

# Bulletin

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TO: Freddie Mac Sellers and Servicers

May 25, 2011

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## SUBJECTS

With this *Single-Family Seller/Servicer Guide* (“Guide”) Bulletin, we are updating certain **selling requirements**. We are also updating our **selling and Servicing** requirements regarding Mortgages registered with MERS.

We are providing the following updates to our **selling requirements**:

### **Mortgage eligibility and credit underwriting**

- Revising our requirements to permit the use of eligible Borrower assets as a basis for Mortgage qualification
- Increasing the maximum amount Borrowers may charge to a credit card, or receive from a cash advance or an unsecured line of credit, to pay fees associated with the Mortgage application process to the greater of either 2% of the Mortgage amount or \$1,500
- Updating information related to identifying California Condominium Unit Mortgages subject to earthquake insurance requirements

### **Property eligibility and appraisal requirements**

- Aligning our requirements for reviewing appraisal reports and underwriting the property with our current appraisal report forms
- Reinforcing our ongoing support for properties in rural locations by providing additional guidance on underwriting properties in such locations
- Updating our property eligibility requirements to align with the Uniform Appraisal Dataset (UAD)
- Revising the Guide to specify that use of the Uniform Collateral Data Portal <sup>SM</sup> (UCDP) does not relieve Sellers from compliance with the Guide and Sellers’ other Purchase Documents, including requirements related to appraisals and Freddie Mac’s Exclusionary List (“Exclusionary List”)
- Consolidating and revising certain requirements for Mortgages secured by properties with incomplete improvements, including energy conservation improvements
- Specifying certain Manufactured Home eligibility requirements
- Updating Guide Section 42.9, *Reciprocal Project Reviews*, to make references to sections that contain Seller warranties required for Established Condominium Projects and New Condominium Projects

## EFFECTIVE DATE

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

## **MORTGAGE ELIGIBILITY AND CREDIT UNDERWRITING**

### **Assets as a basis for Mortgage qualification**

We are updating the Guide to provide an avenue for Borrowers with unrestricted access to eligible assets to utilize those assets to qualify for a Mortgage. The Borrower(s) must not currently be using the eligible assets as a source of income. Established income channels (e.g., dividends and interest, retirement benefits, Social Security and pension) are currently eligible in the Guide as sources of income and are separate from this provision.

Sellers are expected and encouraged to make their reasonable best efforts to ensure Borrower awareness and acknowledgement of the reliance upon eligible assets and the resulting calculations based on those assets that support the Borrower's qualification for the Mortgage.

The eligible assets and the monthly amount used for Mortgage qualification need to be clearly outlined in the appropriate areas of the fully executed Guide Form 65, *Uniform Residential Loan Application*.

Refer to Guide Chapter 37, *Underwriting the Borrower*, and Section 37.13, *Stable Monthly Income and Asset Qualification Sources*, for complete eligibility requirements. Refer to Sections 37.22, *Streamlined Accept Documentation Requirements*, and 37.23, *Standard Documentation Requirements*, for complete documentation requirements.

#### *Loan Prospector*<sup>®</sup>

Loan Prospector will not be updated to recognize the underwriting and eligibility requirements, and therefore, Sellers must ensure that the eligibility and underwriting requirements are manually applied.

#### *Mortgage data delivery requirements: Special Characteristics Code*

All Mortgages delivered using the assets as a basis for Mortgage qualification requirements described in Chapter 37 require the Special Characteristics Code (SCC) "H31" on Form 11, *Mortgage Submission Schedule*, or Form 13SF, *Mortgage Submission Voucher*, as applicable.

We have added new Section 17.46, *Assets as a Basis for Mortgage Qualification*, to provide specific delivery requirements.

Chapter 37, Forms 11 and 13SF, and Guide Exhibit 34A, *Special Characteristics Codes Mapped to ULDD MISMO*<sup>®</sup> *Data Points*, have been amended to reflect this change.

### **Use of credit cards, cash advances and unsecured lines of credit to pay Mortgage application fees**

We are updating the Guide to increase the maximum amount that a Borrower may charge to a credit card or receive from a cash advance or unsecured line of credit to pay fees associated with the Mortgage application process. Effective immediately, the maximum amount charged or advanced is increased from 1% of the Mortgage amount to the greater of 2% of the Mortgage amount or \$1,500.

Additionally, we have deleted the provision limiting the maximum amount charged or advanced for appraisal and credit reports.

Section 26.6.4, *Credit Card Charges, Cash Advances or Unsecured Line of Credit*, has been updated to reflect these changes.

### **Earthquake insurance requirement**

Seller/Servicers will no longer be able to obtain a copy of the Risk Management Solutions, Inc. Earthquake Insurance Requirements Matrix or the zip code list by calling (800) FREDDIE. However, a Seller/Servicer may continue to call (800) FREDDIE and provide the zip code and building characteristics of an individual property to obtain information regarding the Condominium Project's earthquake insurance requirement.

Section 58.3.1, *Earthquake Insurance*, has been updated to reflect this change.

## **PROPERTY ELIGIBILITY AND APPRAISAL REQUIREMENTS**

### **Property underwriting and appraisal review requirements**

Effective for Mortgages with Settlement Dates on or after **September 1, 2011**, we are updating Chapter 44, *Appraisals, Inspections and the Property Inspection Alternative*, to align our requirements for reviewing the appraisal report and underwriting the property with current appraisal report forms. We are also revising Section 44.15(c), *Neighborhood Section*, to reinforce Freddie Mac's commitment to purchase eligible Mortgages in all neighborhoods and market areas, and in particular, to provide additional guidance on underwriting properties in rural locations.

In addition, we are updating Section 44.2, *General Property Eligibility Requirements*, to remind Sellers that they are responsible for placing as much emphasis on the adequacy of the property as collateral as on underwriting the Borrower's creditworthiness.

### **Changes relating to implementation of the Uniform Appraisal Dataset**

Effective for appraisals with effective dates on or after **September 1, 2011**, we are updating Chapter 44 to provide additional information related to properties with certain conditions or quality of construction issues. Specifically, we are revising Section 44.15(e), *Property Description and Analysis*, to specify that a Mortgage secured by a property with a UAD condition rating of C5 or C6, or a UAD quality rating of Q6, is eligible for delivery to Freddie Mac only if all issues that caused the property to be rated as such are cured prior to delivery of the Mortgage to Freddie Mac.

As a reminder, for appraisals with effective dates on or after **September 1, 2011**, Freddie Mac appraisal report Forms 70, 465, 466 and 2055 must be completed using the UAD when reporting results of an appraisal for a conventional Mortgage, as specified in Section 44.20, *Appraisal Data and Delivery*.

Effective for conventional Mortgages that require appraisal reports and have Delivery Dates on or after **March 19, 2012**, we are requiring all appraisal photographs to be in color and eliminating the acceptability of facsimile copies of appraisal reports. Sections 44.12, *Required Exhibits and Addenda*, and 44.21, *Electronic Transmission of Appraisal and Inspection Reports*, have been updated to reflect these changes.

### **Uniform Collateral Data Portal requirements – Effective for all Mortgages with appraisals submitted to the UCDP**

As announced in a Single-Family Update e-mail on April 12, 2011, the UCDP will be available for use on **June 27, 2011**.

For all Mortgages with appraisals submitted to the UCDP:

- The submission of appraisal report forms to the UCDP does not relieve the Seller from compliance with Freddie Mac appraisal requirements and does not affect Seller representations and warranties regarding appraisals and the Mortgaged Premises
- The Seller's ability to select a lender's agent or other party such as an appraisal management company in connection with the use of the UCDP does not constitute Freddie Mac's endorsement or approval of such party and does not relieve a Seller of any obligations pursuant to the Guide or the Seller's other Purchase Documents, including the requirements in Section 2.24, *Freddie Mac Exclusionary List*, related to the Exclusionary List

Section 44.20 has been updated to reflect the language above. Note that this language is applicable to all appraisals submitted to the UCDP, including those that are submitted prior to the future effective date of the Guide section, March 19, 2012.

### **Mortgages delivered to Freddie Mac prior to completion of improvements, including energy conservation improvements – Effective for Mortgages with Settlement Dates on or after September 1, 2011**

We are consolidating requirements for Mortgages delivered to Freddie Mac prior to completion of improvements. As a result, requirements for Mortgages secured by properties with incomplete energy conservation improvements are being removed from Section 23.8(b), and are being incorporated into Section 44.2(b). In addition, certain requirements in Section 44.2(b) are being revised.

## **Manufactured Home eligibility**

We are revising the Guide to include the following eligibility requirements for Mortgages secured by Manufactured Homes:

- 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
- Regardless of any structural modifications or add-ons, if any portion of a 1-unit dwelling is a Manufactured Home, the Mortgage must meet the requirements of Chapter H33, *Manufactured Homes*, and be delivered as a Mortgage secured by a Manufactured Home

Sections H33.2, *Property Eligibility*, and H33.3, *General Eligibility Requirements*, have been updated to reflect these additions.

## **Reciprocal project reviews**

We are updating Section 42.9 to incorporate references to the specific Seller warranties required when selling Mortgages secured by Condominium Units in Fannie Mae accepted projects, as follows:

- For Established Condominium Projects, Sellers must refer to Section 42.5(e)
- For New Condominium Projects, Sellers must refer to Section 42.6(e)

## **SELLING AND SERVICING REQUIREMENTS**

### **MERS requirements**

We are revising the Guide to address certain Seller/Servicer responsibilities related to Mortgages registered with MERS.

A Seller/Servicer, as applicable, must comply with the following requirements:

- 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

Sections 4.14, *MERS Membership*, 6.11, *Warranties and Representations by the Seller*, 16.8, *Completion of Delivery*, and 22.13, *Execution, Acknowledgment and Recordation of the Security Instrument*, have been updated to reflect these changes.

## **CORRECTION**

We are revising Section 2.2.1(k), *Submission/Resubmission Requirements*, to add a clause that was inadvertently omitted from that section. If the Borrower's income increases prior to the closing of the Mortgage, resubmission to Loan Prospector is not required, except when the Mortgage is a Home Possible<sup>®</sup> Mortgage.

## **REVISIONS TO THE GUIDE**

The revisions included in this Bulletin impact the following:

- Chapters 2, 4, 6, 16, 17, 22, 23, 26, H33, 37, 42, 44 and 58
- Forms 11 and 13SF
- Exhibit 34A

## **TRAINING**

Webinar training is available on the credit requirements announced in this Bulletin in a course titled [Overview of Recent Guide Bulletin Changes](#). To register for the course, access [freddiemac.com](http://freddiemac.com), select **The Learning Center** under the **Single-Family** tab, and then **Learning Center and Guide Updates** under the **Special Resources** section.

## **CONCLUSION**

If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call (800) FREDDIE.

Sincerely,



Laurie A. Redmond  
Vice President  
Offerings Effectiveness