



# Bankers Advisory

## COMPLIANCE MONITOR

October 15, 2014

### ***Freddie Mac Revises Miscellaneous Eligibility and Property Requirements***

**By Anna DeSimone, President**

On October 15, 2014, Freddie Mac issued Bulletin 2014-18: Selling Updates. This *Single-Family Seller/Servicer Guide* ("Guide") Bulletin announces:

***Revisions to Freddie Mac's Mortgage eligibility and credit underwriting requirements to:***

1. Update Freddie Mac's Home Possible® Mortgages offering
2. Update eligibility requirements and provide guidance applicable to Higher-Priced Covered Transactions (HPCTs) and Higher-Priced Mortgage Loans (HPMLs)
3. Permit third-party asset verifications
4. Permit the sale of one-year ARMs under WAC ARM Cash to Freddie Mac

***Revisions to Freddie Mac's property eligibility requirements to:***

1. Streamline and update Freddie Mac's condominium requirements
2. Update certain property and appraisal requirements

Please note the Update also covers the following information not covered in this article: Updates and clarifications of certain Uniform Loan Delivery Dataset (ULDD) requirements reflected in the ULDD specification addendum published September 23, 2014 and "Additional Guide Updates and Reminders" section.

#### **Effective date**

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

#### **Mortgage Eligibility and Credit Underwriting Home Possible Mortgages**

*Effective for Mortgages with Settlement Dates on or after November 24, 2014*

Freddie Mac is removing certain restrictions on Home Possible Mortgages to make credit available to more Borrowers and support the purchase money market. In addition, Freddie Mac is expanding the benefits currently limited to Borrowers eligible for the Home Possible Neighborhood Solution® to apply to all Home Possible Borrowers, thereby maximizing the benefits for all qualifying members of the community. As a result of this expansion, the Home Possible Neighborhood Solution offering is being retired.

The changes include, but are not limited to:

1. Permitting Freddie Mac's standard requirements for temporary subsidy buydown plans on Mortgages secured by 1-unit and 2-unit properties
2. Permitting any secondary financing meeting Freddie Mac requirements. Note that delivery fees will apply when the secondary financing is not an Affordable Second®.

3. Permitting Mortgages, other than Mortgages secured by Manufactured Homes, to be manually underwritten without being submitted to Loan Prospector® first
4. Permitting the use of gift funds to meet the minimum reserves requirements
5. Revising the maximum monthly debt payment-to-income ratio for Manually Underwritten Mortgages from 43% to 45%
6. Permitting zero contribution from Borrower Personal Funds on Mortgages secured by 2- to 4-unit properties and Manufactured Homes when loan-to-value (LTV)/total LTV (TLTV)/Home Equity Line of Credit TLTV (HTLTV) ratios are less than or equal to 80%
7. Permitting Home Possible Mortgages to be Construction Conversion and Renovation Mortgages
8. Permitting a 6% Life Cap for 5/1 ARMs
9. Removing the requirement that the use of the Mortgage proceeds from a "no cash-out" refinance of a 2-to 4-unit property is limited to the unpaid principal balance and permitting Freddie Mac's standard "no cash-out" refinance requirements for these Mortgages

Other updates include, but are not limited to:

1. Requiring that the Seller verify that cash funds, when used as a source of Borrower Funds, are held in a financial institution prior to closing
2. Updating Guide Exhibit 23, *Monthly Budget and Residual Analysis Form*, which is required when cash on hand is used
3. Editorial changes to Guide Chapter A34, *Home Possible® Mortgages*, to simplify and improve ease of reference

Chapter A34, Guide Sections 2.2.1, *Introduction to Loan Prospector®*, 17.18, *Home Possible® Mortgages*, 25.2, *Refinance Mortgages with Secondary Financing*, 25.4, *Temporary Subsidy Buydown Plans*, 26.2, *Eligible Sources of Borrower Funds*, 26.5, *Reserves*, and K33.3, *Eligible and Ineligible Mortgages*, the Glossary, and Exhibits 23 and 25, *Mortgages with Risk Class and/or Minimum Indicator Score Requirements*, have been updated to reflect these changes. Additionally, for Seller convenience, Freddie Mac has posted Exhibit 23 as a fillable Portable Document Format (PDF) file. Sellers are encouraged to review all impacted Guide sections and exhibits in their entirety to ensure understanding of all revised requirements for Home Possible Mortgages. Loan Prospector and other Freddie Mac systems will be updated by November 24, 2014 to support these changes.

### **Higher-Priced Covered Transactions (HPCTs) and Higher-Priced Mortgage Loans (HPMLs)**

The Bulletin states: On January 10, 2013, the Consumer Financial Protection Bureau (CFPB) issued a final rule implementing ability to repay provisions under the Truth-in-Lending Act, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("CFPB Final Rule"), which generally requires a Seller to make a reasonable, good faith determination of a Borrower's ability to repay before originating a Mortgage and establishes certain protections from liability for qualified mortgages. In response to the CFPB Final Rule, Freddie Mac announced certain eligibility requirements applicable to HPMLs in [Bulletin 2013-16](#). Those eligibility requirements were related to Freddie Mac Relief Refinance Mortgages and the qualifying rate for ARMs with Initial Periods of seven or ten years. Subsequently, Freddie Mac issued [Bulletin 2013-23](#) to clarify that those eligibility requirements applicable to HPMLs were also applicable to HPCTs.

This Bulletin announces the following additional updates with respect to HPCTs and HPMLs:

*Expansion of guidance*

- Adding a Glossary definition for "Higher-Priced Covered Transactions" to include Primary Residences, second homes, and Investment Properties that are not exempt from the Truth-in-Lending Act. The HPCT Glossary definition is consistent with the guidance for HPCTs announced in Bulletin 2013-23.
- Deleting direct references to the regulatory definition of HPCT (i.e., as defined in Regulation Z, 12 C.F.R. 1026.43(b)) from the Guide as a result of the new Glossary definition
- Updating the Guide to include reference to HPML where HPCT is mentioned. While an HPML is also an HPCT secured by a Primary Residence, Freddie Mac decided to keep the term HPML in the Guide to ensure consistency with word usage and regulatory requirements set forth in Regulation Z. Under Regulation Z, 12 CFR 1026.35, HPMLs remain subject to regulatory requirements that are not applicable to HPCTs secured by second homes and Investment Properties, including escrow and appraisal requirements.

Loan Prospector feedback messages will be updated by November 24, 2014 to include reference to HPMLs where HPCTs are mentioned and to remove reference to the regulatory definition of HPCT.

Sellers should review Sections A24.3(h), *Requirements for Freddie Mac Relief Refinance Mortgages - Same Servicer*, B24.3(d)(i), *Requirements for Freddie Mac Relief Refinance Mortgages - Open Access*, 30.16, *Underwriting Requirements*, and the Glossary for the expanded guidance.

**Updated HPCT and HPML requirements**

- Renaming Section 22.35 from *Higher-Priced Mortgage Loans* to *Higher-Priced Mortgage Loans and Higher-Priced Covered Transactions*. The requirements within the section will now encompass and apply to all HPMLs and HPCTs.
- Expanding the eligible ARM products for HPMLs and HPCTs to include ARMs with Initial Periods of five years

These changes are effective for Mortgages with Application Received Dates on or after October 15, 2014. Sellers should review Sections 22.35 and 30.3, *Eligible ARMs*, for the updated requirements. Additional applicable Guide sections have been updated to reflect these changes.

**Resources.** As a reminder, additional resources related to the updated requirements in response to the CFPB Final Rule referenced in this Bulletin can be found at the Freddie Mac New Mortgage Eligibility Criteria web page. These resources include, but are not limited to, a list of frequently asked questions and a listing of additional Freddie Mac publications related to the CFPB Final Rule.

**Determination of regulatory compliance.** As stated in Bulletin 2013-16, Freddie Mac will not make the determination of whether a Mortgage is exempt from, or complies with, the CFPB Final Rule or whether a Seller's designation of the status of a Mortgage under the CFPB Final Rule is correct. These determinations of compliance with the CFPB Final Rule and other applicable laws are the Seller's responsibility.

**Notice of changes to negotiated provisions.** Pursuant to Section 12.3(d), *Changes to Master Agreements and Master Commitments*, negotiated provisions in Master Agreements and/or Master Commitments are amended as of the effective date announced in this Bulletin.

### **Third-party Asset Verifications**

Freddie Mac is revising its requirements to permit third-party asset verifications in response to the emergence of third-party asset verification services. In addition, the Enterprise is updating its requirements for third-party employment and income verifications. Sellers are reminded that they are responsible for ensuring the accuracy and integrity of the information provided by third-party verification services.

Section 37.20(c), *Third-Party Employment, Income and Asset Verifications*, has been updated to reflect these changes. Sellers should review this section for complete requirements.

Please refer to the *Compliance Monitor* article for full details on Freddie Mac's revisions to Third Party Asset Verifications: [Freddie Mac Updates Third Party Verifications 10.22.14](#)

### **One-Year ARMs Purchased under WAC ARM Cash**

Effective immediately, Freddie Mac will once again purchase one-year ARMs under WAC ARM Cash. Freddie Mac have updated Section 30.7(d), *Applicable Caps for Eligible ARM Products*, and Exhibit 17S, *Available Mortgage Products*, to reflect this change.

### **Property Eligibility**

**Special requirements for condominiums.** In response to Seller feedback, Freddie Mac is providing additional details in Chapter 42, *Special Requirements for Condominiums*, about the sequential process flow of Freddie Mac's Condominium Project review and eligibility requirements, which supports an efficient and effective workflow.

Freddie Mac's Condominium Project eligibility requirements have two components:

- The general Condominium Project eligibility requirements in Section 42.2(b), *General Condominium Project Eligibility Requirements*
- The Condominium Project eligibility requirements for *one* of the particular project review types in either Section 42.4, *Streamlined Reviews*, 42.5, *Established Condominium Projects*, 42.6, *New Condominium Projects*, 42.7, *Other Condominium Projects*, or 42.9, *Reciprocal Project Reviews*

Freddie Mac is also updating its requirements and providing additional clarity in Chapter 42 including, but not limited to, the following:

- Reorganizing content by moving to Section 42.8(d) the provision on *Financing of Limited Common Elements* previously in Section 42.2(b)
- Removing a general project eligibility requirement in Section 42.2(b), an ineligible project type in Section 42.3, *Ineligible Projects*, and a reciprocal project eligibility review requirement in Section 42.9

- Deleting the list of examples in the New Condominium Project requirements for mortgagee consent in Section 42.6(i), *Mortgagee Consent*, as the list was not all inclusive
- Clarifying the streamlined review requirements for "spot" loan originations in Section 42.4
- Expanding the sources that may contain a requirement for timely written notice of certain events in Section 42.6(j), *Rights of Condominium Mortgagees and Guarantors*, for New Condominium Projects

## **Property and Appraisal Requirements**

### ***Information supplied to the appraiser***

Freddie Mac is updating Section 44.3(h), *Information Supplied to the Appraiser*, to:

- Remove the requirement for the Seller to provide the appraiser with current homeowner association budgets because Freddie Mac does not require the appraiser to review the budget(s)
- Replace the term "Mortgage originator" with "a third party specifically authorized by the Seller." The use of this revised phrase is consistent with the requirements in Exhibit 35, *Appraiser Independence Requirements*.

### ***Subject property occupancy standards***

Freddie Mac is updating Section 44.2, *General Property Eligibility Requirements*, to match commonly used terminology by stating the property must be suitable for year-round occupancy.

In addition, Freddie Mac is removing repetitive and obsolete requirements in Sections 22.22, *Second Home Mortgages*, and 44.15(e), *Improvements Section*.

*Please refer to the Bulletin for additional information and updates*

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