The Mortgage Compliance Monitor™

Bankers Advisory

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Freddie Mac Updates its Credit Underwriting Guidelines

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Freddie Mac Bulletin 2011-15 dated August 16, 2011 announces a number of changes in Mortgage Eligibility and Credit Underwriting guidelines.

Second Homes and Investment Properties

The Seller/Servicer Guide on Second Home Mortgages (Section 22.22) and Investment Property (Section 22.22.1) have been updated to not allow the borrower to have any affiliation with or relation to the builder, developer or the property seller for mortgages for newly constructed homes that are purchase transactions. These changes are in immediate effect.

Second home mortgages must meet the following special underwriting requirements:

•Each borrower individually and all borrowers collectively must not own and/or be obligated on more than four 1- to 4-unit financed properties, including the subject property. Ownership of commercial or multifamily (five or more units) real estate is not included in this limitation.

•Rental income from the borrower's second home or 1-unit primary residence may not be considered as stable monthly income in the credit qualification analysis.

•The housing expenses related to a borrower's current primary residence must be used in computing the borrower's monthly housing expense-to-income ratio.

•The monthly housing expense on the second home must be considered in calculating the borrower's monthly debt payment-to-income ratio.

•The borrower must have a) reserves equal to two monthly payments of principal, interest, taxes and insurance (PITI) for the mortgaged premises, and b) reserves equal to two monthly payments of PITI for each other financed second home and 1- to 4-unit investment property in which the borrower has an ownership interest or on which the borrower is obligated.

Investment property mortgages must meet the following special underwriting requirements:

•The expenses related to the borrower's current primary residence must be used in calculating the borrower's monthly housing expense-to-income ratio.

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•Each borrower individually and all borrowers collectively must not own and/or be obligated on more than four 1- to 4-unit financed properties, including the subject property. Ownership of commercial or multifamily (five or more units) real estate is not included in this limitation.

•Borrower funds must not include gifts from a related person or gifts or grants from an Agency as described in Section 26.2.

•Regardless of whether rental income from the mortgaged premises is used in qualifying, the borrower must have: a) reserves equal to six monthly payments of principal, interest, taxes and insurance (PITI) for the mortgaged premises that could be used to supplement payments during vacancies and make regular and emergency repairs to the subject property as necessary, and b) reserves equal to two monthly payments of PITI for each other financed second home and 1- to 4-unit investment property in which the borrower has an ownership interest or on which the borrower is obligated.

•The aggregate negative rental income from all rental properties must be treated as an obligation and considered in calculating the borrower's monthly debt payment-to-income ratio.

•Whenever rental income is to be used in qualifying, the borrower must have rent loss insurance on the investment property for at least six months of gross monthly rent.

•If rental income is not used for qualifying, the mortgaged premises PITI plus operating expenses must be used in calculating the monthly debt payment-to-income ratio.
Other Income Documentation

Streamlined Accept Documentation requirements (Sections 37.22) and Standard Documentation requirements (Sections 37.23) of the Seller/Servicer Guide have been updated.

Previously, Freddie Mac addressed "income continuance." Effective immediately, all guidelines referring income continuance have been deleted.

Self-Employed Income

Section 37.13(b) Self Employed Income of the Seller/Servicer Guide has been updated to remove the existing option of obtaining a letter from an accountant to confirm that the use of business assets for funds to close will not have a detrimental impact on the business. This change is in effect for mortgages with delivery dates on or after 12/1/2011.

When business assets are used for down payment and closing costs, financing costs, pre-paid/escrows and reserves, the assets must be verified in accordance with Freddie Mac's documentation requirements and must be related to the business that the borrower owns that is documented in the mortgage file.

The borrower's withdrawal of assets from a sole proprietorship, a partnership or a corporation may have a negative impact on the business' ability to continue operating, therefore the impact of withdrawal must be considered in the lender's analysis of the borrower's self-employed income.

As part of the analysis, the lender must document a cash flow analysis for the borrower's business using the individual and/or business tax returns, as applicable. The lender may perform the required analysis using any format that enables the lender to determine that the withdrawal of the funds for the down payment and closing costs, financing costs, pre-paid/escrows and reserves will not have a detrimental effect on the business. The mortgage file must contain the lender's written cash flow analysis and conclusions.

Owner-Occupancy of a Primary Residence

Section 22.16 of the Seller/Servicer Guide has been updated to remove the statement "to the best of the Seller's knowledge and belief" relating to whether the borrower is occupying the mortgaged premises as a primary residence. This change goes into effect for mortgages with delivery dates on or after 12/1/2011.

A mortgage will not qualify to be an owner-occupied property mortgage unless the borrower is an individual or individuals, and at least one of the borrowers is, as of the delivery date, occupying all or part of the mortgaged premises as a primary residence.

For manually underwritten mortgages and A-minus mortgages, when the LTV ratio is greater than 90 percent, each borrower whose income or financial strength was used for qualification purposes must, as of the delivery date, occupy all or part of the mortgaged premises as a primary residence. When the LTV ratio is equal to or less than 90 percent, a non-occupying borrower is permitted, but the occupant borrower must be able to qualify for the mortgage in accordance with Sections 37.15 and 37.16. Freddie Mac requires that the occupant borrower make a down payment in accordance with Section 26.7.

For Accept mortgages, a non-occupying borrower is permitted provided the occupant borrower makes a down payment in accordance with Section 26.7. Freddie Mac does not require a specific room/person ratio for the mortgaged premises.

Freddie Mac Relief Refinance Mortgages - Open Access

Section B24.2 of the Seller/Servicer Guide has been updated to allow Freddie Mac-owned mortgages with a pool insurance credit enhancement to be refinancing as Freddie Mac Relief Refinance mortgages - Open Access. This change is in effect for LP submissions on or after 9/1/2011.

Mortgages being refinanced as Relief Refinance Mortgage - Open Access must:

•Have a Freddie Mac settlement date on or before May 31, 2009

•Be a first lien, conventional mortgage currently owned by Freddie Mac, in whole or in part, or securitized by Freddie Mac

•Be seasoned for at least three months (that is, the Note date of the mortgage being refinanced must be at least three months prior to the Note date of the Relief Refinance Mortgage - Open Access)

•Have a mortgage payment history that indicates the mortgage has not been 30 or more days delinquent in the most recent 12 months or, if the mortgage is seasoned for less than 12 months, since the mortgage Note date

•Mortgages being refinanced as a Relief Refinance Mortgage are ineligible if the mortgage being refinanced was a re-structured mortgage or if the mortgage being refinanced was sold to Freddie Mac with recourse, indemnification or another negotiated credit enhancement.