



TO: Freddie Mac Sellers

April 9, 2015 |

2015-4

## SUBJECT: SELLING UPDATES

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

### Credit underwriting

- Changes to [requirements for Mortgages with Affordable Seconds®](#)
- Changes to [reserves requirements](#) related to upcoming Loan Prospector® enhancements

### Property eligibility

- Changes to certain [condominium requirements](#)

### Electronic transactions

- Changes to allow delivery of [Mortgages with electronically created and signed closing documents](#) (other than the Note)

### Uniform Loan Delivery Dataset (ULDD)

- Updates and clarifications to [delivery instructions](#) in Guide Chapter 17, including changes consistent with the ULDD specification addendum published today

In addition to the changes listed above, we are making further updates and revisions 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.

## CREDIT UNDERWRITING

### Mortgages with Affordable Seconds

#### Effective for Mortgages with Settlement Dates on or after May 11, 2015

In our effort to increase access to mortgage credit and support the purchase money market, we are revising certain requirements for Mortgages with Affordable Seconds, to, among other things:

- Remove the restriction that Mortgages with Affordable Seconds must be Home Possible® Mortgages
- Require that Mortgages with Affordable Seconds be:
  - Fixed-rate Mortgages or ARMs with initial fixed-rate periods of five years or greater
  - Purchase or “no cash-out” refinance transactions, and
  - Secured by 1- to 4-unit Primary Residences
- Permit the interest rate of an Affordable Second to be up to 2% higher than the interest rate of the First Lien Mortgage
- Expand the requirements for participation in appreciation to permit the Agency’s share of appreciation to be up to 75%, subject to conditions
- Require that the source of an Affordable Second must not be the property seller or another interested party to the transaction

We are also consolidating all requirements for Affordable Seconds in Guide Section 25.2.

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The Freddie Mac Selling System will be updated on May 11, 2015, to remove the restriction limiting Mortgages with Affordable Seconds to Home Possible Mortgages. Sellers are encouraged to implement all other changes as soon as possible.

We are also consolidating requirements for purchase transaction and refinance Mortgages with secondary financing other than Affordable Seconds into Section 25.1.

Sections 17.18, 17.42, 24.5, 24.7, 26.6.2, A34.8, A34.14, A34.15 and Section 37.26, Guide Exhibit 34 and the Glossary definition of "Affordable Second" have also been updated to reflect these changes. Applicable footnotes in Exhibit 19 will be updated with a future Bulletin to reference updated Section 25.2.

## **Reserves requirements for Loan Prospector Mortgages**

### **Effective for all submissions and resubmissions to Loan Prospector on or after July 19, 2015**

#### ***Calculation of reserves***

We are enhancing Loan Prospector to calculate required reserves for the subject property. As a result, except as described below, the Seller must verify the reserves required by Loan Prospector, as stated on the Feedback Certificate, instead of verifying all reserves entered into Loan Prospector as currently required. This change is being made in response to customer feedback and will help streamline the underwriting process.

Loan Prospector will not be able to identify all of the necessary information to apply the additional reserves required for the following scenarios:

- The subject property is a Primary Residence and the Borrower's current Primary Residence is being converted to a second home or an Investment Property, or is pending sale and the sale will not close before the subject Note Date
- The subject property is a second home or an Investment Property and the Borrower owns, or is obligated on, other financed second homes and/or Investment Properties

As a result, in these instances, the Seller must determine and verify the additional reserves required by the Guide, in addition to the amount of reserves required to be verified on the Feedback Certificate.

Sections 26.5 and A34.10 have been updated to reflect these changes.

#### ***Resubmission to Loan Prospector***

We are revising the requirements for resubmission to Loan Prospector to provide that a resubmission is not required if the amount of verified reserves decreases to an amount that is no less than the reserves required to be verified on the Feedback Certificate.

Sections 2.2.1 and K33.10 have been updated to reflect this change.

## **CONDOMINIUM REQUIREMENTS**

We are revising certain requirements in Chapter 42 in light of recent market trends and in response to customer inquiries.

Key changes include:

- Expansion of our eligibility criteria for non-incident commercial (or non-residential) project space from 20% to 25% of the total square footage of the project (Section 42.3)
- Expansion of our acceptance of single-investor concentration for projects that consist of 5 – 20 units (Section 42.3)
- Modification of our eligibility criteria for projects subject to litigation (Section 42.3)
- Elimination of our "spot" loan requirements for streamlined reviews (Section 42.4)
- Expansion of our eligibility criteria for Established and New Condominium Projects with delinquent assessments by allowing the number of days for which no more than 15% of the total number of units are delinquent on assessments to be 60 days instead of 30 days (Sections 42.5 and 42.6)

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- Revisions to clarify that streamlined reviews are acceptable for Condominium Projects that consist of a mix of attached and detached units (Section 42.4)
  - Addition of language encouraging Sellers to obtain the Homeowners Association taxpayer identification numbers (TINs) for all Condominium Projects (Section 42.12)
  - Clarifications on Freddie Mac's expectations for Condominium Project reviews (Section 42.1)

We have revised the delivery instructions in Section 17.25 for ULDD Data Points *Project Classification Identifier* (Sort ID 42) and *Project Attachment Type* (Sort ID 41) to specify the appropriate valid values when there is a mix of attached and detached units in a project. The corresponding instructions in Sections A24.4 and B24.4, with respect to Freddie Mac Relief Refinance Mortgages<sup>SM</sup> – Same Servicer and Open Access, have also been updated. Section 42.12 has also been revised to add more details relating to Condominium Projects with a mix of attached and detached units.

Section 17.11 has been revised to remove a reference to site condominiums for ULDD Data Point *Attachment Type* (Sort ID 50).

## ELECTRONIC TRANSACTIONS

To align with industry efforts moving towards paperless Mortgages, Mortgages with electronically created and signed closing documents (other than the Note) are now eligible for sale to Freddie Mac. We previously only allowed Sellers to sell Mortgages with electronically created and signed initial loan documents and disclosures.

In addition, the initial and annual due diligence requirements related to systems used to conduct electronic transactions and create electronic documents are streamlined as follows:

- Sellers only need to obtain initial and annual certification from third-party providers certifying that their respective systems meet the Seller's minimum security standards and all other requirements for Eligible Electronic Transactions (as defined in Chapter 3) for or on behalf of (or in connection with) the Seller. Previously, Sellers were required to verify the third-party provider's compliance with Seller's minimum security standards and all other requirements for Eligible Electronic Transactions.
- Previously, a formal written legal analysis (or opinion) was required to confirm that the systems used by the Seller to create electronic initial loan documents and closing documents complied with the federal Electronic Signatures in Global and National Commerce Act ("E-SIGN") and/or the Uniform Electronic Transactions Act (UETA) and all applicable State and federal laws. Although a formal written legal analysis (or opinion) is no longer required, Sellers are still required to conduct due diligence, which includes consulting with computer technical and security experts and legal experts so that the Seller may certify to Freddie Mac that the Seller's system complies with E-SIGN and/or the UETA and all applicable State and federal laws.
- For the systems used by the third-party providers to create electronic initial loan documents and closing documents, the due diligence requirements are the same as the bullet above, except that third-party providers must provide initial and annual certification to the Seller that their respective systems comply with E-SIGN and/or the UETA and all applicable State and federal laws

Chapter 3 has been updated to reflect these changes. Additionally, Chapter 3 has been reorganized and renumbered, including:

- Separate sections for requirements applicable to all Eligible Electronic Transactions (Sections 3.3 through 3.3.6)
- Separate sections for additional requirements for Initial Loan Documents and Closing Documents (Sections 3.4 through 3.4.6)

We have also revised Exhibit 7, now titled *Electronic Loan Documents*, to reflect the updated lists of loan documents that may and may not be electronic.

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## UNIFORM LOAN DELIVERY DATASET UPDATES

Today Freddie Mac published the first quarter 2015 ULDD Addendum included in Appendix A, Freddie Mac XML Data Requirements V3.5.1 ("Appendix A") as "Tab 9Q1-ULDDS Addendum Issued 04-09-15" ("ULDD Addendum"). We are making the following updates in Chapter 17, consistent with the ULDD Addendum:

- Adding a delivery instruction for ULDD Data Point *MI Certificate Identifier* (Sort ID 412) to Section 17.26 to clarify that a value between 5 and 10 characters, as noted in Exhibit 10, needs to be entered for the valid value. The corresponding instructions in Sections A24.4 and B24.4, with respect to Relief Refinance Mortgages - Same Servicer and Open Access, have also been updated.
- Updating the delivery instructions for ULDD Data Point *Property Valuation Form Type* (Sort ID 85) in Section 17.11 to reflect the full title of Form 1072, *Two- To Four-Unit Residential Appraisal Field Review Report*
- Updating the delivery instructions for ULDD Data Points *Project Attachment Type* (Sort ID 41) and *Project Classification Identifier* (Sort ID 42) in Section 17.25 and *Attachment Type* (Sort ID 50) in Section 17.11 as noted in the "Condominium Requirements" section above

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

We are also making the following changes to Chapter 17:

- Updating the delivery instructions for ULDD Data Point *Prepayment Penalty Indicator* (Sort ID 240) in Section 17.7 to align with the removal of references to Prepayment Penalty Mortgages noted in the "Removal of Guide references to 40-Year Mortgages and Prepayment Penalty Mortgages" section below
- Deleting a duplicate reference to ULDD Data Point *Borrower Mail To Address Same as Property Indicator* (Sort ID 572) from Section 17.12(a)(i). Delivery instructions for this ULDD Data Point remain in Section 17.12(a)(ii).
- Updating Section 17.3 to include a reference to Exhibit 34, which contains the current Mortgage characteristics captured by the delivery of investor feature identifiers

## ADDITIONAL GUIDE UPDATES

### Updates to Form 906, *Freddie Mac Loan Coverage Advisor*<sup>SM</sup> *Authorized User Role Form*

We have updated Form 906 to increase ease of customer use. Seller/Servicers are now given the option to request read-only access for all of their Seller/Servicer numbers without having to list all of those numbers. After access to Loan Coverage Advisor has been granted, it is the responsibility of the Seller/Servicer to review their access and to advise Freddie Mac if their Seller/Servicer access is not complete.

Sections 2.27 and 51.28 have also been updated for additional clarity and to specify that Seller/Servicers are responsible for confirming their Seller/Servicer numbers:

- Reported to Freddie Mac on Form 906, and
- Reported to the Seller/Servicer pursuant to Form 906

### Property valuation and appraisal clarifications

#### *General appraisal requirements*

We are revising Section 44.3 to include an overview of Freddie Mac's expectations relating to property valuation and appraisal reporting, and to update language regarding representations by appraisers and unacceptable appraisers.

#### *Guide updates related to inspection reports and property valuation documentation*

We are removing multiple Guide references to "inspection reports" to align with changes announced in Bulletin 2014-2, which included deletion of references to the Property Inspection Alternative (PIA).

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Sections 2.2.1, 42.8, 44.1, 44.3, 44.12, 44.21, 46.10, 48.5 and the Glossary definition for “Minimum Assessment Feedback (MAF)” have been updated to remove these references.

In Sections 48.6, 48.7 and 48.8, we are also revising references to “appraisal report” and “appraisal documentation” to a more comprehensive reference of “property valuation documentation.”

### **Removal of Guide references to 40-Year Mortgages and Prepayment Penalty Mortgages**

In Bulletin 2013-16 we announced that, effective for Mortgages with Application Received Dates on or after January 10, 2014 or Settlement Dates after July 31, 2015, the following Mortgages are not eligible for sale to Freddie Mac:

- Mortgages with original maturities in excess of 30 years
- Prepayment Penalty Mortgages

Applicable Guide sections, forms and exhibits have been updated to remove references to 40-year Mortgages and Prepayment Penalty Mortgages.

Chapter B33, Section 17.17 and Exhibit 22 have been deleted in their entirety.

### **Revision to remove tables with limited PC disclosure data**

We are updating Sections 13.3 and A13.3 to eliminate tables that highlighted limited PC disclosure data provided by Freddie Mac.

These sections instead now refer to our Disclosure Guide at [www.freddiemac.com/mbs/index.html](http://www.freddiemac.com/mbs/index.html), which provides a more robust, comprehensive and current listing of disclosure data that Freddie Mac provides for eligible Mortgages.

## **REVISIONS TO THE GUIDE**

The revisions included in this Bulletin impact the following:

- Chapters 2, 3, 6, 9, 11, 13, A13, B15, C15, D15, 17, 22, 24, A24, B24, 25, 26, 27, 30, B33, C33, E33, F33, I33, K33, L33, A34, 37, 42, 44, 46, 48 and 51
- Form 906
- Exhibits 7, 17S, 22 and 34
- Glossary

For a detailed list of the Guide updates associated with this Bulletin and the topics with which they correspond, refer to the Bulletin 2015-4 (Selling) Guide Updates Spreadsheet available at [http://www.freddiemac.com/singlefamily/guide/docs/bl1504\\_spreadsheet.xls](http://www.freddiemac.com/singlefamily/guide/docs/bl1504_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,



Christina K. Boyle  
Senior Vice President  
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