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To: Freddie Mac Sellers

May 6, 2013

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## **SUBJECT: CONSUMER FINANCIAL PROTECTION BUREAU'S FINAL RULE ON ABILITY TO REPAY AND QUALIFIED MORTGAGE REQUIREMENTS**

On January 10, 2013, the Consumer Financial Protection Bureau (CFPB) issued a final rule implementing the ability to repay provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("final rule"). The final rule 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. The final rule will be effective for Mortgages with applications received on or after **January 10, 2014**.

### **MORTGAGES ELIGIBLE FOR SALE TO FREDDIE MAC**

On May 2, 2013, the Federal Housing Finance Agency (FHFA) directed Freddie Mac and Fannie Mae ("GSEs") to limit future purchases to:

- Mortgages that are "qualified mortgages" under the final rule, including those meeting the special or temporary qualified mortgage requirements
- Mortgages that are exempt from the ability to repay requirements, such as investor transactions

Therefore, effective for Mortgages subject to the final rule with applications received on or after **January 10, 2014**, Freddie Mac will not be permitted to purchase the following:

- Mortgages that are not fully amortizing (e.g., Mortgages with a potential for negative amortizations or interest-only Mortgages)
- Mortgages with terms in excess of 30 years (e.g., 40-year fixed-rate Mortgages)
- Mortgages with points and fees in excess of 3% of the total loan amount or such other limits for low balance Mortgages as set forth in the final rule

Freddie Mac will continue to purchase Mortgages that meet existing *Single-Family Seller/Servicer Guide* ("Guide") underwriting and delivery eligibility requirements (e.g., debt-to-income ratio, loan-to-value ratio and reserve requirements), provided they do not fall into the three categories listed above. This includes Mortgages that are evaluated through Loan Prospector®.

### **ADDITIONAL GUIDANCE**

We currently intend to continue purchasing Freddie Mac Relief Refinance Mortgages<sup>SM</sup> and Mortgages sold under written negotiated terms and exceptions to the Guide; however, the CFPB has not yet issued a final determination regarding these items. Whether and how these purchases will be affected in the future will depend on that final determination.

As the industry adopts the final rule, Freddie Mac will monitor market dynamics and work with FHFA to determine if additional updates to our underwriting and eligibility requirements and/or pricing changes should be made.

Initially, for Mortgages with applications received on or after **January 10, 2014**, we will rely on selling representations and warranties that the Mortgage is a qualified mortgage. In the future, we plan to collect and assess data on these Mortgages to assist in validating whether they meet certain qualified mortgage criteria. This process will be phased in over time.

We will also determine if the final rule requires changes to our post purchase file review processes, repurchase requirements and/or updates to our overall selling representation and warranty framework.

At this time, Freddie Mac is assessing the impacts of the final rule on its current requirements and operational processes. We acknowledge that Sellers require adequate notice to implement any system or process changes needed to support the final rule. We are working to complete our assessment and communicate any associated changes this summer.

## **CONCLUSION**

Sellers that have questions about this announcement should contact their Freddie Mac representative or call (800) FREDDIE.

Sincerely,

A handwritten signature in cursive script that reads "Laurie A. Redmond". The signature is written in black ink on a light-colored background.

Laurie A. Redmond  
Vice President  
Offerings Effectiveness