Bulletin

TO: Freddie Mac Sellers August 29, 2018 | 2018-13

SUBJECT: SELLING UPDATES

This Guide Bulletin announces:

Home Possible® Mortgages

- Enhanced credit flexibilities and simplified Home Possible® Mortgage requirements through the consolidation of Home Possible and Home Possible Advantage® into a single offering – **October 29, 2018**

Mortgage eligibility and credit underwriting

- Updates to our payment calculation requirements for student loans – **November 1, 2018**
- Flexibilities to our cash back requirements for "no cash-out" refinance Mortgages – **October 27, 2018**
- Updates to the time frame for evaluating inquiries on the credit report – **September 9, 2018**
- Removal of special delivery requirements for Mortgages with Borrower income commencing after the Note Date
- An extension of the effective date for rental income requirements announced in Bulletins 2017-12 and 2018-1 – **March 1, 2019**

Guide Form 71, *Market Conditions Addendum to the Appraisal Report*

- The deletion of the requirement that Form 71 be provided with all appraisal reports

Condominium Project insurance

- Updates to our property, flood, liability and fidelity or employee dishonesty insurance requirements
- An increase to the allowable deductible for Condominium Projects

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.

HOME POSSIBLE MORTGAGES

Effective October 29, 2018

In response to Seller feedback, we evaluated our requirements for Home Possible and Home Possible Advantage Mortgages and are combining Home Possible and Home Possible Advantage into one offering in an effort to better help Sellers originate Home Possible Mortgages.

The revised Home Possible Mortgage offering will:

- Provide Sellers with ease of use and operational efficiencies by eliminating the need to maintain two separate offerings

- Continue to meet the needs of low- and moderate-income Borrowers looking for a 3% down payment option by offering the same loan-to-value (LTV) and total LTV (TLTV) ratio flexibilities currently offered for Home Possible Advantage. Certain requirements and permissible loan attributes will continue to vary depending on LTV and TLTV ratios.
- Expand access to credit by providing new flexibilities that will help increase homeownership opportunities for more Borrowers

The following chart compares the current requirements for Home Possible and Home Possible Advantage Mortgage offerings to the revised requirements for the consolidated Home Possible Mortgage offering:

Category	Current requirements for Home Possible and Home Possible Advantage Mortgages offerings	New requirements for the consolidated Home Possible Mortgage offering
Non-occupant Borrower	Not permitted	Permitting non-occupant Borrower(s) on Mortgages secured by 1-unit properties when the: • LTV/TLTV*/ Home Equity Line of Credit (HELOC) TLTV (HTLTV) ratio is less than or equal to 95% for Loan Product Advisor® Mortgages • LTV/TLTV*/HTLTV ratio is less than or equal to 90% for Manually Underwritten Mortgages • Debt payment-to-income (DTI) ratio is less than or equal to 43% based on the occupying Borrower's income for Manually Underwritten Mortgages *A TLTV ratio of less than or equal to 105% is permitted for Mortgages with Affordable Seconds®
Ownership of other property	Permitted if the Borrower doesn't occupy the property and: • The Borrower inherited the property and shares ownership, or • The Property is owned with another party and debt for the property was assigned to another party (e.g., a divorce decree), or • The Borrower is cosigner/guarantor on the Mortgage debt and someone other than the Borrower is making payments on the debt for the most recent 12 months	Permitting ownership of other property without any restrictions

Category	Current requirements for Home Possible and Home Possible Advantage Mortgages offerings	New requirements for the consolidated Home Possible Mortgage offering
Super conforming Mortgages	Not permitted	Permitting super conforming Mortgages, when the Mortgage: • Is submitted through Loan Product Advisor and receives an Accept Risk Class • Has an LTV/TLTV/HTLTV ratio less than or equal to 95% (A TLTV ratio of less than or equal to 105% is permitted for Mortgages with an Affordable Second)
Secondary financing	• All secondary financing is permitted for Home Possible Mortgages with LTV/TLTV ratios less than or equal to 95%. Secondary financing for Home Possible Advantage Mortgages with LTV/TLTV ratios greater than 95% must be an Affordable Second. • Since the Affordable Second cannot be a HELOC, HELOCs are only permitted for Mortgages with HTLTV ratios less than or equal to 95%	Permitting standard secondary financing, including HELOCs, for a Mortgage with a TLTV/HTLTV ratio of less than or equal to 97% (when the TLTV ratio is greater than 97%, the secondary financing must be an Affordable Second)
5/5, 5/1, 7/1 and 10/1 ARMs for Mortgages secured by 3- to 4-unit properties	Not permitted	Permitting these products for Home Possible Mortgages with LTV/TLTV/HTLTV ratios less than or equal to 75%
Verification of rental income payments from the subject 1-unit property	Evidence of receipt of regular payments of rental income for the past 12 months is required	• Evidence of receipt of regular payments of rental income for at least nine of the past 12 months, is required • The income must be averaged over 12 months when fewer than 12 months of payments are documented
Maximum debt payment-to-income ratio for Manually Underwritten Mortgages	• 45% for Home Possible Mortgages • 43% for Home Possible Advantage Mortgages	• 45% for all Manually Underwritten Home Possible Mortgages

Credit Fees in Price for Home Possible Mortgages are not changing; however, due to the additional flexibilities, certain Credit Fees in Price may now apply to the Home Possible Mortgage Cap. Refer to Guide Exhibit 19 for all Credit Fees in Price.

Loan Product Advisor

Beginning on October 29, 2018, Sellers can submit Home Possible Mortgages through Loan Product Advisor with either the Offering Identifier for Home Possible Mortgages or Home Possible Advantage Mortgages with the same experience and requirements.

Sellers may continue to use the Home Possible Advantage Offering Identifier until its retirement, which will occur on or after September 30, 2019.

Delivery requirements

For Home Possible Advantage Mortgages originated before October 29, 2018 and delivered on and after October 29, 2019, Sellers may enter either the valid value "Home Possible Mortgage" or "Home Possible Advantage" for ULDD Data Point *Loan Program Identifier* (Sort ID 404).

On or after September 30, 2019, Loan Selling Advisor® will be updated to retire the valid value "Home Possible Advantage."

Additional resources and Guide updates

Sellers are encouraged to register for our "**What's New with Home Possible**" webinar and visit **The Learning Center** for additional resources.

We are updating Guide Sections 4205.2, 4501.1 through 4501.3, 4501.6 through 4501.10, 4501.12, 4501.14, 4603.3, 4701.2, 5703.3, 6302.14, 6302.34, Exhibits 19 and 25 to reflect these changes.

MORTGAGE ELIGIBILITY AND CREDIT UNDERWRITING

Student loans

Effective for Mortgages with Settlement Dates on and after November 1, 2018; however, Sellers may implement immediately

Currently, student loans that are in repayment are subject to different requirements than those that are in deferment or forbearance. In response to Seller feedback, we reviewed our requirements for liabilities included in the monthly debt payment-to-income ratio, specifically student loan liabilities, and are aligning our requirements for student loans that are in repayment, deferment or forbearance, providing one simplified approach for the calculation of student loan debt.

For student loans in…	Previous requirements	New requirements
Repayment	Use the greater of: • The payment amount on the credit report • 0.5% of the original loan balance • 0.5% of the current loan balance	• If the monthly payment amount is greater than zero, use the monthly payment amount reported on the credit report or other file documentation, or • If the monthly payment amount reported on the credit report is zero, use 0.5% of the outstanding balance, as reported on the credit report
Deferment **Forbearance**	Use the greater of: • The payment amount on the credit report • 1% of the original loan balance • 1% of the outstanding balance	

Loan Product Advisor feedback messages will be updated by November 1, 2018 to reflect these changes.

Guide impact: Section 5401.2

Cash back requirements for "no cash-out" refinance Mortgages

Effective for Mortgages with Settlement Dates on and after October 27, 2018; but Sellers may implement immediately

Previously, for a "no cash-out" refinance Mortgage, proceeds could be used to disburse cash to the Borrower (or other payee) not to exceed 2% of the new refinance Mortgage, or $2,000, whichever was less.

To provide flexibility in the disbursement of cash back to the Borrower, we are revising our requirements to permit cash back up to the greater of 1% of the Mortgage amount or $2,000.

Guide impacts: Sections 4301.4, 4602.5 and 5703.4

Inquiries on the credit report

Effective September 9, 2018

In response to Seller feedback and requests, we are reducing the required time frame for evaluating inquiries on the credit report from 120 days to 90 days.

Guide impact: Section 5202.6

Income commencing after the Note Date

Currently, Sellers are required to deliver ULDD Data Point *Investor Feature Identifier* (Sort ID 368) of H57 if a Mortgage is originated using income commencing after the Note Date to qualify the Borrower.

In response to Seller feedback, we are removing the requirement that Investor Feature Identifier (IFI) H57 be delivered for these Mortgages. As a result, delivery requirements for income commencing after the Note Date will be removed from the Guide.

Loan Selling Advisor will be updated on November 29, 2018 to prevent the delivery of IFI H57.

Guide impacts: Sections 5303.2, 6302.9 and Exhibit 34

Extension of effective date for rental income requirements announced in Bulletins 2017-12 and 2018-1

Effective for Settlement Dates on and after March 1, 2019

In Bulletin 2018-1, we extended the effective date for the revised rental income requirements announced in Bulletin 2017-12 to Settlement Dates on and after November 30, 2018. The reason for the extension was to give us the opportunity to further review the Seller feedback we had received and consider if the requirements, format and/or language could be fine-tuned through additional specificity and/or revision for Seller ease of use.

After the extended effective date was announced, we continued to receive feedback. To ensure all feedback is reviewed and considered, we are further extending the effective date to Settlement Dates on and after March 1, 2019.

If, after reviewing the feedback we received, we determine further revisions will be made to the rental income requirements, the revisions will be announced in an October Bulletin and will be effective for Mortgages with Settlement Dates on and after March 1, 2019.

Sellers may continue to originate, underwrite and deliver Mortgages based on either the rental income requirements announced in Bulletin 2017-12, in their entirety, or those in effect prior to Bulletin 2017-12, in their entirety.

Guide impacts: Sections 3401.12, 4201.15, 4201.16, 4501.9, 5304.1, 5306.1, 5401.2, Forms 91, 92, 998 and Glossary J-Q

FORM 71, *MARKET CONDITIONS ADDENDUM TO THE APPRAISAL REPORT*

As part of our appraisal modernization efforts, we are no longer requiring that Form 71, *Market Conditions Addendum to the Appraisal Report*, be provided with all appraisal reports. The expected scope of work is not changing as the appraiser is still required to perform the analysis necessary to report and consider neighborhood and market conditions. If Sellers continue to require the use of Form 71, we will accept the form and there will be no operational impact.

Guide impacts: Section 5601.10 and Form 71

CONDOMINIUM PROJECT INSURANCE

Property, flood, liability and fidelity or employee dishonesty insurance

In response to Seller/Servicer inquiries, we are updating our requirements for property, flood, liability and fidelity or employee dishonesty insurance to:

- Allow a Condominium Unit, including a Condominium Unit in a 2- to 4-unit Condominium Project, to be insured through an individual property insurance policy, in lieu of the condominium homeowners association (HOA) policy, if the condominium governing documents require. Common elements must be covered through the condominium HOA policy.
- Allow a Condominium Unit in a 2- to 4-Unit Condominium Project to be insured through an individual policy, in lieu of the condominium HOA policy for flood insurance, if the condominium governing documents require.
- Waive the liability insurance requirements for:
  - Condominium Projects reviewed under the streamlined project review type
  - Detached Condominium Unit Mortgages reviewed under the Detached Condominium Project review type
  - Freddie Mac-owned “no cash-out” refinance Condominium Unit Mortgages meeting the requirements of Section 5701.2(c)
  - 2- to 4-Unit Condominium Projects that meet certain requirements
  - Freddie Mac Relief Refinance Mortgages℠ – Same Servicer, Freddie Mac Relief Refinance Mortgages℠ – Open Access and Freddie Mac Enhanced Relief Refinance® Mortgages
- Waive the fidelity or employee dishonesty insurance requirements for:
  - Condominium Projects reviewed under the streamlined project review type
  - Detached Condominium Unit Mortgages reviewed under the Detached Condominium Project review type
  - Freddie Mac-owned “no cash-out” refinance Condominium Unit Mortgages meeting the requirements of Section 5701.2(c)
  - Freddie Mac Relief Refinance Mortgages – Same Servicer, Freddie Mac Relief Refinance Mortgages – Open Access and Freddie Mac Enhanced Relief Refinance Mortgages

Guide impacts: Sections 8202.2, 8202.3, 8202.5 and 8202.6

Increased deductible for Condominium Projects

Previously, the condominium homeowners association’s policy deductible for damage due to fire, water (not caused by flooding) or wind could not exceed 5% of the limit maintained for building coverage. We will now allow Condominium Projects to have a higher deductible if it exceeds 5% due to a per unit deductible for named perils specific to a geographic area provided that the unit owner’s HO-6 policy meets certain requirements.

Guide impact: Section 8202.2

ADDITIONAL GUIDE UPDATES

Functions performed by third-party originators

In response to Seller questions, we are specifying that it is acceptable for third-party originators to perform certain incomplete improvement requirements that are identified as obligations of the Seller.

Additionally, Section 4201.10 has been updated to recognize functions that may be performed by third-party originators throughout the origination process. Sellers remain responsible for compliance with all Freddie Mac Purchase Documents.

Guide impacts: Sections 4201.10 and 5601.2

Multiple contracts used to determine the purchase price

For a purchase transaction, we define "value" as the lesser of the appraised value of the Mortgaged Premises on the Note Date or the purchase price of the Mortgaged Premises.

In response to Seller questions, we are specifying that it is acceptable for multiple contracts to be combined when determining the purchase price of a Mortgaged Premises for a newly constructed property.

Guide impact: Section 4203.1

General requirements for verifying documents

In response to Seller questions, we are specifying that a picture of a document may be provided by the Borrower to provide verification of income, employment and assets.

Guide impact: Section 5102.3

Lender gifts and grants for Home Possible Mortgages

Effective May 20, 2019

We are updating the delivery instructions for Home Possible Mortgages originated with gifts and grants from the Seller as the originating lender to align the implementation note guidance with what was previously announced in Bulletin 2017-11. The note guidance instructs Sellers to deliver the valid value of "Originating Lender" for ULDD Data Point, *Down Payment Source Type* (Sort ID 173), and "Grant" for ULDD Data Points, *Down Payment Type/Down Payment Type Other Description* (Sort IDs 175/176).

Loan Selling Advisor was updated on March 5, 2018 to accept the new valid values, which allows Sellers to begin delivering them as soon as they are able. Sellers will be required to deliver the new valid values on and after the ULDD Phase 3 mandate on May 20, 2019.

Guide impact: Section 6302.14

Automation of Warehouse Lender release and transfer

We have postponed the August 13, 2018 Loan Selling Advisor enhancements automating Warehouse Lenders' release and transfer of their interests in Pledged Mortgages (previously announced in Bulletin 2018-7) until September 10, 2018. We are updating the Guide to reflect the new date.

All Warehouse Lenders must use the new process announced in Bulletin 2018-7 to release Pledged Mortgages through Loan Selling Advisor for Forms 996E created on and after September 10, 2018; those created prior to that date may be submitted according to the requirements in effect prior to September 10, 2018.

For additional information, please visit our **Warehouse Financing Arrangements web page**.

Guide impacts: Sections 2201.2, 2401.1, 2402.6, 2403.8, 2403.11, 6203.8, 6204.8, 6205.8, 6301.2, 6301.8, 6305.1 through 6305.5, 6305.8 through 6305.10, 6305.12, Forms 475, 900WHL, 996E, Glossaries A-I, J-Q and R-Z

Form 1077 alternative

Effective July 25, 2018

In Bulletin 2018-12, we announced an alternative equivalent form (e.g., a Feedback Certificate) could be included in the Mortgage file in lieu of Form 1077, *Uniform Underwriting and Transmittal Summary*. We are updating Section 3402.7 to align with this change.

Guide impact: Section 3402.7

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 2018-13 (Selling) Guide Updates Spreadsheet available at **http://www.freddiemac.com/singlefamily/guide/docs/bll1813_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
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