond
Vice President
Offerings Effectiveness