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Freddie Mac Clarifies and Updates Underwriting Guidelines

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Freddie Mac issued Bulletin 2011-10 on May 25, 2011 updating selling requirements pertaining to mortgage and property eligibility and credit underwriting as well as selling and servicing requirements for mortgages registered with MERS.

Assets as a basis for mortgage qualification

Freddie Mac has updated their selling guide to allow for the use of eligible borrower assets as a source of income for qualifying. Eligible assets include retirement, lump-sum distributions and proceeds from the sale of a business. Chapters 37.13, 37.22 and 37.23 of the Freddie Mac Seller Servicer Guide have been updated to reflect the following:

Retirement assets

- The retirement funds must be in an

account recognized by the IRS (401k, IRA, etc.)

- The borrower(s) must be the sole owner of the account
- The account must be immediately accessible in its entirety
- The account funds may not be subject to a penalty
- The borrower's right to the funds must be fully vested
- Borrowers must sign IRS form 4506-T and provide most recent retirement asset statements

Lump-sum distribution of funds (not deposited to an eligible retirement asset)*

Funds must be derived from a retirement account recognized by the IRS (401k, IRA, etc.) and must be deposited in a non-retirement brokerage or depository account

A borrower must have been the recipient of the lump-sum distribution funds

Borrower(s) must be the sole owner(s) of the account holding the funds from the lump-sum distribution (individuals not obligated on the

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Mortgage may not have ownership in the account)

Proceeds from the lump-sum distribution must be immediately accessible in their entirety

Borrowers must sign IRS form 4506-T, provide most recent 3 months personal depository or brokerage account statements, employer distribution letter and/or check stubs to evidence receipt and type of lump-sum distribution and IRS 1099-R (if received)

Lump-sum distribution proceeds must not have been or current be subject to a penalty

**if the lump-sum distribution funds have been deposited to an eligible retirement asset, the requirements for retirement assets should be followed*

Sale of borrower's business

Borrower(s) must be the sole owner(s) of the proceeds from the sale of the business that were deposited

Proceeds must be deposited into a non-retirement brokerage or depository account

Borrower(s) must be the sole owner(s) of the account holding the proceeds from the sale of the business (individuals not obligated on the Mortgage may not have ownership in the account)

Proceeds from the sale of the business must be immediately accessible in their entirety

Borrowers must sign IRS form 4506-T, provide most recent 3 months personal depository or brokerage account statements, fully executed closing documents evidencing final sale of

business to evidence sale price and net proceeds, copy of contract for sale of business and most recent business tax return prior to sale of the business

The sale of the business must not have resulted in the following

Retention of business assets and/or existing secured and unsecured

Ownership interest or seller held notes to the buyer of the business

How to calculate the monthly qualifying income from eligible assets

Borrowers may be qualified for the mortgage using 70% of the eligible asset balance divided by 360.

For example: Asset balance = \$100,000 x 70% = \$70,000 / 360 = \$194.44/mo

Any funds that are to be used to complete the mortgage transaction (down payment, closing costs, prepaids/escrows, etc.) must be subtracted from the asset balance prior to calculating 70% of the balance.

*For example: Asset balance = \$100,000 however \$20,000 will be used as down payment
\$100,000 - \$20,000 = \$80,000 x 70% = \$56,000 / 360 = \$155.56/mo*

Restrictions and eligibility requirements

In order to use the eligible assets as a basis for mortgage qualification the borrowers must meet all of the following:

The mortgage is secured by a 1 unit primary residence or 2nd home. (2-4 unit and investment properties are not eligible)

The mortgage transaction must be either a purchase, no cash out refinance or Relief Refinance (cash out refinance transaction are not eligible)

The maximum LTV/TLTV/HTLTV is 70%

Payment of mortgage application fees with credit cards, cash advances and unsecured lines of credit

Chapter 26.6.4 of the Freddie Mac seller guide has been updated to reflect an increase in the maximum amount that can be charged/advanced from a credit card, cash advance or unsecured line of credit to pay for fees associated with the mortgage. As of May 25th, borrowers may charge/advance the greater of 2% of the mortgage amount or \$1500. The previous guideline limited charges/advances to 1% of the mortgage amount. The provision limiting the amount that may be charged/advance for appraisal and credit report fees has been deleted as well.

Earthquake insurance requirements for California condominium units

Freddie Mac requires earthquake insurance for a condominium unit where the condominium complex is located in a "high risk" zip code. The earthquake insurance requirement may also apply to units in condominium complexes in "moderate risk" zip codes based on the Risk Management Solutions (RMS) Earthquake Insurance Requirements Matrix. The

Earthquake Insurance Requirements Matrix takes into consideration characteristics of a complex such as year built, construction class, parking type and number of stories in the determination of earthquake insurance requirements for a unit in a condominium complex in a "moderate risk" zip code. A lender may contact Freddie Mac at 1-800-FREDDIE and provide the zip code and required characteristic information to verify if earthquake insurance will be required. Freddie Mac will advise the seller of the requirements and send a written confirmation of the classification. Copies of the RMS Earthquake Insurance Requirements Matrix and zip code list will no longer be provided to Sellers upon request.

Property description and analysis

Freddie Mac has made updates to Chapter 44 that become effective for mortgages with settlement dates on or after September 1, 2011. With the updates to Chapter 44, specifically 44.2 and 44.15, Freddie Mac is reminding Sellers that the adequacy of the subject property as collateral for the loan requires as much emphasis as the borrower's creditworthiness. The updates to the Seller/Service Guide provide additional detail on Freddie Mac's requirements for review of the data contained in appraisal reports as well as clarify requirements for acceptability of residential properties and incomplete improvements. Some highlights of the updates to Chapter 44.2 include the requirement of the collateral to represent the highest and best use as improved or as proposed per plans and specs. With regards to incomplete improvements, clarification is provided to reflect the Seller or Service must control

disbursements from accounts established for completion escrow as well as specifying completions inspections must be completed by appraisers on Form 442 and the report must be retained in the mortgage file. It is noted that the requirements for incomplete improvements do not apply to incomplete energy conservation improvements.

Chapter 44.15 provides additional detail and clarification regarding the review of the data contained in the property description and analysis sections of the appraisal report. Specific sections updated with addition detail of required information include the Subject, Contract, Neighborhood, Site and Improvements sections. Some highlights of these changes and updates include placing the responsibility on the Seller to provide the appraiser with a complete contract for sale of the subject property regardless if the appraisal was ordered by the Seller or another lender. The Site section now requires that the appraisal report not only provides the zoning classification but also a description of the classification as well. Chapter 44.15 addresses Freddie Mac's requirements for appraisal reports that are required to be completed using Uniform Appraisal Dataset (UAD) with respect to the appraiser's responsibility for reporting the condition and quality of the property.

Manufactured home eligibility

Freddie Mac has added 2 additional eligibility requirements for manufacture homes.

If any portion of a 1 unit dwelling is a manufacture home, regardless of any structural modifications, the mortgage must meet the requirements of Chapter H33 (Manufactured

Homes) and be delivered as a mortgage secured by a manufactured home

A mortgage secured by a manufactured home that was previously occupied or installed on a permanent foundation and later moved is ineligible for purchase by Freddie Mac

MERS requirements

The Seller/Servicer guide has been updated to address responsibilities relating to mortgages registered with MERS. (Chapters 4.14, 6.11, 16.8 and 22.13 have all be revised to reflect these changes)

A Servicer must promptly notify Freddie Mac upon any termination of its MERS membership, whether voluntary or involuntary. For each MERS-registered Mortgage being serviced for Freddie Mac and promptly upon such termination, the Servicer must prepare an assignment of the Mortgage from MERS to itself, have the assignment executed and, where required by law, record the executed assignment in the public land records.

A Seller/Servicer that chooses to register a Mortgage with MERS must use reasonable best efforts to register such Mortgage prior to delivery to Freddie Mac

A Servicer, upon the deactivation of a Mortgage from MERS, must prepare an assignment of the deactivated Mortgage from MERS to itself, have the assignment executed and, where required by law, record the executed assignment in the public land records

A Seller must warrant that MERS is the mortgagee of record (either by being named in

the Security Instrument as nominee for the Seller, or by being named as the assignee in a recorded assignment of the Security Instrument), or where applicable, that MERS is not the mortgagee of record for purposes of iRegistration

A Seller must ensure that the MIN is delivered to Freddie Mac along with all Mortgage data and other information required by the Purchase Documents, and the MIN must be further indicated on the Security Instrument and related documents

A Seller/Servicer must provide its Document Custodian with sufficient information to enable a Transferor Servicer and Freddie Mac to determine whether a Mortgage that is included in a Subsequent Transfer of Servicing is registered with MERS at the time of the Transfer of Servicing.