



**TO: Freddie Mac Sellers and Servicers**

November 13, 2018 | 2018-21

**SUBJECT: SELLING AND SERVICING UPDATES**

This Guide Bulletin announces:

**GreenCHOICE Mortgages<sup>SM</sup>**

- Requirements for [Mortgages secured by properties that are energy and/or water efficient](#) – **May 1, 2019 (New)**

**Property insurance requirements for condominiums**

- Updated requirements for Condominium Project and unit owner [flood insurance](#)
- Updated requirements for insurance policy premium collection for [Condominium Projects located in Puerto Rico](#)

**EFFECTIVE DATE**

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

**GREENCHOICE MORTGAGES**

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

Freddie Mac believes that reducing home utility costs places families in a better financial situation and helps preserve home affordability over time. Therefore, under our [Duty to Serve](#) plan, we have committed to facilitate the financing of energy efficiency improvements and energy efficient homes with the objective of helping more families across the United States attain and maintain home affordability. In support of our continuing efforts to preserve housing affordability, we are introducing GreenCHOICE Mortgages<sup>SM</sup>, Freddie Mac’s solution for energy efficient home improvements.

**Selling requirements**

The requirements for GreenCHOICE Mortgages, outlined in the table below, are found in new Guide Chapter 4606 and expand our support for homeowners looking to finance energy and/or water efficient improvements or purchase a home and finance energy and/or water efficient improvements through existing products. These changes will assist more low- and moderate-income Borrowers in becoming home owners and/or maintaining homeownership by allowing them to spend less on energy and/or water expenses each month and more towards their monthly housing expense.

Topic	New requirements
<p><b>Financing for energy and/or water efficiency improvements</b></p>	<ul style="list-style-type: none"> <li>• Providing flexibility to finance the costs of energy and/or water efficiency improvements that are to be completed after the Note Date with the proceeds from a “no-cash out” or purchase transaction</li> <li>• The costs of these improvements can be financed up to 15% of the “as completed” value of the Mortgages Premises versus the 10% maximum for other incomplete improvements</li> <li>• An escrow account must be established at the time of closing</li> </ul>

Topic	New requirements
	<ul style="list-style-type: none"> <li>• Except as stated in the following bullet, an energy report is required to verify that the improvements are cost effective</li> <li>• Basic energy and/or water efficiency improvements with an aggregate cost less than or equal to \$6,500 may be completed without obtaining an energy report</li> <li>• A completion report is required to verify the work has been completed</li> </ul>
<b>Energy report requirements for housing expense-to-income and debt-to-income flexibilities</b>	Requiring specific supporting documentation be maintained in the Mortgage file if a higher housing expense-to-income ratio and/or debt-to-income ratio is determined to be appropriate and used when manually underwriting a Mortgage

### **Delivery requirements**

We are updating the Guide to include special delivery requirements for GreenCHOICE Mortgages. Sellers must now deliver a new valid value of “J08” for ULDD Data Point *Investor Feature Identifier* (IFI) (Sort ID 368) to indicate a Mortgage is a GreenCHOICE Mortgage.

Loan Selling Advisor® will be updated in support of these changes for Mortgages with Settlement Dates on and after May 1, 2019.

### **Credit Fee in Price**

To help offset transactional costs, Freddie Mac will apply a \$500 credit for Credit Fees in Price (the “GreenCHOICE Mortgage Credit”) when Sellers deliver IFI “J08.” Sellers must deliver the IFI in order to receive the GreenCHOICE Mortgage Credit.

### **Transfer of Servicing requirements**

For GreenCHOICE Mortgages originated under the provisions of Chapter 4606 where energy and/or water efficiency improvements are completed after the Note Date, a Transfer of Servicing (TOS) involving such Mortgages is prohibited until all energy and/or water efficiency improvements have been completed and the appraiser has provided a completion report pursuant to Guide Section 4606.4.

For a TOS, the Transferor Servicer and Transferee Servicer each agree and acknowledge that Freddie Mac’s approval of the TOS is conditioned on each Servicer’s representation and warranty to Freddie Mac that each have met the additional requirements in updated Section 7101.4(b), which sets forth certain prohibited TOS. For example, a TOS involving Mortgages subject to outstanding requirements that must be met prior to a TOS (such as completion of all energy and/or water efficiency improvements for GreenCHOICE Mortgages sold to Freddie Mac under Chapter 4606) is prohibited.

### **Servicing requirements**

As provided in new Section 8104.6, a Servicer that services any Mortgage that was permitted to be delivered to Freddie Mac prior to completion of improvements must, in addition to other Servicing requirements, comply with the Servicing requirements related to completion of such improvements. Such Servicing requirements include, but are not limited to, control of the completion escrow account (and application of any remaining funds), retention of certain documentation in the Mortgage file and receipt of a completion report.

### **Guide impacts**

We are adding new Chapter 4606 and new Sections 3401.30 and 8104.6, deleting Chapter 4405 and updating Sections 3301.11, 3401.23, 4203.1, 4301.4, 4301.8, 5401.1, 5601.2, 5601.9, 5601.11, 6302.8, 6302.23, 6302.34, 7101.4 and Guide Exhibits 19 and 34.

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## PROPERTY INSURANCE REQUIREMENTS FOR CONDOMINIUMS

### Flood insurance

We are updating our flood insurance requirements for Condominium Projects. Condominium owners' association flood insurance is required if the Condominium Unit securing a Mortgage sold to or serviced for Freddie Mac is in a building in a Condominium Project other than a 2- to 4-Unit Condominium Project or Detached Condominium Project and all or part of the building is in an Special Flood Hazard Area (SFHA).

We previously required that the condominium owners' association maintain building coverage for the lower of (1) the building's replacement cost, or (2) \$250,000 multiplied by the number of residential units in the building. We are now requiring the condominium owners' association to maintain building coverage for the lower of (1) 80% of the building's replacement cost, or (2) \$250,000 multiplied by the number of residential units in the building.

As a reminder, if the condominium owners' association's building coverage meets the required coverage for the association, but the unit allocation does not meet the 1- to 4-unit coverage requirements, the Borrower must maintain supplemental coverage at least equal to the difference between the condominium associations' building coverage allocated to the unit and the amount required for a 1- to 4-unit property (see Section 8202.3(a)).

Guide impact: Section 8202.3

### Premiums for condominium owners association insurance policies in Puerto Rico

In response to Seller/Service requests, we are revising our requirements for insurance policy premiums for Condominium Projects located in Puerto Rico. Servicers in Puerto Rico may collect the premium directly from each unit owner through an escrow account and pay the premiums directly to the insurer.

Previously, premiums for insurance obtained by a condominium owners association for the benefit of the Condominium Project were required to be paid by the association as a common expense assessable to all unit owners.

Guide impact: Section 8202.9

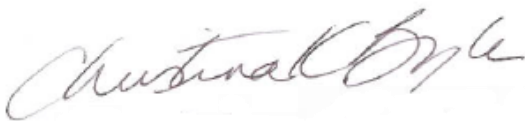
## GUIDE UPDATES SPREADSHEET

For a detailed list of the Guide updates associated with this Bulletin and the topics with which they correspond, refer to the Bulletin 2018-21 (Selling) Guide Updates Spreadsheet available at [http://www.freddie.com/singlefamily/guide/docs/bl1821\\_spreadsheet.xls](http://www.freddie.com/singlefamily/guide/docs/bl1821_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 Business