

**Bulletin 2019-20**

Selling

Issued 10/02/2019

TO: Freddie Mac Sellers

SUBJECT: SELLING UPDATES

This Guide Bulletin announces:

Mortgage eligibility and origination and underwriting

- Revisions to our requirements for employed income analysis and calculation – **April 2, 2020**
- Revisions to Employer Assisted Homeownership (EAH) Benefits that are unsecured loans or secured loans
- New Guide Chapter 4305 with requirements specific to purchase transaction Mortgages
- Updates to our requirements for excluding monthly payments on certain student loans from the monthly debt payment-to-income (DTI) ratio – **January 2, 2020**
- Revisions to our requirements for calculating the monthly housing expense-to-income and DTI ratios – **January 2, 2020**

Condominium Projects

- Updates to our requirements for Condominium Projects – **Multiple effective dates**

Cash-Released XChangeSM

- Changes reflecting that a Transferee Servicer no longer has to first notify Freddie Mac before terminating a Seller's ability to transfer Servicing Contract Rights to such Transferee Servicer
- Revisions to our requirements for Servicing-Released Premium refunds – **November 1, 2019**

Quality control

- Revisions to certain Freddie Mac postfunding quality control review requirements
- Updates to Seller in-house quality control program requirements

Document custody

- Changes to our document custody requirements – **Multiple effective dates**

Additional Guide updates

- Further updates as described in the Additional Guide updates section of this Bulletin

EFFECTIVE DATE

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

MORTGAGE ELIGIBILITY AND ORIGINATION AND UNDERWRITING

Income requirements

Effective for Mortgages with Settlement Dates on and after April 2, 2020, but Sellers are encouraged to implement as soon as possible

In response to industry feedback and to provide greater specificity, we are updating our requirements for employed income analysis and calculation, with a focus on base non-fluctuating and fluctuating hourly employment earnings and additional fluctuating employment earnings (e.g., commission, bonus, overtime and tip income). The changes include:

- Updates to our employment history requirements. Currently, we require the Borrower to have at least a two-year history of primary employment, permitting a shorter history in certain instances. We are updating the Guide to require that when the Borrower's income is derived from fluctuating hourly employment earnings, under no circumstances may the employment history be less than 12 months.
- Adding a requirement that for base hourly earnings to be considered non-fluctuating for the purpose of income calculation, the Borrower must have a documented history of working the same number of hours with the same employer for a minimum of six months
- Clarification that "fluctuating hourly employment earnings" are considered to be wages that are based on an hourly rate of pay and where the number of hours fluctuate each pay period
- Alignment of income calculation requirements for all fluctuating employment income types (hourly base, overtime, bonus, commission and tips). The calculation is based on whether the income trend is determined to be consistent, increasing or declining.
- Adding requirements for additional analysis when income fluctuation between the prior year(s) and year-to-date exceeds 10%. As part of this change, the requirement for additional analysis when earnings show "a high degree of volatility or an irregular pattern" is being removed.

Guide impacts: Guide Sections [5301.1](#) and [5303.2](#) through [5303.4](#)

Employer Assisted Homeownership (EAH) Benefit

In response to Seller feedback, we reviewed our requirements for Employer Assisted Homeownership (EAH) Benefits and are revising them as follows:

- Removing the requirement that the EAH Benefit must permit the Borrower to continue making payments on the loan in the event the Borrower no longer works for the employer. This change better aligns with employer benefit programs and applies to EAH Benefits that are both unsecured loans and secured loans.
- For EAH Benefits that are unsecured loans, specifying that those funds may be used only for Down Payment and Closing Costs. We are also removing several requirements specific to repayment terms.
- For EAH Benefits that are secured loans with regular monthly payments, clarifying that those payments must be included in the monthly housing expense-to-income ratio

Guide impacts: Sections [4204.1](#), [4204.2](#) and [5501.4](#)

Purchase transaction Mortgages

In response to Seller feedback, we are adding new [Chapter 4305](#) for purchase transaction Mortgages. The new chapter specifies acceptable uses of the proceeds from a purchase transaction Mortgage as well as the circumstances under which the Borrower may receive cash back or a principal curtailment may be made.

Guide impact: [Chapter 4305](#)

Student loans

Effective for Mortgages with Settlement Dates on and after January 2, 2020

Currently, Sellers may exclude a Borrower's monthly student loan payment from the DTI ratio if:

- The student loan has 10 or less monthly payments remaining until the full balance is forgiven, canceled, discharged or paid by an employment-contingent repayment program, or
- The monthly payment of the student loan is deferred or in forbearance and the full balance will be forgiven, canceled, discharged or paid by an employment-contingent repayment program at the end of the deferment or forbearance period

Additionally, the Seller must document in the Mortgage file that the Borrower currently **meets the requirements for** the student loan forgiveness, cancelation, discharge or employment-contingent repayment program.

In response to Seller inquiries, we are requiring that for the monthly student loan payment to be excluded from the DTI ratio as stated above, the Mortgage file must contain documentation indicating that the Borrower is **eligible or approved for** the student loan forgiveness, cancelation, discharge or employment-contingent repayment program. Evidence of eligibility or approval must come from the student loan program or the employer, as applicable.

Guide impact: Section [5401.2](#)

Monthly housing and DTI ratios

Effective for Mortgages with Settlement Dates on and after January 2, 2020

We are updating the Guide to require that flood insurance and special assessments with more than 10 monthly payments remaining be included in the monthly housing expense-to-income ratio for the subject property and in the monthly DTI ratio for any other property owned, as these items can have a significant impact on the Borrower's ability to meet his or her monthly obligations.

Guide impacts: Sections [5401.1](#) and [5401.2](#)

CONDOMINIUM PROJECTS

In response to Seller feedback, we are updating our requirements for Condominium Projects as follows:

Topic	New/updated requirements
Effective immediately	

Project Waiver Requests (PWRs) via Freddie Mac Condo Project Advisor® (CPA) - inclusion of projects with long-term developer-owned units (Section 5701.1)	Previously, only Condominium Unit Mortgages secured by units in projects meeting all of the requirements for Established Condominium Projects were eligible for PWRs. However, to expand eligibility, a project may still be considered as an Established Condominium Project where the developer retained more than 25% of the units (which otherwise makes the project a New Condominium Project) if: <ul style="list-style-type: none"> • The developer retained those units for rental purposes • The developer has owned those units for a minimum of 10 years; and • The Condominium Project otherwise meets the completion and project control requirements to be classified as an Established Condominium Project
Ineligible projects – commercial space (Section 5701.3)	To provide greater specificity and ease of use, we have consolidated the commercial space requirements from Section 5701.11 into Section 5701.3(d) . In addition, we have added an easy-to-follow table showing what must be included and what may be excluded from the commercial or non-residential space calculation.
Topic	New/updated requirements
Manufactured Homes (Sections 5701.3 , 5701.4 , 5701.5 and 5701.6)	To provide greater ease of use to Sellers, we have eliminated redundant references to the ineligibility of Manufactured Homes in Chapter 5701 while retaining our requirement in Section 5701.3(l) .
New and Established Condominiums – budget requirements (Sections 5701.5 and 5701.6)	We are clarifying that the Condominium Project's budget must be for the current fiscal year.
Effective January 2, 2020	
New Condominium Projects – New construction Section 5701.6	We are specifying that a single building in a Condominium Project (regardless of whether the project is comprised of that single building or multiple buildings) may have only one legal phase and that marketing phases are not eligible.

Guide impacts: Sections [1301.11](#), [5701.1](#), [5701.3](#) through [5701.6](#) and [5701.11](#)

CASH-RELEASED XCHANGESM

Transferee Servicer's termination of a Seller's ability to transfer Servicing Contract Rights

Previously, a Transferee Servicer wishing to terminate a Seller's ability to transfer Servicing Contract Rights to that Transferee Servicer had to notify Freddie Mac and Freddie Mac would act to screen out the Seller.

We are updating [Section 6101.7\(g\)](#) to reflect that as a result of system enhancements, the Transferee Servicer may now terminate a Seller's ability to transfer Servicing Contract Rights to that Transferee Servicer without first notifying Freddie Mac.

Guide impact: [Section 6101.7](#)

Servicing-Released Premium refunds

Effective November 1, 2019

[Guide Exhibit 28A](#) currently requires a Seller to refund the Servicer 100% of the Servicing Released Premium (SRP) if a Borrower fails to make **the first four** monthly payments following the Funding Date.

To align with industry standards, we are revising [Exhibit 28A](#) to provide that a Seller must refund the Servicer 100% of the SRP if the Borrower fails to make **any of the first four** monthly payments following the Funding Date.

Guide impact: [Exhibit 28A](#)

QUALITY CONTROL REVIEW

We are making the following revisions to requirements for postfunding quality control review and Seller in-house quality control programs to add clarity and better align with industry practices.

Freddie Mac's postfunding quality control review

We are updating certain postfunding quality control review requirements regarding:

- Mortgage file documentation required for Mortgages submitted to Loan Product Advisor®, including Mortgages for which the Seller is offered, and accepts, an appraisal waiver in accordance with [Section 5601.9](#), and
- Mortgage file documentation required solely for Manually Underwritten Mortgages

We are also updating the Guide to:

- Specify that except for trended credit, Freddie Mac will review all documentation sent to Freddie Mac in connection with a quality control review request, even if Freddie Mac does not require that documentation, and
- Clarify our requirements for Mortgage file documentation relating to the final title insurance policy

Guide impacts: Sections [3401.1](#), [3401.6](#), [3401.9](#) through [3401.11](#), [3401.17](#) and [3401.18](#)

Seller's in-house quality control program

We are revising Seller in-house quality control program requirements to provide that Sellers may notify Freddie Mac in writing within 90 days, instead of 60 days, of a determination that a quality control finding affects the eligibility of a Mortgage sold to us. This excludes fraud or possible fraud, which must still be reported within 60 days of the determination.

In addition, we are revising the requirements to, among other things:

- Allow Sellers with annual production of less than 5,000 Home Mortgages to house the quality control functions within the origination and underwriting departments
- Require that records of completed quality control reviews be provided to a new Servicer only upon request

- Allow Sellers to choose targeted Mortgage selections that focus on specific characteristic of a Mortgage, such as product, business source or underwriting component
- Clarify that Sellers must pay any fees associated with reverifications in the quality control process
- Remove the requirement that any new credit reports obtained during the quality control process must be ordered from a different source than the original reporting agency
- Remove the requirement for appraisal reviews on Freddie Mac Enhanced Relief Refinance® Mortgages

Guide impacts: [Sections 3402.1](#), [3402.3](#) through [3402.6](#), [3402.8](#), [3402.10](#) and [3402.11](#)

DOCUMENT CUSTODY

Powers of Attorney

We are updating the Guide to require that the original Power of Attorney (POA) must be **delivered** to the Document Custodian with the Note but need not be **attached** to the Note, as previously stated. To align with the Document Custody Procedures Handbook, the revised section also specifies that **every** POA must be notarized and that Document Custodians may accept a copy of the POA if it was recorded prior to the Note Date and shows the recording information or if the POA was sent with the Security Instrument to be recorded. In the latter case, when it is returned from the recording office, the Seller must promptly deliver either the original POA or a copy showing recording information to the Document Custodian.

Guide impact: [Section 6301.4](#)

New Document Custodians

We are updating the Guide to indicate that Freddie Mac is no longer accepting applications to become or approving new Document Custodians. The eligibility standards set forth in [Section 2202.2](#) remain in effect for our current Document Custodians.

Guide impact: [Section 2202.2](#)

Required notice for termination of a Tri-Party Agreement

Effective January 2, 2020

We are updating the Guide to increase the required notice period for a Document Custodian to terminate a Tri-Party Agreement from 30 to 90 days.

Guide impact: [Section 2202.6](#)

Additional updates

We are updating the Guide to:

- Align with current practices for processing new Tri-Party Agreements
- Provide more detail concerning the parties' responsibilities upon termination of a Tri-Party Agreement
- Describe more specifically the duties and responsibilities of each party to a Transfer of Servicing or a transfer of custody

Guide impacts: [Sections 2202.3](#) and [2202.6](#)

ADDITIONAL GUIDE UPDATES

Recent Borrower employment gaps

We are clarifying that while the Borrower is not required to provide a letter of explanation of recent employment gaps, the Seller remains responsible for establishing that the Borrower's employment is stable, which may require analysis of recent employment gaps.

Guide impacts: [Sections 5303.1](#) and [5303.2](#)

Automated collateral evaluation (ACE) eligibility

Previously, the Guide stated that a Seller may not accept the ACE appraisal waiver offer if the Seller is aware of conditions that **it believes** warrant an appraisal being obtained.

We are updating the Guide to state that a Seller may not accept the appraisal waiver offer if the Seller is aware of conditions **that** warrant an appraisal being obtained.

Guide impact: [Section 5601.9](#)

Environmental hazard disclosure to Borrower

Effective December 1, 2019

In [Bulletin 2019-16](#), we noted that we were reviewing Seller feedback related to changes previously announced in [Bulletin 2019-9](#) concerning disclosure of environmental hazards to the Borrower.

Based on that feedback, we are revising the Guide to provide greater specificity regarding information that must be disclosed to the Borrower. For purchase transactions, Sellers must disclose information regarding environmental hazards that directly impact the subject property and have not been mitigated or remediated, if the Seller obtained such knowledge prior to the Note Date.

Guide impact: [Section 5601.3](#)

Seasoned LIBOR ARMs

In [Bulletin 2019-10](#), we updated the Guide to state that the Settlement Date for a LIBOR-indexed ARM must not be more than six months after the Note Date.

With this Bulletin, we are clarifying that for purposes of [Section 4401.3](#) and [Exhibit 17S](#) (footnote 11), the Note Date is equivalent to the Effective Date of Permanent Financing for LIBOR ARMs sold to Freddie Mac as Construction Conversion Mortgages originated with Integrated Construction Conversion Documentation.

Pledged Mortgages

For Cash transactions, to provide greater specificity, we are removing the requirements that all Pledged Mortgages in a delivery must be financed by the same Warehouse Lender and that each Mortgage must be a Pledged Mortgage if included in a delivery with Pledged Mortgages.

We are additionally updating [Chapter 6305](#) for clarity and to change certain references from "Funding Date" (which is used only in the context of Cash transactions) to "Settlement Date," which applies to all transactions.

Guide impacts: [Sections 6305.2](#), [6305.4](#), [6305.6](#) through [6305.9](#) and [6305.12](#)

Certificate of Incumbency

We are updating the Seller/Servicer Certificate of Incumbency language in [Section 2201.1](#) to specify that all Sellers, Servicers and Seller/Servicers must provide Certificates of Incumbency to Freddie Mac.

Guide impact: [Section 2201.1](#)

Freddie Mac Relief Refinance MortgagesSM

In [Bulletin 2017-17](#), we extended the expiration date of the Freddie Mac Relief Refinance Mortgage – Same Servicer and Relief Refinance Mortgage – Open Access offerings to Application Received Dates on or before December 31, 2018 and Settlement Dates on or before September 30, 2019. We are now updating the Guide to remove references to these offerings, where applicable, as these Mortgages can no longer be delivered to Freddie Mac.

All applicable Freddie Mac systems were updated to support the expiration of these offerings.

Guide impacts: [Chapters 4302, 4303, Sections 2402.7, 3401.27, 4203.1, 4301.8, 4406.2, 4407.2, 4501.3, 4502.3, 4603.3, 4605.2, 4607.2, 5307.1, 5601.9, 6202.3, 6302.16, 8202.3, 8202.5, 8202.6, 9201.2, Exhibits 17S, 19 and 34](#)

GUIDE UPDATES SPREADSHEET

For a detailed list of the Guide updates associated with this Bulletin and the topics with which they correspond, access the Bulletin 2019-20 (Selling) Guide Updates Spreadsheet via the Download drop-down available at <https://guide.freddiemac.com/app/guide/bulletin/2019-20>.

CONCLUSION

If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call the Customer Support Contact Center at 800-FREDDIE.

Sincerely,

Christina K. Boyle
Chief Client Officer
Single-Family Office of the Client