



TO: Freddie Mac SellersAugust 24, 2016 | 2016-16

SUBJECT: SELLING UPDATES

This Guide Bulletin announces:

Property Assessed Clean Energy (PACE) obligations

- Updates to our requirements to [allow PACE or PACE-like obligations that result in or provide for First Lien priority to be paid off with the proceeds of a “no cash-out” refinance Mortgage](#), provided that the Mortgage being refinanced is owned in whole or in part or is securitized by Freddie Mac

Property eligibility

- Updates to our [condominium requirements](#) – **Effective March 1, 2017**
- Additional [guidance for properties in rural locations and other property eligibility updates](#)

Seller and Warehouse Lender Certificates of Incumbency requirements

- Updates to the Guide to reflect our current practice requiring that Sellers and Warehouse Lenders renew their [certificate of incumbency every two years](#) and their board of directors or other governing body resolutions every four years

Electronic Recording of Paper Closing Documents – Effective September 14, 2016

- [Removal of the requirement that a Seller retain a paper Security Instrument signed by the Borrower](#), unless required by applicable law, if an Electronic copy of the Security Instrument is electronically recorded at the recorder’s office

Additional Guide updates

- Further updates and revisions 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.

PACE OBLIGATIONS

Due to the continued proliferation of energy retrofit loan programs such as PACE, we are updating our requirements to allow PACE or PACE-like obligations (either referred to as a “PACE obligation”) that result in or provide for First Lien priority to be paid off with the proceeds of a “no cash-out” refinance Mortgage, provided that the Mortgage being refinanced is owned in whole or in part or is securitized by Freddie Mac. This change will provide Borrowers with an additional option to pay off PACE obligations.

A PACE obligation, as defined in Guide Section 4301.8, refers to any energy retrofit Mortgage that is:

- Used to finance energy conservation improvements, and
- Repaid through a property tax assessment

This is an expansion of our previous requirements, which provided similar flexibility but only for the refinance of Mortgages with Freddie Mac Settlement Dates before July 6, 2010 secured by properties subject to PACE obligations originated before July 6, 2010.

Sellers must deliver new Investor Feature Identifier (IFI) “H61” for “no cash-out” refinance Mortgages owned in whole or in part or securitized by Freddie Mac when the PACE obligation is paid-off with the Mortgage proceeds.

Guide impacts: Sections 4301.4, 4301.8 and 6302.16 and Guide Exhibit 34

PROPERTY ELIGIBILITY

Special requirements for condominiums

Effective March 1, 2017, but Sellers are encouraged to implement immediately

In light of recent market and industry trends, and in response to Seller inquiries, we are revising certain requirements related to condominiums in Guide Chapter 5701. Specifically, we are:

- Revising the ineligible project list in Section 5701.3 to state that:
 - A conversion of a property with a prior use as a hotel (or similar type of transient housing) that is a Gut Rehabilitation, as defined in Section 5701.1(b), is an eligible project if the resulting Condominium Units no longer have the characteristics of a hotel or similar type of transient housing
 - A Housing Finance Agency (HFA) and similar entities based on State or local law or regulation are entities that can have a percentage of ownership in a project of no more than 15% without the project being considered ineligible due to excessive single investor concentration, provided certain requirements are met
- Revising the requirements relating to a Seller's review of a Condominium Project conversion to determine project eligibility
- Revising reciprocal project review requirements relating to acceptance of a Fannie Mae "Full Review" completed with the assistance of Condo Project Manager™ (CPM™)
- Clarifying that Common Elements, such as parking and recreational facilities, must not be subject to a lease between unit owners or the homeowners association (HOA) (as lessee) and any other party (as lessor), with the exception of commercial leases for parking or permit arrangements for parking entered into with parties unrelated to the developer
- Adding "Gut Rehabilitation" and "Non-Gut Rehabilitation" as defined terms in Section 5701.1(b)

Guide impacts: Sections 5701.1, 5701.2, 5701.3, 5701.6 and 5701.9

Guidance for properties in rural locations and property eligibility updates

As a result of Seller and industry stakeholder feedback, we are addressing misconceptions related to general property eligibility, including requirements related to properties in rural areas. Specifically, we are reorganizing and rewording certain requirements to improve readability, reduce redundancies and remove obsolete language. We are also providing further guidance and examples.

Refer to our [Freddie Mac Requirements for Rural Properties Q & A](#) web page that addresses some of the questions we receive related to rural properties. Sellers are also encouraged to visit the Freddie Mac Learning Center to register for our updated [Reviewing Rural Properties](#) webinar.

Additionally, **effective December 1, 2016**, we are adding a new requirement that Mortgages are ineligible for purchase by Freddie Mac if they are secured by properties that are subject to coastal tideland, wetlands or setback laws and/or regulations that prevent the rebuilding of the property improvements if they are damaged or destroyed.

Guide impacts: Sections 5601.2 and 5601.12

SELLER AND WAREHOUSE LENDER CERTIFICATES OF INCUMBENCY REQUIREMENTS

Section 2201.1 requires each Seller to provide Freddie Mac with a certificate of incumbency ("Certificate of Incumbency" or "COI") together with a governing body resolution. We are updating Section 2201.1 to:

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- Include our current practice of Seller renewal of its COI every two years and the resolution of its board of directors or other governing body (i.e., sole member, general partner, board of members) every four years
 - State that if a Seller fails to deliver an acceptable COI to Freddie Mac, Freddie Mac has the right, in its sole discretion, to disable the Seller's access to the Selling SystemSM
 - Authorize Sellers to submit these documents via Portable Document Format (PDF) to the counterparty_authorization@freddiemac.com mailbox

We are also updating Section 6305.12 to reflect the above changes for the COI provided by Warehouse Lenders.

Additionally, we are updating Forms 483, 987E, 988SF-1, 988SF-2, 988ASF, 989SF, 989ASF, 990SF and 990ASF to indicate where to e-mail PDF versions of these forms and to change our mailing address information for Seller submission. The Seller should submit these forms to Freddie Mac, attention Counterparty Authorization.

Form 987 is being deleted as this form is no longer used.

Guide impacts: Sections 2201.1, 2201.2, 6305.3, 6305.9, 6305.10 and 6305.12 and Forms 483, 987, 987E, 988SF-1, 988SF-2, 988ASF, 989SF, 989ASF, 990SF and 990ASF and Directory 8

ELECTRONIC RECORDING OF PAPER CLOSING DOCUMENTS

Effective September 14, 2016

In response to Seller/Servicer feedback we are removing the requirement that a Seller/Servicer retain the original paper Security Instrument signed by the Borrower ("Original Security Instrument") if an Electronic (as defined in Section 1401.2) copy of the Original Security Instrument is electronically recorded at the recorder's office, as long as:

- The Seller securely stores (with the other Electronic Mortgage file documents) either (1) the electronically recorded copy of the Original Security Instrument or (2) the recorder's office other form of recording confirmation with the recording information thereon, and
- Applicable law does not require storage of the Original Security Instrument signed by the Borrower

We have updated Section 1401.14 to reflect these changes for Original Security Instruments and any other paper closing documents. Section 1401.15 has also been updated to correspond to the changes made in Section 1401.14.

Removing this requirement addresses one of the barriers for eMortgage adoption in the industry, permitting more Mortgage file documents to be Electronic and reducing some storage costs for Seller/Servicers.

Guide impacts: Sections 1401.2, 1401.14, 1401.15, 3301.2 and 3302.2

ADDITIONAL GUIDE UPDATES

Selling System automation to support completion of delivery for Guarantor/MultiLender contracts

As stated in Section 6301.8, settlement cannot occur until delivery is complete as described in that section (see also Chapters 6101, 6102, 6203, 6204 and 6205 regarding requirements for funding/settlement). Currently, if a Seller's Guarantor or MultiLender Swap delivery is not complete by 8:00 p.m. Eastern Time on the day immediately preceding the Settlement Date, the Seller is required to manually postpone settlement or cancel the contract, as applicable. The Selling System will be updated to automate this process and we will notify Sellers in advance of the implementation of this change.

In support of the Selling System update, we are updating Section 6301.8 regarding Freddie Mac's right to cancel or postpone settlement, as applicable, if the Seller does not complete delivery requirements by the applicable deadline.

Guide impact: Section 6301.8

ARMs with Lifetime Floors update

To support implementation of the updated ARM Notes and Riders that impose a Lifetime Floor announced in Bulletin 2016-12, we are updating the Guide to add back requirements related to completing Section 4(D) of an ARM Note. The instructions are provided in new Section 4101.2(c)(iii).

We are also revising Section 4401.5(c) to reflect the ARM Note completion instructions.

Guide impacts: Sections 4101.2 and 4401.5

Home Possible® Income & Property Eligibility tool

As announced in our [Single-Family Update e-mail](#) dated August 9, 2016, we introduced an enhanced version of the Affordable Income & Property Eligibility tool, which is used to determine the income eligibility for Home Possible Mortgages. The tool now has a map-based capability that enables users to search by address and see the area median income where the property is located, the applicable Home Possible qualifying income limit and the Federal Information Processing Standard (FIPS) code number for the census tract. To better reflect its purpose and tie to Home Possible, the tool has been renamed the [Home Possible Income & Property Eligibility](#) tool.

Guide impact: Section 4501.7

Mortgage Insurance Fund of the Massachusetts Housing Finance Agency

Our July 29, 2016 [Single-Family Update e-mail](#) notified Seller/Service providers that any Mortgage sold to Freddie Mac that is insured by the Massachusetts Housing Finance Agency through its Mortgage Insurance Fund and has an Application Received Date on or after October 1, 2016, must be insured under the updated Loan Loss Reserve Agreement (LLRA), related endorsements and other forms, which include:

- Loan Loss Reserves Agreement – LLRA 2016, dated October 1, 2016
- Mortgage Payment Protection Endorsement – LLRA E-2016, dated October 1, 2016
- Commitment/Certificate – LLRA C-2016, dated October 1, 2016

Exhibit 10 has been updated to add the new LLRA number.

Guide impacts: Exhibit 10

Purchase Document confidentiality

Freddie Mac has updated the Guide to identify Master Agreements, Master Commitments and Guide Plus Additional Provisions as “confidential information,” as defined in Section 1201.8.

Guide impacts: Sections 1501.1 and 1501.3

Indicator Score/Loan-to-value delivery fee language revision

We are updating the language related to Indicator Score/Loan-to-Value delivery fees in Sections 5203.2 and 6303.1 to more closely align with Selling System functionality.

Guide impacts: Sections 5203.2 and 6303.1

GUIDE UPDATES SPREADSHEET

For a detailed list of the Guide updates associated with this Bulletin and the topics with which they correspond, refer to the Bulletin 2016-16 (Selling) Guide Updates Spreadsheet available at http://www.freddiemac.com/singlefamily/guide/docs/bl1616_spreadsheet.xls.

CONCLUSION

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

Sincerely,

A handwritten signature in cursive script that reads "Christina K. Boyle". The signature is written in black ink and is positioned above the printed name and title.

Christina K. Boyle
Senior Vice President
Single-Family Sales and Relationship Management