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**TO: Freddie Mac Sellers**

September 14, 2017 | 2017-20

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## **SUBJECT: SELLING UPDATES**

This Guide Bulletin announces:

### **Credit underwriting**

- Changes to our [requirements for Mortgages when assets are used as a basis for repayment of obligations](#) (formerly referred to as “assets as a basis for Mortgage qualification”)
- [Requirements for restricted stock \(RS\) and restricted stock unit \(RSU\) income types](#)
- [Updates to our asset eligibility requirements](#)

### **Super conforming 5-year ARMs**

- [Super conforming 5-year ARMs are eligible for purchase](#)

### **Appraisal requirements**

- Updates to specify that [unlicensed, trainee \(or similar classification\) appraisers may perform the appraisal and sign the appraisal report](#)
- Revisions to our [appraisal requirements for super conforming Mortgages](#)
- [Removal of the requirement that copies of multiple listing service \(MLS\) photographs may only be used for comparable sales](#) if original photographs are not available

### **Owner-occupancy requirements for New Condominium Projects**

- [Changing the owner occupancy requirement from at least 70% of the total units in the project to at least 50%](#) of the total units in the project

### **Condominium insurance**

- [Updates to our requirements for Condominium Unit insurance](#)

### **Additional Guide updates**

- Further updates 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**

### **Assets as a basis for repayment of obligations**

Based on Seller feedback and after reviewing our requirements, we are changing and expanding the requirements of Guide Section 5307.1, formerly titled “Assets as a basis for Mortgage qualification.” The changes include, but are not limited to, the following:

#### ***New asset types***

We recognize that Borrowers may maintain significant funds in securities and depository accounts and may use those funds to pay their monthly obligations. As a result, we are adding depository accounts and securities as eligible asset types, subject to conditions which include, but are not limited to, the following:

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- We are limiting the use of these accounts to Mortgages in which at least one Borrower is 62 years old or older. Borrowers who are of retirement age are more likely than younger Borrowers to use saved funds to make debt payments as they decrease their participation in the workforce or exit it entirely. Although retirement age may differ from one Borrower to another, we wanted to choose an age which was representative of the majority of cases. Because fair lending laws prohibit discrimination on the basis of age but permit favoring applicants 62 years or older, we set this age as a reasonable approximation for retirement-age.
  - The Borrower must be the sole owner of the assets, or if the assets are jointly owned, each owner must be a Borrower on the Mortgage and/or on the title to the subject property
  - The account, less any portion pledged as collateral for a loan or otherwise encumbered, must be accessible by the Borrower in its entirety as of the Note Date
  - Account funds must not be subject to a withdrawal or other penalty, and
  - The Seller must document the source of funds for any deposit exceeding 10% of the Borrower's total eligible assets in depository accounts and securities, and verify that the deposit does not include gifts or borrowed funds, or reduce the eligible assets used to qualify the Borrower by the amount of the deposit

#### ***Asset calculation for establishing the debt payment-to-income ratio***

We analyzed historical rates of returns on savings and investments and have removed the requirement that no more than 70% of the balance of an eligible asset be used as a basis for the debt-to-income ratio calculation. The following must be subtracted from the total amount of eligible assets:

- Funds required to be paid by the Borrower to complete the transaction (e.g., Down Payment and Closing Costs)
- Any gift funds and borrowed funds, and
- Any portion of the assets pledged as collateral for a loan or otherwise encumbered

Guide impacts: Sections 4302.2, 4303.3, 4304.5, 5302.5, 5303.5, 5307.1 and 5501.3

#### **Restricted stock and restricted stock units**

Employers increasingly include RS and RSU as a component of employee compensation. RS are grants of company shares which represent equity interest in the company. RSU are grants valued in terms of company shares that do not represent equity interest in the company. Both RS and RSU are subject to a restriction period during which recipients are not permitted access to granted shares until vesting requirements are met. Vesting requirements are based on varying criteria but the most common types are:

- Performance-based (e.g., a certain percentage of total granted shares vest based on individual or corporate performance), and
- Time-based (e.g., a certain percentage of total granted shares vest after a pre-determined period of employment)

As a result of the increased use of RS and RSU, we are providing requirements and guidance on how to calculate, analyze and document these types of income.

Guide impacts: Sections 4302.2, 4303.3, 4304.5, 5301.1, 5303.3, 5303.4 and 5501.3

#### **Asset eligibility requirements update**

We are specifying that any stock with limitations on its accessibility is not an eligible source of funds to qualify the Borrower for the Mortgage transaction.

Guide impact: Section 5501.3

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## **SUPER CONFORMING 5-YEAR ARMS**

In response to Seller requests and to provide Borrowers with an additional option for Mortgage financing, we have updated our eligibility requirements for super conforming Mortgages to add 5-year ARMs as eligible for purchase. Refer to Guide Chapter 4401 and Guide Exhibit 17S for applicable ARM requirements. As a reminder, all 5-year ARMs are eligible for sale only under the WAC ARM Guarantor Program; they are not eligible under WAC ARM Cash.

If a Seller is not already eligible to sell us 5-year ARMs, it must contact its Freddie Mac Account Representative to obtain the ability to do so.

Loan Product Advisor® has been updated to reflect this change.

Guide impact: Section 4603.3

## **APPRAISAL REQUIREMENTS**

### **Trainee and supervisory appraisers**

In response to Seller inquiries we are specifying that an unlicensed or trainee (or similar classification) appraiser may perform and sign an appraisal report in accordance with State law. We are also specifying that an unlicensed or trainee (or similar classification) appraiser may perform a completion report as long as a supervisory appraiser also signs the completion report.

Loan Product Advisor has been updated to reflect this change.

Guide impacts: Sections 5601.3, 5601.5 and 5601.11

### **Super conforming Mortgages**

We are streamlining our appraisal requirements by no longer requiring: (i) an appraisal field review report for super conforming Mortgages when the loan-to-value (LTV)/total LTV (TLTV)/Home Equity Line of Credit (HELOC) TLTV (HTLTV) ratio is greater than 75% and the value is \$1 million or greater (ii) the use of a lower value and (iii) the appraiser be qualified to perform appraisals without oversight or supervision.

Loan Product Advisor has been updated to reflect this change.

Guide impact: Section 4603.5

### **Using multiple listing service photographs for comparable sales**

Previously, copies of MLS photographs could be used for comparable sales only if the original photographs could not be obtained. Additionally, an explanation was required by the appraiser as to why MLS photographs were being used.

To provide flexibility and create efficiency in the appraisal and underwriting processes, we are removing these requirements and now allow clear electronic images, including copies of MLS photographs, to be used for comparable sales without an explanation from the appraiser.

Guide impact: Section 5601.10

## **OWNER-OCCUPANCY REQUIREMENTS FOR NEW CONDOMINIUM PROJECTS**

Previously, we required at least 70% of the total units in a New Condominium Project (or at least 70% of the sum of the subject legal phase and prior legal phases) must have been conveyed or under contract to purchasers, other than the developer or its successor, who will occupy the units as their Primary Residences or second homes.

In response to Seller inquiries and to provide Sellers more flexibility in delivering Mortgages secured by units in New Condominium Projects, we are revising the owner occupancy requirement to at least 50% of the total units in the project (or at least 50% of the sum of the subject legal phase and prior legal phases).

Guide impact: Section 5701.6

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## CONDOMINIUM UNIT INSURANCE

In response to Seller/Servicer feedback, we are specifying that an HO-6 unit owner policy is acceptable when the condominium homeowners association (HOA) master policy does not cover the unit or the improvements to the unit.

Section 8202.2 requires Condominium Projects be insured under an HOA master insurance policy. The condominium HOA's policy must insure buildings and structures in the project, machinery and equipment for the service of the project and fixtures and improvements within the individual unit. The project's governing documents will provide requirements for the Condominium Unit owner responsibility to insure the unit. To the extent the condominium HOA's policy does not cover the interior of the unit or the improvements to the unit, the Borrower must maintain an HO-6 unit owner policy. If the HOA's policy covers the unit as required, an HO-6 would not be needed.

Guide impact: Section 8202.2

## ADDITIONAL GUIDE UPDATES

### System-specific licenses for Selling tools and systems updates

We are updating Chapter 2402 to:

- Clarify that HVE® data can be shared when required under specified law
- Add Correspondent Assignment Center as a new service offering in the Freddie Mac Loan Advisor Suite®

Additionally, we updated Section 2401.1 to allow a Seller/Servicer to share Authentication Credentials with Related Third Parties (as defined in Section 2401.1(b)).

Guide updates: Sections 2402.2, 2402.3, 2402.4 and 2402.7

### Secondary Market Advisor use of the Selling System®

We are updating Guide Form 478 to reflect that Secondary Market Advisors (SMAs) become parties to the [Related Third Party Agreement](#), which is Freddie Mac's licensing framework for non-Seller/Servicer use of Freddie Mac's technology platforms, including the Selling System. An SMA, by accessing the Selling System in its role as a Selling Agent, is subject to the Related Third Party Agreement and certain Guide provisions generally applicable to Sellers.

Guide impacts: Section 2403.3 and Form 478

## GUIDE UPDATES SPREADSHEET

For a detailed list of the Guide updates associated with this Bulletin and the topics with which they correspond, refer to the Bulletin 2017-20 (Selling) Guide Updates Spreadsheet available at [http://www.freddiemac.com/singlefamily/guide/docs/bl1720\\_spreadsheet.xls](http://www.freddiemac.com/singlefamily/guide/docs/bl1720_spreadsheet.xls).

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## CONCLUSION

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

Sincerely,

A handwritten signature in cursive script, reading "Christina K. Boyle". The signature is written in dark ink on a light background.

Christina K. Boyle  
Senior Vice President  
Single-Family Sales and Relationship Management