



TO: Freddie Mac Sellers

October 31, 2018 | 2018-19

SUBJECT: SELLING UPDATES

This Guide Bulletin announces:

Origination and underwriting

- Updates to our [rental income](#) requirements – **March 1, 2019**
- Updates to our documentation requirements for [Social Security retirement and disability benefits](#)

“No cash-out” refinance of a Mortgage owned or securitized by Freddie Mac

- Removal of the special loan-to-value (LTV)/total LTV (TLTV)/Home Equity Line of Credit (HELOC) TLTV (HTLTV) ratio requirements for a [“no cash-out” refinance](#) of a Mortgage owned or securitized by Freddie Mac – **February 1, 2019**

Concurrent Transfers of Servicing

- The elimination of the mandatory expiration date on [Guide Form 960](#) (“Concurrent Transfer of Servicing (CTOS) Agreement”), which means that Sellers no longer need to submit a new Form 960 annually

Settlement Closing/Disclosure Statements

- Updates to our requirements for [Settlement/Closing Disclosure Statements](#)

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.

ORIGINATION AND UNDERWRITING

Rental income

Effective for Mortgages with Settlement Dates on and after March 1, 2019; however, Sellers may implement these changes earlier if they are able to do so

In Bulletin 2018-13, we further extended the effective date for rental income requirements announced in Bulletin 2017-12 to March 1, 2019 to enable us to review and consider all Seller feedback. After our review of Seller feedback, coupled with our internal review and analysis, we are updating our requirements as follows.

- For simplification, we are removing the requirement that the net rental income considered for qualification must not exceed 30% of the Borrower’s monthly qualifying income unless the Borrower has a minimum of one-year rental management experience
 - To support sustainable homeownership through responsible lending practices, we are adding the requirements:
 - The Borrower must own a Primary Residence to use rental income to qualify when purchasing a new rental property; and
 - Whether purchasing a new rental property or converting a Primary Residence to a rental property, if the Borrower does not have a minimum of one-year investment property management experience:
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- The rental income can only offset the principal, interest, taxes and insurance (PITI) of the rental property; and
 - Rental income exceeding the PITI cannot be added to the Borrower's gross monthly income to qualify

Additionally, we will require only the Borrower's most recent federal income tax return, in lieu of the most recent two years' federal income tax returns. Rental income must be annualized unless the Mortgage file documents that the property was renovated or purchased late in the prior calendar year.

Sellers may originate, underwrite and deliver Mortgages based either on the rental income requirements:

- In effect prior to Bulletin 2017-12 in their entirety
- The revised rental income requirements announced in Bulletin 2017-12 in their entirety (and for which the effective date was extended in Bulletins 2018-1 and 2018-13); or
- The revised rental income requirements in the March 1, 2019 version of Guide Section 5306.1 in their entirety

For Mortgages with Settlement Dates on and after March 1, 2019, Sellers must originate, underwrite and deliver Mortgages in accordance with the rental income requirements in the March 1, 2019 version of Section 5306.1.

Loan Product Advisor® feedback messages will be updated by March 1, 2019 to reflect these changes.

Guide impact: Section 5306.1

Documentation requirements for Social Security retirement and disability benefits

Previously, for all sources of retirement and long-term disability income the Guide required Sellers to document:

- The income type, source, payment frequency, pre-determined payment amount; **and**
- Current receipt of income

After our review of Social Security retirement and disability benefits granted by the Social Security Administration, we are revising documentation requirements to permit:

- A copy of the Social Security Administration benefits verification letter; **or**
- Documentation evidencing current receipt of Social Security retirement or disability benefits

Loan Product Advisor feedback messages have been updated to reflect these changes.

Guide impact: Section 5305.2

RETIREMENT OF SPECIAL LTV/TLTV/HTLTV RATIO REQUIREMENTS FOR “NO CASH-OUT” REFINANCES OF MORTGAGES OWNED OR SECURITIZED BY FREDDIE MAC

Effective for Mortgages with Settlement Dates on and after February 1, 2019

In Bulletin 2017-17, we announced that we were planning to retire special LTV/TLTV/HTLTV ratio requirements for a "no cash-out" refinance of a Mortgage owned or securitized by Freddie Mac due to the implementation of the Freddie Mac Enhanced Relief Refinance® Mortgage offering.

We are now updating the Guide to remove the special LTV/TLTV/HTLTV ratio requirements for a "no cash-out" refinance of a Mortgage owned or securitized by Freddie Mac. This includes the removal of related special delivery requirements in Section 6302.16, which currently requires the delivery of ULDD Data Point, *Investor Feature Identifier* (IFI) (Sort ID 368) and enter the valid value of "D99."

Loan Selling Advisor® will be updated by February 1, 2019 to prevent the delivery of IFI D99.

Guide impacts: Sections 4203.4, 4301.4, 5701.7, 6302.16 and Guide Exhibit 34

CONCURRENT TRANSFERS OF SERVICING

In our continuing effort to create operational efficiencies and streamline the Transfer of Servicing process, we are eliminating the mandatory expiration date on the CTOS Agreement, which results in Sellers no longer needing to submit a new CTOS Agreement annually.

Effective today, the expiration date field on the CTOS Agreement is optional. CTOS Agreements where the expiration date field is left blank will remain in effect until either Freddie Mac, the Transferor Servicer (Seller), or the Transferee Servicer terminate the CTOS Agreement.

In lieu of reviewing and approving CTOS Agreements annually, Freddie Mac will monitor the financial condition and performance of the Transferor Servicer (Seller) and the Transferee Servicer and may, in our discretion, rescind or suspend approval of the CTOS Agreement.

The Transferor Servicer or Transferee Servicer may terminate the CTOS Agreement by first providing notice to the other (Transferor Servicer or Transferee Servicer as applicable) and then to Freddie Mac via e-mail to TOS@freddiemac.com at least five Business Days prior to the requested termination date.

In addition to making the expiration date on the CTOS Agreement optional, we are updating the form to remove the aggregate UPB field, references to Senior Subordinate Mortgages, and references to remittance types and cycles that Freddie Mac no longer supports. The terms and conditions were also updated to be consistent with the Servicing Contract.

With the Transferee Servicer's agreement, Freddie Mac will remove the expiration date on all CTOS Agreements currently with expiration dates of November 1, 2018 or later. To effect this change, Freddie Mac will provide the Transferee Servicer with a list of existing CTOS Agreements that they have with each Transferor Servicer (Seller) and ask the them to indicate on the list which agreements should no longer be subject to an expiration date and which agreements should remain subject to their existing expiration date. The Transferee Servicer must return the list via e-mail to TOS@freddiemac.com no later than December 14, 2018 and must copy the Transferor Servicer (Seller) on such e-mail. Freddie Mac will deem those CTOS Agreements that the Transferee Servicer indicated to be no longer to be subject to an expiration date to continue in effect until terminated by the Transferor Servicer (Seller), Transferee Servicer, or Freddie Mac in accordance with the updated Form 960.

If the Transferee Servicer does not provide the list to Freddie Mac by the December 14, 2018 indicating that they wish to remove the expiration date of their CTOS Agreement(s), then such agreements will expire in accordance with their expiration dates.

The Transferor Servicer's delivery of Mortgages to Freddie Mac and CTOS of the related Servicing Rights to the Transferee Servicer after the expiration date on the related CTOS Agreement, which the Transferee Servicer has indicated should no longer be subject to an expiration date, shall be deemed to be the Transferor Servicer's acceptance of the Freddie Mac's and the Transferee Servicer's removal of the expiration date.

All other CTOS requirements in Guide Chapter 7101 remain unchanged.

Guide impacts: Sections 7101.2, Form 960 and Directory 3

SETTLEMENT/CLOSING DISCLOSURE STATEMENT

Currently, the Guide permits the use of any settlement or closing disclosure required by applicable federal, State or local law. However, Freddie Mac and Fannie Mae ("GSEs") have jointly agreed to require the Uniform Closing Dataset XML file, with the embedded PDF document of the Closing Disclosure required under the federal Truth-in-Lending Act ("TILA"), be delivered on all Mortgages with Note Dates on and after September 25, 2017. To meet this requirement, Sellers must create or obtain (in the event the Seller does not originate, but purchases the Mortgage or otherwise acquires it from a Correspondent or Mortgage Broker) the Closing Disclosure form for each Mortgage, regardless of whether another form might also be required by a State or local law. As a result, we are revising the Guide Glossary definition of "Settlement/Closing Disclosure Statement" to state:

Settlement/Closing Disclosure Statement

Except as provided below in connection with certain Servicing transactions, the Settlement/Closing Disclosure Statement means the closing disclosure required under the federal TILA for Mortgages subject to the

TILA/Real Estate Settlement Procedures Act (RESPA) Integrated Disclosure (“TRID”) rules, whether or not the TRID rules apply to the transaction.

With respect to an all-cash short sale or other Servicing transactions for which no settlement and/or closing disclosure is required by applicable law, the term Settlement/Closing Disclosure Statement means (i) a closing disclosure under the TRID rules, or (ii) any other settlement statement or closing disclosure that the Servicer determines would have otherwise been required by applicable State or local law should the TILA disclosure not be required.

Several sections of the Guide require the Settlement/Closing Disclosure Statement to be provided for transactions other than the Mortgage being sold to Freddie Mac (e.g., to document closing costs paid at closing of a simultaneous secondary financing). We are updating these Guide sections to require the Settlement/Closing Disclosure Statement or an alternative form required by law, without requiring that it must be the TILA-compliant form.

We are also specifying that any related documentation must be:

- Provided with the Settlement/Closing Disclosure Statement in the Mortgage file submitted for Freddie Mac Quality Control (QC) review; and
- Reviewed with the Settlement/Closing Disclosure Statement by the Seller during its postclosing QC review

This is intended to capture instances where:

- Another type of closing disclosure is required by a State or local law in addition to the TILA-compliant form
- Any other related documentation is obtained in connection with closing the Mortgage

Additionally, we are removing the requirement that for Mortgages with Application Received Dates prior to October 3, 2015, the Mortgage file must include the estimated and final Settlement/Closing Disclosure Statements signed by all parties since such Mortgages should already have been sold to us.

Loan Product Advisor feedback messages have been updated to reflect these changes.

Guide impacts: Sections 2402.2, 3401.20, 3401.25, 3401.26, 3402.7, 4204.1, 4204.2, 4301.5, 4602.12, 5501.3, 5801.1, 6302.7 and Glossary R-Z

ADDITIONAL GUIDE UPDATES

Enhanced Relief Refinance Mortgages

Effective for Mortgages with Application Received Dates on and after November 1, 2018

With the upcoming implementation of the Enhanced Relief Refinance offering, we are updating:

- The payment history requirements for the Mortgage being refinanced to specify that it must not have been 60 or more days delinquent in the most recent 12 months. As a result, the Mortgage being refinanced must have a Mortgage payment history that indicates that the Mortgage:
 - Has not been 30 days delinquent in the most recent six months; and
 - Has not been 30 days delinquent more than once in the most recent 12 months; and
 - Has not been 60 or more days delinquent in the most recent 12 months
- Requirements for the principal and interest payment increase in Section 4304.5 to remove the reference to more than one payment option under the Note for the Mortgage being refinanced, since any Mortgage owned or securitized by Freddie Mac and eligible to be refinanced as an Enhanced Relief Refinance Mortgage will have only one payment option
- Section 4304.7 to reflect the changes to our appraisal requirements for super-conforming Mortgages announced in Bulletin 2017-20

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- Section 4304.7 to reflect the revisions to our appraisal requirements for Mortgages with Settlement Dates more than 120 days after the Note Date announced in Bulletin 2017-23

Guide impacts: Sections 4304.1, 4304.5 and 4304.7

Agreement and Certificate of Incumbency for Warehouse Lenders

For ease of Seller use, we are combining Form 475 with Form 990SF and deleting Form 475. We are also retitling the form to *Agreement and Certificate of Incumbency: Warehouse Lender*.

Guide impacts: Forms 475 and 990SF

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 2018-19 (Selling) Guide Updates Spreadsheet available at http://www.freddiemac.com/singlefamily/guide/docs/bl1819_spreadsheet.xls.

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,



Christina K. Boyle
Chief Client Officer
Single-Family Sales, Marketing and Relationship Management