



Prepayment Penalty Mortgages

Reduce portfolio runoff and attract more borrowers

With these mortgages, you collect prepayment penalties if your borrower refinances, makes a substantial prepayment, or in some instances, sells the mortgaged premises within the early years of the loan. Freddie Mac purchases these loans through our *Single-Family Seller/Servicer Guide (Guide)* with prepayment penalty periods up to three years from the Note Date. However, when offering this type of mortgage to a borrower, it is important to remember: 1) Prepayment Penalty Mortgages (PPMs) are always the borrower's choice, never a requirement; and 2) penalties cannot be paid from proceeds of a refinance of primary residences by the lender.

> Borrower Profile

- Borrowers who want savings through reduced interest rates or lowered closing costs

> Key Features

- Reduce portfolio runoff
- Purchase, "no cash-out" and "cash-out" refinances
- Pool PPMs with different prepayment periods together to improve execution
- Additional Supplement required in most cases

> Lender Benefits

- Offer better rates to your borrowers, allowing you to increase your market share.
- Protect your servicing portfolio from runoff.
- Recover costs from early prepayment of "no cost" or "no point" mortgages.
- Keep the entire prepayment penalty – you don't need to pass it on to Freddie Mac or investors.

ORIGINATION & UNDERWRITING REQUIREMENTS	
Eligible Property Types	<ul style="list-style-type: none"> • 1- to 4-unit primary residences • Second homes • 1- to 4-unit investment properties
Eligible Mortgages	<ul style="list-style-type: none"> • 15-, 20-, 30- and 40-year fixed-rate mortgages • All ARMs are eligible for sale under the WAC ARM Guarantor program through the selling system. • Purchase, no cash-out and cash-out refinances • Must comply with LTV, TLTV and Home Equity Line of Credit TLTV (HTLTV) ratio limits as specified in the Guide for each product.
Ineligible Mortgages	<ul style="list-style-type: none"> • A-minus Mortgages • Balloon/reset mortgages • Non-Loan Prospector[®] mortgages subject to CS/LTV postsettlement delivery fees (A-minus fees) • Affordable Merit Rate[®] Mortgages • Initial InterestSM Mortgages, except Initial Interest ARMs eligible for sale through the selling system under the WAC ARM Guarantor program • Home Possible[®] Mortgages
Eligible Prepayment Penalty Mortgages	<ul style="list-style-type: none"> • Three-year Prepayment Penalty Mortgage (PPM) is a mortgage where a borrower is obligated to pay a prepayment penalty of 2% of the amount by which principal prepayments made by the borrower during the first three years of the mortgage (beginning on the Note Date) exceed 20% of the original principal balance of the mortgage. • A various PPM is a mortgage other than a three-year Prepayment Penalty Mortgage described earlier, where a borrower is obligated to pay a prepayment penalty in a specified amount upon certain specified principal repayments made by the borrower during a specified prepayment penalty period beginning on the Note Date. The prepayment penalty must be at least 1% of the prepaid principal amount, but is not limited to 2%, and the prepayment penalty period must be for at least one year but not more than three years.
Borrower Eligibility Requirements	<ul style="list-style-type: none"> • Loan Prospector[®] Accept • Non-Loan Prospector mortgages that meet the minimum Indicator Score requirements for the individual mortgage product being originated as a PPM
Origination and Servicing Requirements	<ul style="list-style-type: none"> • The Seller must represent and warrant compliance with the following requirements in connection with each PPM eligible for sale to Freddie Mac: <ul style="list-style-type: none"> ▪ The mortgage provided a benefit to the borrower, such as a rate or fee reduction, for accepting the penalty. ▪ The borrower was offered the choice of another mortgage that did not include the prepayment penalty. ▪ The terms of the prepayment penalty were adequately disclosed to the borrower. ▪ There is no payment assessed in the event of an acceleration of the loan due to a borrower default. • The prepayment penalty provisions of each PPM must comply, and the Seller must service, the PPM to comply with the requirements of all applicable federal, state and local laws, rules and regulations pertaining to prepayment premiums. In some jurisdictions, the penalty applies to principal prepayments that exceed 20% of the original principal balance in any 12-month period. Many jurisdictions impose other conditions and prohibitions on the origination and implementation of PPMs. • Mortgages with prepayment penalties of less than 1% of the prepaid amount and/or prepayment penalty periods of less than one year are not considered to be Prepayment Penalty Mortgages and may be sold to Freddie Mac without the special conditions set forth in Guide Chapter B33. • Mortgages with prepayment penalty periods that are longer than three years are not eligible for sale to Freddie Mac under the Guide. • The prepayment penalty provisions of each PPM must be enforced by the holder of the Mortgage Note, according to the original prepayment penalty and prepayment penalty period set forth in the Note addendum. The Seller must maintain in the mortgage file evidence of collection of the prepayment penalty. • If the PPM is secured by a primary residence the source of payment of the prepayment penalty must not be from a refinance of the primary residence by the Freddie Mac Seller/Service or its affiliate. • Any prepayment penalty paid by a borrower must be retained by the Seller and must not be remitted to Freddie Mac or passed through to Freddie Mac Participation Certificate (PC) holders. • Upon Freddie Mac's request related to its loss mitigation efforts, the Seller must waive its rights to prepayment penalties due with respect to any payoff of the mortgage received from any person (including insurance payments) in connection with the workout of a delinquent mortgage or a foreclosure. • See Guide Section B33.4 for requirements for originating PPMs, including terms of the prepayment penalty Note addendums.

DELIVERY REQUIREMENTS	
Eligible Executions	<ul style="list-style-type: none"> • Fixed-rate Guarantor • WAC ARM Guarantor • Gold Cash through MIDANET
Pooling and Disclosure Requirements	<ul style="list-style-type: none"> • Three-year 2% prepayment penalty Gold PC Pools must be comprised of only three-year PPMs. • Various Prepayment Penalty Gold PC pools permit commingling of mortgages with different prepayment periods and prepayment penalties. Such PC pools may include: <ul style="list-style-type: none"> ▪ Various PPMs. ▪ Various PPMs and three-year PPMs. • Prepayment Penalty WAC ARM PC Pools permit commingling of mortgages with different prepayment periods and prepayment penalties. • 20-year fixed-rate PPMs must be pooled with 30-year fixed-rate PPMs. • 40-year fixed-rate PPMs must be pooled separately. They may not be pooled with 30-year PPMs. • The Seller must prepare and distribute an Additional Supplement as described in Guide Section 11.20, together with the name and telephone number of the person responsible for the Additional Supplement for any fixed-rate PC Pool with various PPMs, any PC Pool comprised of 40-year fixed-rate PPMs, and for all WAC ARM PC Pools with PPMs. The Additional Supplement must be delivered to Freddie Mac by: <ul style="list-style-type: none"> ▪ No later than the final delivery date for mortgages sold through the selling system, and ▪ No fewer than two business days before the settlement date for mortgages sold through MIDANET. • See Guide Exhibit 22, <i>Form of Additional Supplement-Prepayment Penalty Mortgages</i> for more information about the appropriate submission process. Whether you sell through the selling system or MIDANET, submit Additional Supplements to: Additional_Supplement@FreddieMac.com, or fax it to (571) 382-4385. • See Guide Section 17.12 for conversion, delivery, pooling and disclosure requirements for PPMs sold to Freddie Mac.
Delivery Requirements	<ul style="list-style-type: none"> • You must deliver all mortgage data required on Form 11 or Form 13SF, as applicable, including Special Characteristics Code 113 for all PPMs. • When selling for cash through Gold Cash or the fixed-rate Guarantor program through MIDANET, you must specify the offer product number and offer program number corresponding to each PPM type. This information can be found in Guide Exhibit 17. • For sales under the fixed-rate Guarantor and WAC ARM Guarantor programs through the selling system, you must select the appropriate Security Product based on the characteristics of the mortgage and identify the mortgage as having a prepayment penalty.

Learn more about Freddie Mac Prepayment Penalty Mortgages:

- Refer to Chapter B33 of your *Single-Family Seller/Service Guide*
- Call (800) FREDDIE
- Refer to Guide Chapter B33 for more information