

Industry Letter

To: Freddie Mac Sellers

July 2, 2013

SUBJECT: FREDDIE MAC'S NEW MORTGAGE ELIGIBILITY CRITERIA

On May 6, 2013, Freddie Mac issued an Industry Letter ("May 6 Industry Letter") notifying Sellers of our revised requirements as a result of the Consumer Financial Protection Bureau's (CFPB) final rule on ability to repay and qualified mortgages. The May 6 Industry Letter announced that Freddie Mac would not be permitted to purchase certain Mortgages as a result of a May 2, 2013 Federal Housing Finance Agency (FHFA) directive to Freddie Mac and Fannie Mae.

As stated in the May 6 Industry Letter, Mortgages with applications received on or after **January 10, 2014** must meet the following requirements to be eligible for sale to Freddie Mac:

- Mortgages must be fully amortizing (e.g., the Mortgages must not be interest-only or Mortgages with a potential for negative amortization)
- Mortgages must not have terms in excess of 30 years (e.g., no 40-year fixed-rate Mortgages)
- Mortgages must not have total points and fees in excess of 3% of the total loan amount (or such other applicable limits for low balance Mortgages as specified by the CFPB final rule)

Additionally, Freddie Mac will continue to purchase, under our product eligibility and underwriting requirements set forth in the *Single-Family Seller/Service Guide* ("Guide"), certain Mortgages that are exempt from the ability to repay requirements in the CFPB final rule.

While we have adopted the eligibility criteria listed above in support of the CFPB final rule, Freddie Mac will not be making the final determination of whether a Mortgage complies with the CFPB final rule or a Seller's designation of a Mortgage's status under the CFPB final rule.

Mortgages with application dates prior to January 10, 2014 will not be subject to the eligibility criteria above unless otherwise specified in the Guide; at this time, Freddie Mac does not intend to specify an end date by which these Mortgages must be delivered.

NEW ULDD DATA POINTS

For a Mortgage with an application received on or after January 10, 2014, the Seller will be required to represent and warrant that the Mortgage complies with the applicable points and fees limitation.

We are currently assessing potential new delivery data points as part of future Uniform Loan Delivery Dataset (ULDD) data requirements that will help determine if Mortgages meet point and fee thresholds. Potential new ULDD Data Points will help in identifying exempt Mortgages, total loan amount, total points and fees, and annual percentage rate (APR). As with all ULDD data requirement updates, we will provide Sellers with sufficient lead time to update their systems and processes to comply with the new requirements.

ADDITIONAL ANNOUNCEMENTS

Freddie Mac continues to work with FHFA to determine if additional updates to our underwriting, eligibility and/or pricing requirements should be made. We are working diligently to complete our assessment and anticipate providing:

- A Guide Bulletin in late August to provide updates on our eligibility requirements for Mortgages subject to the ability to repay rule and possible updates to our representation and warranty framework. Expected changes related to Mortgage eligibility include:
 - ❑ Removal of requirements related to Mortgages with 40-year terms
 - ❑ Revision of current requirements regarding permissible points and fees
 - ❑ Changes to eligibility of Mortgages with prepayment penalties
 - ❑ Any necessary changes to Freddie Mac Relief Refinance MortgagesSM
- Additional information by the end of September on:
 - ❑ Changes to quality control practices/documentation requirements
 - ❑ How Freddie Mac will test for Seller compliance with the three new Mortgage eligibility requirements
 - ❑ Enhancements to our data-gathering and validation tools to support our new requirements

CONCLUSION

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

Sincerely,



Laurie A. Redmond
Vice President
Offerings Effectiveness