

# Bulletin

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NUMBER: 2011-15

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TO: Freddie Mac Sellers and Servicers

August 16, 2011

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## SUBJECTS

With this *Single-Family Seller/Servicer Guide* (“Guide”) Bulletin, we are:

### Quality control

- Revising Guide Chapter 46, *Freddie Mac’s Postfunding Quality Control Review*
- Revising Chapter 48, *Seller’s In-House Quality Control Program*, to add a new requirement for preclosing quality control reviews and enhance requirements for postclosing quality control reviews

### Mortgage eligibility and credit underwriting

- Permitting Freddie Mac-owned Mortgages with a pool insurance credit enhancement to be refinanced as Freddie Mac Relief Refinance Mortgages<sup>SM</sup> – Open Access
- Revising our requirements for Mortgages secured by second homes and Investment Properties to require that a Borrower have no affiliation or relationship with the builder, developer or property seller only for Mortgages for Newly Constructed Homes that are purchase transactions
- Making updates and eliminating redundancies relating to documentation requirements in Chapter 37, *Underwriting the Borrower*
- Revising Guide Section 22.16, *Occupancy*, to remove “to the best of the Seller’s knowledge and belief” as a qualification for determining that a Mortgaged Premises will be occupied by the Borrower as a Primary Residence

### Pooling requirements

- Revising our pooling requirements for nonassumable Section 502 GRH Mortgages with loan-to-value (LTV) ratios greater than 105% under the fixed-rate Guarantor program

### Loan limits

- Updating Chapter L33, *Super Conforming Mortgages*, to reflect the anticipated expiration of the temporary maximum loan limits for Mortgages secured by properties in designated high-cost areas

### Mortgage insurance

- Providing additional information about the suspension of Republic Mortgage Insurance Co. and RMIC of North Carolina announced on August 2, 2011 and the authorization of Genworth Mortgage Insurance Corporation (“Genworth”) to use Genworth Residential Mortgage Assurance Corporation (GRMAC) as a “Limited Insurer” announced on August 3, 2011

## QUALITY CONTROL

### Chapter 46, *Freddie Mac's Postfunding Quality Control Review*

#### Effective for Mortgages with Settlement Dates on or after December 1, 2011

We have updated Chapter 46 to, among other things:

- Add a provision regarding records of collection efforts for nonperforming Mortgages
- Require documentation and information relating to any change in mortgage insurance coverage, including notices of cancellation, rescission or termination to be included in the Mortgage file
- Notify Sellers that for Freddie Mac Relief Refinance Mortgages<sup>SM</sup> – Same Servicer, if the original appraisal or Automated Valuation Model (AVM) for the Mortgage being refinanced was used to determine the value of the property and Freddie Mac's review determines that this value is not supported, the Seller must provide written documentation to evidence how it was established that the value is at least equal to the value as determined using the appraisal or AVM for the Mortgage being refinanced
- Add a provision regarding Mortgage file requirements for Mortgages originated using any Electronic Records expressly permitted by Freddie Mac in the Guide or a Seller/Servicer's other Purchase Documents
- Add a requirement that when an existing lien is subordinated, a copy of the subordination agreement must be maintained in the Mortgage file. Section 25.2, *Refinance Mortgages with Secondary Financing*, has also been updated to reflect this new requirement. In addition, Section 25.1, *Purchase Mortgages with Secondary Financing*, has been updated to reflect the documentation requirements for concurrently originated secondary financing that already appear in Chapter 46.

Effective immediately, we have also updated Chapter 46 to permit the delivery of Mortgage files in electronic media, with prior approval from Freddie Mac.

We have also updated Sections A24.3, *Requirements for Freddie Mac Relief Refinance Mortgages<sup>SM</sup> – Same Servicer*, and 39.2, *Title Insurance Policy Requirements*, to reflect these and other changes related to Mortgage file documentation requirements.

Sellers should review Chapter 46 and Sections A24.3, 25.1, 25.2 and 39.2 in their entirety for complete information on all changes to Freddie Mac's postfunding quality control review.

### Chapter 48, *Seller's In-House Quality Control Program*

#### Effective December 1, 2011

Sound quality control procedures are an important part in developing responsible lending standards that help to ensure the success of Seller/Servicers and Borrowers throughout the life of a Mortgage. As part of our ongoing efforts to help Sellers deliver high-quality loans and reduce repurchases, Freddie Mac is updating Chapter 48 to add a new requirement for preclosing quality control reviews. This change will provide Sellers with the opportunity to identify and address deficiencies prior to loan closing. While Freddie Mac does not prescribe specific requirements for Sellers' preclosing quality control reviews, new Section 48.8, *Preclosing Quality Control Reviews*, was created to include best practices and guidance for an effective preclosing review process.

We are also enhancing requirements for postclosing quality control reviews, including, but not limited to:

- Requiring that Sellers' postclosing samples include random, targeted and discretionary sample types
- Requiring a more statistically-sound sampling methodology for Sellers that have an annual production of more than 5,000 loans and choose to utilize a statistically-based sampling methodology for their random sample selection process
- Requiring that for *all* Mortgages secured by Primary Residences that are selected for postclosing quality control review, the Seller must verify that the Borrower is occupying the Mortgaged Premises

Sellers should review the revised requirements in Chapter 48 to ensure that they have clear understanding of all changes.

For additional resources on responsible lending standards, Sellers may also access the Responsible Lending and the Power of Quality page on Freddie Mac's web site at:  
<http://www.freddiemac.com/singlefamily/responsiblelending.html>

## **MORTGAGE ELIGIBILITY AND CREDIT UNDERWRITING**

### **Freddie Mac Relief Refinance Mortgages – Open Access**

#### **Effective for Loan Prospector® submissions and resubmissions on or after September 1, 2011**

We are announcing that Freddie Mac-owned Mortgages with a pool insurance credit enhancement are eligible for refinancing as Freddie Mac Relief Refinance Mortgages – Open Access. This change to the Freddie Mac Relief Refinance Mortgages – Open Access offering allows us to continue to provide expanded access to refinancing opportunities for Borrowers who are current on their Mortgage payments and whose homes have declined in value.

We have updated Section B24.2, *Eligibility Requirements, Eligible Mortgages and Ineligible Mortgages*, to reflect this change.

### **Mortgages secured by second homes and Investment Properties**

We are revising our requirements for Mortgages secured by second homes and Investment Properties effective immediately to require that a Borrower not be affiliated with or related to the builder, developer or the property seller only for Mortgages for Newly Constructed Homes that are purchase transactions.

Sections 22.22, *Second Home Mortgages*, and 22.22.1, *Investment Property Mortgages*, have been updated to reflect this change.

## **Chapter 37, Underwriting the Borrower**

### *Self-employment income*

#### **Effective for Mortgages with Delivery Dates on or after December 1, 2011**

We have updated Section 37.13(b), *Self-Employed Income*, 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. All other requirements related to the use of business assets for funds to close remain unchanged.

### *Other income documentation*

In order to eliminate redundancies and achieve improved clarity, effective immediately, we have deleted the language regarding income continuance from the documentation requirements in Sections 37.22, *Streamlined Accept Documentation Requirements*, and 37.23, *Standard Documentation Requirements*, for “Other Income” categories.

Sellers should reference Section 37.13(c) for income continuance requirements regarding “Other Income,” which continue to apply.

## **Chapter 22, General Mortgage Eligibility**

#### **Effective for Mortgages with Delivery Dates on or after December 1, 2011**

In order for a Mortgage to qualify as a Mortgage on an owner-occupied property, at least one of the Borrowers must occupy the Mortgaged Premises as a Primary Residence as of the Delivery Date. Therefore, we have revised Section 22.16 to remove the qualification “to the best of the Seller’s knowledge and belief” relating to whether the Borrower is occupying the Mortgaged Premises as a Primary Residence.

## POOLING REQUIREMENTS

### Revised pooling requirements for nonassumable Section 502 GRH Mortgages with LTV ratios greater than 105% under the fixed-rate Guarantor program

We are revising the pooling requirements for nonassumable Section 502 GRH Mortgages with LTV ratios greater than 105%. Effective for fixed-rate Guarantor contracts taken out on or after **August 16, 2011**, these Mortgages must be pooled in PC pools comprised entirely of Mortgages with LTV ratios greater than 105%.

Section 13.4, *Pooling Requirements for Gold PC Pools and Giant PC Pools*, Section 17.14, *Special Requirements for Section 502 GRH Mortgages*, Section A17.19, *Section 502 GRH Mortgages*, and Guide Exhibit 17S, *Mortgage Products Available Through the Selling System*, have been updated to reflect this change.

## LOAN LIMITS

### Expiration of temporary higher maximum loan limits

As we reminded Sellers in a Single-Family Update e-mail on July 18, 2011, Mortgages with Note Dates on or after **October 1, 2011** will no longer be eligible for the temporary higher loan limits defined by the American Recovery and Reinvestment Act of 2009 (ARRA) and extended to apply to Mortgages originated in 2010 and fiscal year 2011 by subsequent legislation (“Public Law Number 111-88 and Public Law Number 111-242”). Instead, super conforming Mortgages will be subject to the lower maximum loan limits determined according to the Housing and Economic Recovery Act of 2008 (HERA). Therefore, the maximum original loan amount for such a Mortgage secured by a 1-unit property in the highest cost counties (exclusive of those in Alaska, Hawaii, Guam and the U.S. Virgin Islands) will be \$625,500, with higher limits applicable to Mortgages secured by 2- to 4-unit properties.

The HERA loan limits apply to super conforming Mortgages with Note Dates on or after October 1, 2011 and Freddie Mac Funding or Settlement Dates on or before **December 31, 2011**.

The loan limit requirements detailed above and reflected in the revised Guide text reflect current law and are subject to change by Congress. We will update our requirements to reflect any changes that may occur.

Later this year, the Federal Housing Finance Agency (FHFA) will provide new HERA loan limits for calendar year 2012, which will replace the 2011 HERA limits and apply to all Mortgages with Freddie Mac Funding/Settlement Dates on or after January 1, 2012 and on or before December 31, 2012. We will update the Guide to reflect those new limits when they are announced.

Section L33.2, *Maximum Original Loan Amounts for Super Conforming Mortgages*, has been updated to reflect this change. Loan Prospector and the Freddie Mac Selling System (“Selling System”) will also be updated at a future date to reflect changes in the loan limits.

## MORTGAGE INSURANCE

### Suspension of Republic Mortgage Insurance Co. and RMIC of North Carolina as approved Freddie Mac mortgage insurers

Pursuant to our Single-Family Update e-mail on August 2, 2011, Exhibit 10, *Freddie Mac-Approved Mortgage Insurers*, has been updated to reflect that the approved mortgage insurer status of Republic Mortgage Insurance Co. and RMIC of North Carolina (collectively, “RMIC”) is suspended. Mortgages insured by RMIC with Note Dates before May 1, 2011, and on or after September 1, 2011, are no longer eligible for sale to Freddie Mac.

In addition, Mortgages insured by RMIC with Note Dates on or after May 1, 2011, and before September 1, 2011, must be delivered to Freddie Mac on or before **November 30, 2011**, whether for Borrower-paid or lender-paid insurance.

As an exception, Mortgages with existing RMIC certificates of insurance will continue to be eligible for sale to Freddie Mac if they are refinanced under the Freddie Mac Relief Refinance Mortgage – Same Servicer offering and the coverage is continued through modification of the existing mortgage insurance certificate. Section A24.4, *Delivery and Pooling Requirements*, has been updated to reflect this change.

As a reminder, except in limited circumstances, Section 61.7, *Transfers of Mortgage Insurance Coverage*, prohibits transfers of the mortgage insurance coverage that is in effect at the time a Mortgage is sold to Freddie Mac. Because none of those circumstances apply in this instance, Freddie Mac Servicers do not need to take any action in connection with Mortgages that have already been sold to us, whether at renewal of the insurance or otherwise.

#### **Genworth authorized to use GRMAC as a Limited Insurer**

As announced in a Single-Family Update e-mail on August 3, 2011, we have authorized Genworth to use GRMAC as a "Limited Insurer." We have also updated Exhibit 10 to reflect the appropriate MI codes and effective dates to use when delivering Mortgages with GRMAC commitments.

Sellers using the Selling System should use MI Code "01" for Mortgages with GRMAC commitments dated on or after **August 1, 2011**.

For Mortgages with GRMAC commitments issued on or before **July 31, 2011**, Sellers should continue to use MI Code "02."

Exhibit 10 can be accessed on FreddieMac.com at

[http://www.freddiemac.com/sell/guide/mortgage\\_insurers.html](http://www.freddiemac.com/sell/guide/mortgage_insurers.html)

#### **Uniform Loan Delivery Dataset (ULDD) delivery requirements**

With this Bulletin, we are updating Exhibit 10 to include the requirements for delivery of ULDD data.

As part of Freddie Mac's transition to the MISMO<sup>®</sup>-based loan delivery data requirements, we are reducing our dependence on delivery codes. Therefore, effective **March 19, 2012**, for Mortgages with Application Received Dates on or after December 1, 2011, Sellers must deliver the MI Company Name Type, instead of the MI Code required on Guide Form 11, *Mortgage Submission Schedule*, and Form 13SF, *Mortgage Submission Voucher*. Sellers must continue to deliver all other required mortgage insurance information in the appropriate fields.

The Exhibit 10 updated to reflect ULDD data delivery requirements can also be accessed on FreddieMac.com at [http://www.freddiemac.com/sell/guide/mortgage\\_insurers.html](http://www.freddiemac.com/sell/guide/mortgage_insurers.html)

#### **REMINDER – ELIGIBILITY REQUIREMENTS FOR FREDDIE MAC COUNTERPARTIES**

In Bulletin 2010-23, we announced new eligibility requirements for approved counterparties, as well as new applicant requests.

As a reminder, Seller/Servicers approved prior to October 15, 2010 must maintain an Acceptable Net Worth of \$2 million by September 30, 2011. Beginning June 30, 2012, these Seller/Servicers must maintain an Acceptable Net Worth of \$2.5 million, plus a dollar amount equal to .25% of their Representation and Warranty Unpaid Principal Balance.

#### **REVISIONS TO THE GUIDE**

The revisions included in this Bulletin impact the following:

- Chapters 6, 13, 17, A17, 22, A24, B24, 25, L33, 37, 39, 46 and 48
- Exhibits 10 and 17S
- Directory 2

## CONCLUSION

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

Sincerely,

A handwritten signature in cursive script that reads "Laurie A. Redmond". The signature is written in black ink on a light-colored background.

Laurie A. Redmond  
Vice President  
Offerings Effectiveness