

# Bulletin

TO: Freddie Mac Sellers

September 2, 2020 | 2020-36

## SUBJECT: SELLING UPDATES

This Guide Bulletin announces:

- **Freddie Mac CHOICERenovation® Mortgages**
  - Addition of special requirements for [Concurrent Transfers of Servicing](#) involving CHOICERenovation Mortgages with renovations not completed by the Settlement Date
  - Revisions related to [“no cash-out” refinance Mortgages](#)
  - Clarifications related to [eligible renovations](#)
- **Affordable lending and housing preservation**
  - Update to the right of first refusal time period requirements for Mortgages secured by [properties subject to resale restrictions](#)
  - Clarifications and additional details related to [Community Land Trust Mortgages](#)
  - Clarifications of CHOICEHome® and CHOICERenovation Mortgages' eligibility as [Home Possible® Mortgages](#)
  - Clarifications to requirements for [cash-out refinance](#) leasehold Mortgages and Cooperative Share Loans
  - Revised [Credit Score requirements](#) for Home Possible Mortgages
  - Updates related to [Manufactured Home accessory units](#)
- **SOFR ARMs**
  - A revision to the effective date for previously announced [SOFR ARMs](#) updates – **November 9, 2020**
- **Income and asset requirements**
  - Revisions to our requirements for documenting [Social Security income](#) that is tax exempt
  - Updates to our requirements for [wedding gift funds](#)
- **Postfunding quality control (QC) Component Based Reviews**
  - Introduction of [Component Based Reviews](#) in addition to our current Full-File Reviews
- **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.

## CHOICERenovation MORTGAGES

With this Bulletin, we are making the updates described below to the CHOICERenovation offering to provide greater specificity and added flexibility.

## Concurrent Transfers of Servicing involving CHOICERenovation Mortgages

For Sellers that have obtained Freddie Mac's prior written approval, Concurrent Transfers of Servicing involving CHOICERenovation Mortgages with renovations not completed by the Settlement Date (as described in Section 4607.1(b)) are now permitted, provided the special requirements in Section 4607.18(a) are met. Sellers may request approval by contacting their Freddie Mac representative or the Customer Support Contact Center at 800-FREDDIE.

Additionally, Guide Form 960, *Agreement for Concurrent Transfer of Servicing of Single-Family Mortgages*, has been updated to identify whether an agreement includes CHOICERenovation Mortgages with renovations not completed by the Settlement Date. An approved Seller (as Transferor Servicer) and Transferee Servicer must complete Form 960, select this type of Mortgage on the updated form and obtain Freddie Mac's approval (indicated by Freddie Mac executing and returning a copy of Form 960 to the Transferor Servicer and Transferee Servicer) before transferring Servicing for CHOICERenovation Mortgages with renovations not completed by the Settlement Date.

As a reminder, Subsequent Transfers of Servicing involving CHOICERenovation Mortgages with renovations not completed by the Settlement Date are prohibited until all renovations have been completed, the Seller has obtained a completion report in accordance with Section 4607.9 and Freddie Mac has approved removal of recourse in accordance with Section 4607.15.

Guide impacts: Sections 4607.10, 4607.12, 4607.18, 7101.4, 7101.15 and Form 960

## "No cash-out" refinance Mortgages

Based on Seller feedback, we are updating the Guide to specify that a CHOICERenovation Mortgage secured by a property previously owned free and clear by the Borrower is considered a "no cash-out" refinance Mortgage if the Mortgage proceeds are used to finance only the eligible renovations described in Section 4607.6.

In these instances, at least one Borrower must have been on the title to the subject property for at least six months prior to the Note Date, unless one of the exceptions to this title requirement that are specified in Section 4301.5 applies.

Guide impacts: Sections 4301.4, 4301.5 and 4607.4

## Eligible renovations

We are updating Section 4607.6 to clarify the renovations that may be financed with a CHOICERenovation Mortgage are not limited to renovations made to an existing dwelling, but rather, to a property with an existing dwelling.

Guide impact: Section 4607.6

## AFFORDABLE LENDING AND HOUSING PRESERVATION

### Mortgages secured by properties subject to resale restrictions

For Mortgages secured by properties subject to resale restrictions, we are extending the right of first refusal time period requirements in Section 4406.1(e). When a Mortgage secured by a resale-restricted property is in foreclosure and/or subject to an approved short sale, the right of first refusal must have a time period not exceeding 120 days from the date of written notice to the parties to which the notice runs. Previously, this period could not be longer than 90 days.

Guide impact: Section 4406.1

### Community Land Trust Mortgages

In Bulletin 2018-16, Freddie Mac introduced Community Land Trust Mortgages, available to Sellers under a negotiated term of business after the successful completion of the required Freddie Mac training. This offering was added as a component of our Duty to Serve Plan to provide another means of increasing home ownership opportunities for very low, low and moderate income families and to help preserve affordable housing.

Based on Seller feedback, we are making the following updates to add specificity to, and make it easier to locate, our Community Land Trust Mortgage requirements:

- Re-titling sections within Chapter 4502 to include the term "Community Land Trust"
- Clarifying that eligible Community Land Trust Mortgages include Home Possible Mortgages

Guide impacts: Sections 4502.3, 4502.5, 4502.7, 4502.8 and 4502.12

## Home Possible Mortgages

We are updating Chapter 4501 to clarify that as provided in Section 5703.9 and Chapter 4607, respectively, CHOICE Home Mortgages and CHOICE Renovation Mortgages may be Home Possible Mortgages.

Guide impacts: Sections 4501.3, 4501.6, 4501.8 and 4501.10

## Cash-out Refinance Mortgages – leasehold Mortgages and Cooperative Share Loans

With respect to the eligibility requirements for cash-out refinance Mortgages, we are updating the Guide to clarify the following:

- For cases in which the property is a leasehold estate, at least one Borrower must have been lessee on the ground lease or lease agreement of the subject leasehold estate for at least six months
- For cases in which the property is a Cooperative Unit, at least one Borrower must have held Cooperative Shares corresponding to the Cooperative Unit that is the subject of the Cooperative Share Loan for at least six months

Guide impact: Section 4301.5

## Credit Score requirements for manually underwritten Home Possible Mortgages secured by Manufactured Homes

As part of our Duty to Serve Underserved Markets Plan, we are expanding eligibility for Mortgages secured by Manufactured Homes by reducing the minimum Indicator Score from 720 to 680 for Manually Underwritten Home Possible Mortgages secured by Manufactured Homes provided that:

- The Mortgages are secured by Primary Residences and are purchase money or “no cash-out” refinance Mortgages, and
- The loan-to-value ratios are  $\leq 95\%$

Guide impacts: Section 4501.8 and Guide Exhibit 25

## Property with a Manufactured Home accessory unit

Previously, our requirements for a property with an accessory unit did not specifically address property eligibility for a Manufactured Home accessory unit. We are revising our requirements to specify that a Manufactured Home is permitted as an accessory unit for a one-unit property. This update responds to the increasing use of accessory units in cities and other markets as a means to promote home affordability.

Additionally, we have updated and simplified subsections of Section 5601.12 to align related topics and increase the overall ease of use and readability of this section.

Guide impacts: Sections 5601.12 and 5703.2

## SOFR ARMs

### Effective November 9, 2020

Loan Selling Advisor® will now be able to support deliveries of SOFR-indexed ARMs on November 9, 2020 instead of November 16, 2020, as previously announced in Bulletin 2020-9.

Sellers will be able to take out 30-day Average SOFR Cash Contracts in Loan Selling Advisor to deliver SOFR-indexed ARMs beginning November 9, 2020. Sellers will be able to take out 30-day Average SOFR guarantor contracts in Loan Selling Advisor to deliver Mortgages into a WAC ARM PC beginning on November 9, 2020 for Mortgages with Settlement Dates on and after December 1, 2020.

Supporting documentation, including specifications, will be revised at a later date to reflect November 9, 2020.

Review our [LIBOR to SOFR Timeline](#) for valuable resources that can help with your transition planning.

Guide impacts: Sections 4201.16, 4204.4, 4301.7, 4304.1, 4401.2 through 4401.5, 4401.8, 4501.3, 4601.1, 4603.3, 5703.3, 5703.9, 6102.3, 6201.3, 6302.7, 8502.2, Glossary, Exhibits 17S and 25

## INCOME AND ASSET REQUIREMENTS

### Social Security income that is tax exempt

To provide flexibility for our Sellers and due to the current tax law, we are allowing Sellers to gross up 15% of the Borrower's Social Security income (i.e., retirement income, disability benefits, survivor benefits and Supplemental Security Income) without documentation validating that the portion of the Social Security income is tax exempt. Existing documentation requirements continue to apply when using more than 15% of the Borrower's Social Security income for qualifying.

Guide impacts: Sections 4304.5 and 5305.2

### Wedding gift funds

Previously, gift funds received as a wedding gift from unrelated persons and/or Related Persons were an eligible source of funds for a Mortgage secured by a Primary Residence if the gift funds were on deposit in the Borrower's depository account within **60 days** of the date of the marriage license or certificate.

We are extending the allowable time frame for the gift funds to be on deposit in the Borrower's depository account to within **90 days** of the date of the marriage license or certificate.

Guide impact: Section 5501.3

## POSTFUNDING QUALITY CONTROL COMPONENT BASED REVIEWS

Effective with September 2020 loan samples, we will conduct postfunding quality control (QC) reviews of certain components of the Mortgage file, in addition to our current Full-File Reviews. We have updated Section 3401.1 to include this change to the QC process and include definitions of Component Based Review and Full-File Review. The Component Based Reviews will allow us to review more loans over a shorter period with additional focus on specific areas of risk. Quality Control Advisor® functionality will be enhanced so that clients can manage Component Based Reviews and results in the same manner as Full-File Reviews. Management reporting will be available by first quarter of 2021.

Review our [FAQs](#) on QC Component Based Reviews for more information.

Guide impact: Section 3401.1

## ADDITIONAL GUIDE UPDATES

### Analyzing market conditions when reporting one-unit housing trends

#### Effective December 2, 2020

We are updating our requirements for analyzing market conditions when reporting one-unit housing trends in the Neighborhood section of the appraisal report. Appraisers must analyze contract sales and listings, in addition to closed sales, to determine the trend of property values and marketing times in the subject market area. Market conditions must always be analyzed to determine their impact on the market value of the subject property. This is especially important in markets where property values are increasing or declining. The appraiser's analysis will support the use of positive or negative time adjustments in the sales comparison approach and reflect the changing market conditions.

Guide impact: Section 5601.12

### Low loan balance (LLB) cash specified payup

#### Effective October 12, 2020

As announced in Bulletin 2020-3, effective March 9, 2020, we permit LLB cash specified payups for Mortgages with original loan balances up to and including \$225,000. At that time, Loan Selling Advisor began displaying the additional daily cash payup information for this loan attribute in both the PDF and XML grids link on the Cash Rate Sheet, but Sellers are required to follow the manual spot bid process through the Cash Desk to take advantage of this payup offering.

In the [July 30, 2020 Single-Family News Center article](#), we notified you that we were working on automating the commitment process for the \$225,000 cash pay up. Beginning October 12, 2020, Sellers will be able to select this payup when taking out an eligible cash contract in Loan Selling Advisor, as they do for the other LLB payups, and will no longer initiate the request through the Cash Desk.

For more cash specified payup details, go to [http://www.freddiemac.com/singlefamily/cash\\_payups.html](http://www.freddiemac.com/singlefamily/cash_payups.html).

Guide impact: Section 6101.3

### **CHOICEHome Mortgages special delivery requirements**

We are updating Section 5703.9 to include a reference to the special delivery requirements for CHOICEHome Mortgages contained in Section 6302.25(b)(ii).

Guide impact: Section 5703.9

### **RHS Glossary definition update**

We are updating the definition of RHS in the Glossary to reflect that it includes Rural Development (RD) in order to align with changes that have been made to Form 65, *Uniform Residential Loan Application*, and Form 1077, *Uniform Underwriting Transmittal Summary*.

Guide impact: Glossary

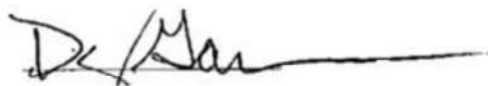
## **GUIDE UPDATES SPREADSHEET**

For a detailed list of the Guide updates associated with this Bulletin and the topics with which they correspond, access the Bulletin 2020-36 (Selling) Guide Updates Spreadsheet via the Download drop-down available at <https://guide.freddiemac.com/app/guide/bulletin/2020-36>.

## **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,

A handwritten signature in black ink, appearing to read 'D. Gardner', with a long horizontal line extending to the right.

Danny Gardner  
Senior Vice President, Client and Community Engagement