



Bankers Advisory

COMPLIANCE MONITOR

February 14, 2014

Freddie Mac Updates Selling and Servicing Guides

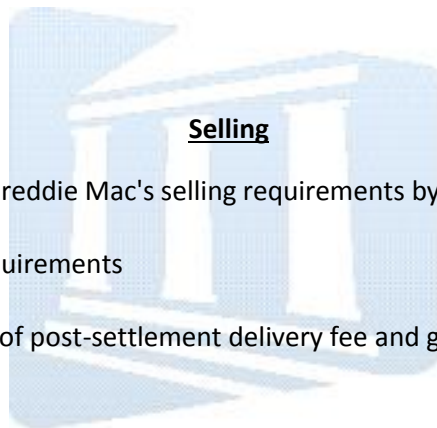
By Anna DeSimone

February 14, 2014 Freddie Mac issued Bulletin 2014-2: Selling and Servicing. Key contents of the bulletin are provided below:

Effective Date. All of the changes announced in the Bulletin are effective immediately unless otherwise noted.

Revisions to the Guide. The revisions included in the Bulletin impact the following:

- Chapters 2, 6, 17, 22, 24, A24, 26, K33, A34, 37, 44, 48 and 71
- Form 16SF
- Exhibits 19 and 34
- Glossary



The Bulletin updates and revises Freddie Mac's selling requirements by:

- Updating the reserves requirements
- Delaying implementation of post-settlement delivery fee and guarantee fee changes announced in Bulletin 2013-26
- Reducing the delivery fee rate for *Home Possible*® Mortgage purchase transactions
- Introducing a summary of changes made to Guide Exhibit 19, *Post-settlement Delivery Fees*
- Revising resubmission requirements for Mortgages submitted to Loan Prospector after the Note Date or the Effective Date of Permanent Financing for Construction Conversion and Renovation Mortgages
- Updating the Guide to include Phase 2 ULDD Data Point requirements and clarifications on existing ULDD Data Points
- Updating and consolidating our property eligibility and appraisal requirements in Guide Chapter 44, *Property and Appraisal Requirements*
- In addition to the changes listed above, Freddie Mac is making further updates and revisions, as described in the "Additional Updates" section of this Bulletin.

Reserves. The following requirements are effective for Mortgages with Settlement Dates on or after June 1, 2014, but Sellers are encouraged to implement them as soon as possible.

Full monthly payment amount. Freddie Mac is updating our requirements to provide that reserves must be based on the full monthly payment amount for the property, not only principal, interest, taxes and insurance (PITI). The monthly payment amount is defined as the sum of the following monthly charges:

- Principal and interest payments on the Mortgage
- Property hazard insurance premiums
- Real estate taxes
- When applicable:
 - Mortgage insurance premiums
 - Leasehold payments
 - Homeowners association dues (excluding unit utility charges)
 - Payments on secondary financing

Sections A24.3, *Requirements for Freddie Mac Relief Refinance Mortgages- Same Servicer*, 26.5, *Reserves*, and K33.10, *Underwriting*, have been updated to reflect this change.

Borrower converting 2- to 4- unit Primary Residence to an Investment Property. Freddie Mac is removing the requirement that a Borrower must have an additional six months' reserves when the Borrower converts a 2- to 4-unit Primary Residence to an Investment Property and rental income from units not previously occupied by the Borrower is used to qualify. Section 37.16.2, *Sale or Conversion of Primary Residence*, has been updated to reflect this change.

Pending sale or conversion of Primary Residence - appraisal requirements. Freddie Mac is removing the requirement that the appraisal must be dated no more than 60 days prior to the Note Date when used to document the value of a Primary Residence pending sale or being converted to a second home or an Investment Property for the purposes of establishing the minimum required reserves. The property valuation must meet Freddie Mac's existing requirements in Chapter 44, including the age of valuation requirements. This change also applies to appraisals obtained for the purpose of establishing whether rental income from a Primary Residence being converted to an Investment Property can be used for qualifying. Sections 37.16.2 and Section 26.5 have been updated to reflect this change.

Minimum reserves requirements consolidation. For ease of reference, Freddie Mac is removing the minimum reserves requirements from several chapters and consolidating them into tables in Section 26.5(a), with the exception of the minimum reserves requirements for Home Possible Mortgages and Freddie Mac Relief Refinance Mortgages - Same Servicer, which will remain in their respective Guide chapters. Sections 22.22, *Second Home Mortgages*, 22.22.1, *Investment Property Mortgages*, 37.14, *Rental Income*, and 37.16.2 have been updated to remove minimum reserves requirements. Section A34.9, *Borrower Income; Qualifying Ratios*, was also updated as a result of this change.

Delay of implementation of changes to post-settlement delivery fees and guarantee fees. As announced in a Federal Housing Finance Agency (FHFA) press release and in our Single-Family Update e-mail on January 8, 2014, FHFA directed Freddie Mac to delay implementation of the following changes announced in Bulletin 2013-26:

- Elimination of the Market Condition delivery fee, except for Mortgages secured by Mortgaged Premises located in the States of Connecticut, New Jersey, Florida and New York
- Increase in Indicator Score/Loan-to-Value (IS/LTV) delivery fee rates
- Increase in guarantee fee by 10 basis points for all Single-Family Mortgages

The changes to Freddie Mac's buyup and buydown terms announced in Bulletin 2013-26 remain in effect.

Chapter 44

Property and appraisal requirements . Freddie Mac is updating and simplifying Chapter 44 to provide more clarity about their requirements. This update includes consolidating Section 44.4, *Appraisers*, and Section 44.5, *Information Supplied to the Appraiser*, into Section 44.3, *General Appraisal Requirements*, and Section 44.13, *Other Exhibits and Addenda*, into Section 44.12, *Required Exhibits and Addenda*. Freddie Mac also are aligning the Guide with current Loan Prospector offerings by removing references to the Property Inspection Alternative (PIA) and Form 2070, *Loan Prospector Condition and Marketability Report*, from the Guide, where appropriate.

Selling/Servicing Requirements

Form 16SF updates. Freddie Mac will be updating Form 16SF by the end of February to enhance its usability and provide additional functionality. Examples of the updates include:

- Revising the certification language
- Adding Seller/Servicer contact types
- Requesting information regarding insurance cancellation or non-renewal
- Allowing multiple authorized users to access the form prior to its submission

Seller/Servicers will be notified when Form 16SF is updated. While the updated form will ultimately provide enhanced usability, for any draft Form 16SF in progress with completed Servicing and/or investor sections, when the updates are made, the following will occur:

- If questions are reworded, combined or moved in the new version, previously entered responses will be retained and displayed in the new location within each given section, requiring Seller/Servicers to validate that the previously entered responses remain accurate
- If fields are converted from free text entry to a drop-down menu in the new version, previously entered data will be lost. Seller/Servicers will need to select entries from the new drop-down menus before they can submit the final Form 16SF

Seller/Servicers should review their Form 16SF in its entirety prior to submission to ensure accuracy. As a reminder, Seller/Servicers must complete the Form 16SF electronically.

Servicing Requirements

Reimbursement of condominium, HOA and PUD assessments. To maintain the priority of a Freddie Mac Mortgage, Freddie Mac requires Servicers to pay any condominium, HOA and PUD regular assessments that are assessed prior to the foreclosure sale date that are, or may become, a lien prior to a Freddie Mac Mortgage or that, if not paid, would result in the subordination of Freddie Mac's interest in the Mortgaged Premises.

For Mortgages with Note Dates prior to February 14, 2014, Freddie Mac will continue to reimburse Servicers for condominium, HOA and PUD regular assessments in super lien States in an amount equal to the lowest of:

- The actual amount of regular assessments advanced by the Servicer
- The maximum amount of regular assessments that, pursuant to the project declaration or bylaws, would take priority over the Mortgage, or
- The maximum amount of regular assessments that, pursuant to applicable State statute, would take priority over the Mortgage

Freddie Mac is now amending our reimbursement requirement for Mortgages with Note Dates on or after February 14, 2014. For these Mortgages, Freddie Mac will reimburse Servicers for condominium, HOA and PUD regular assessments in super lien States in an amount equal to the lesser of the actual amount advanced or:

- For Mortgages secured by property in the State of Florida - no more than 12 months (or any lesser amount provided by State statute)
- For Mortgages secured by property in the State of Connecticut - no more than nine months (or any lesser amount provided by State statute)
- For Mortgages secured by property in all other States (including States that provide an exception for Freddie Mac Mortgages, such as Nevada) - no more than six months (or any lesser amount provided by State statute)

Guide Section 71.18, *Reimbursement of Condominium, HOA and PUD Fees, Assessments and Ground Rent*, has been updated to reflect these changes.



Anna DeSimone is President and Founder of Bankers Advisory, Inc.