



TO: Freddie Mac SellersMarch 6, 2019 | 2019-5

SUBJECT: SELLING UPDATES

This Guide Bulletin announces:

Borrower income

- [Automated income assessment](#) with Loan Product Advisor® using tax return data, which is part of asset and income modeler (AIM) – **New**
- Added specificity related to our documentation requirements for [self-employed Borrowers](#)
- Revisions to the way [alimony and maintenance payments](#) are treated when qualifying a Borrower for a Mortgage – **July 6, 2019**
- Updates to our requirements for using [restricted stock \(RS\) and restricted stock units \(RSU\)](#) as qualifying income

Lender incentives

- Revisions to our [lender incentive](#) requirements – **June 6, 2019**

Credit assessment with Loan Product Advisor

- Removing the requirement for Accept Mortgages that the Seller determine whether the decision repository file used to create the Selected Borrower's [credit report](#) contains significant inaccurate credit information

Property insurance

- Updates to our [property insurance](#) requirements – **March 13, 2020**

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.

BORROWER INCOME**Automated income assessment with Loan Product Advisor using tax return data**

We are introducing automated income assessment with Loan Product Advisor using tax return data, which is part of asset and income modeler (AIM) as “AIM for self-employed,” in new Guide Chapter 5903. This capability, which is focused on assessment of self-employed income, is designed to automate the income calculation process, help reduce origination costs and provide Sellers with the opportunity for relief from enforcement of certain representations and warranties related to the Borrower’s self-employed income.

The automated income assessment with Loan Product Advisor using tax return data offering is effective for Loan Product Advisor submissions and resubmissions on and after March 6, 2019.

To take advantage of this optional capability, the Seller must upload the Borrower’s federal income tax returns to a Freddie Mac-designated third-party service provider. The service provider returns to the Seller an Income Calculation Report consisting of data extracted from the Borrower’s tax returns, which the Seller must review and

verify in accordance with the requirements of Guide Section 5903.3(a). Once the report is verified and complete, the Seller must upload it to the service provider. Loan Product Advisor retrieves the Borrower tax return data from the service provider and assesses it for representation and warranty relief eligibility, with the results returned in the Feedback Certificate.

Refer to Chapter 5903 for requirements on automated income assessment with Loan Product Advisor using tax return data. To learn more about our other automated assessment offerings, see the following chapters, which have been renamed to establish consistency across all offerings:

- Chapter 5901 for requirements regarding automated income assessment with Loan Product Advisor using employer data
- Chapter 5902 for requirements regarding automated asset assessment with Loan Product Advisor using account data

To learn more about getting started and assessing operational impacts for using this new capability, register for our new webinar, [Set Your Target on AIM for Self-Employed Income with Loan Product Advisor](#). For additional resources, access the [AIM for Self-Employed](#) web page or the [Freddie Mac Learning Center](#).

Guide impacts: Chapter 5903, Sections 1301.11, 3402.5, 3402.8, 5302.3, 5302.5, 5501.3, 5901.1, 5901.2, 5901.4 and 5902.1 through 5902.4

Documentation requirements for self-employed Borrowers

Currently, one year of business and personal tax returns are required when the business has been in existence for five or more years. We are specifying that the Borrower must be self-employed (i.e., have an ownership interest of 25% or more) in the same business for at least five years to take advantage of this flexibility.

This update does not represent a change in existing requirements.

Guide impact: Section 5304.1

Alimony or maintenance payments

Effective July 6, 2019; however, Sellers may implement immediately

Currently, the Guide states that alimony or maintenance payments with more than 10 months of payments remaining must be included as a debt when calculating the monthly debt payment-to-income ratio.

In response to Seller requests, we reviewed this requirement and are revising it to reflect that alimony or maintenance payments with more than 10 months of payments remaining must be deducted from the Borrower's gross monthly income. The reduced monthly income amount should be used to qualify the Borrower. Child support will continue to be treated as a debt when calculating the monthly debt payment-to-income ratio.

When entering an alimony obligation in Loan Product Advisor, select "Alimony/Child Support" under "Income Type" and enter it as a negative number. If the Borrower also receives alimony or child support income, add those amounts together and then subtract the alimony obligation. Enter the result in the income amount field.

Guide impacts: Sections 5301.1 and 5401.2

Restricted stock/restricted stock units income documentation requirements

In Bulletin 2017-20, we introduced requirements for using restricted stock (RS) and restricted stock units (RSU) as qualifying income.

After additional analysis, we are streamlining the related documentation requirements by making the following changes:

- Permitting the type of vesting provision to be verified with other documentation (e.g., an offer letter), in addition to the currently required RS and/or RSU agreement
- Allowing income verification obtained through a third-party verification service provider as described in Section 5302.3, provided that RS and/or RSU payouts are clearly identified and distinguished

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- Updating our requirement for vesting schedule(s) to state that they must be “currently in effect,” rather than “most recent,” as previously stated
 - Removing the requirement for documented “date(s) of the payout(s)”

Guide impact: Section 5303.3

LENDER INCENTIVES

Effective for Mortgages with Settlement Dates on or after June 6, 2019

Currently, we do not place any restrictions on lender incentives (e.g., gift cards given by the Seller to the Borrower before, at or after Mortgage closing) except when the Mortgage is a Freddie Mac Relief Refinance MortgageSM.

We are revising our requirements for all Mortgages, except Relief Refinance Mortgages – Same Servicer and Relief Refinance Mortgages – Open Access, to state that lender incentives will only be permitted when the following requirements are met:

- The amount of the incentive does not exceed \$500
- No repayment is required, and
- The amount of the incentive is documented in the Mortgage file

The incentive is not considered cash out to the Borrower and does not have to be included in the calculation of the proceeds of the Mortgage.

Guide impacts: Sections 4304.6, 5501.1 and 5501.6

CREDIT ASSESSMENT WITH LOAN PRODUCT ADVISOR

For Accept Mortgages, we are eliminating the requirement that the Seller must determine if the decision repository file used to create the Selected Borrower’s credit report contains significant inaccurate credit information. This change will remove a manual overlay and help create efficiency.

As a result of this change, we are removing the references to “Selected Borrower” in the Guide and eliminating the Glossary term “Selected Borrower.”

The delivery requirements in Section 6302.26(b)(vii) for Mortgages sold through Cash-Released XChangeSM still apply.

Guide impacts: Section 5201.1 and Glossary R-Z

PROPERTY INSURANCE

Effective March 13, 2020; however, Sellers/Servicers may implement immediately

We require that property insurance for each Mortgaged Premises be provided by an insurer with a certain minimum rating. Currently, for U.S. insurers (and reinsurers) rated by A.M. Best Company (A. M. Best), we require a minimum Financial Strength Rating of B/III.

To strengthen our insurer rating requirements, we are updating the Guide to require a minimum A.M. Best Financial Strength Rating of B+/III for U.S. insurers (and reinsurers).

Guide impacts: Sections 8202.1 and 8202.8

ADDITIONAL GUIDE UPDATES

Commission income eligibility for automated income assessment

In Bulletin 2019-4, we announced that all commission income, regardless of its percentage of total income from the employment, will be eligible for automated income assessment, which is part of AIM. This expands the income sources eligible for this capability to include commission income greater than or equal to 25% of the total income from the commissioned employment.

This change was effective for Loan Product Advisor submissions and resubmissions on and after March 24, 2019. We are now deferring this effective date to Loan Product Advisor submissions and resubmissions on and after March 31, 2019.

Guide impact: Section 5901.2

Rental income requirements

In response to Seller feedback, we are clarifying:

- When it is appropriate to use a lease to document rental income as opposed to using the Schedule E
- That rental income can offset the full monthly payment rather than just the principal, interest, taxes and insurance

Guide impact: Section 5306.1

Freddie Mac post-funding quality control review

We are updating our post-funding quality control review requirements to specify that the Mortgage file must include the final Settlement/Closing Disclosure Statement and any related documentation evidencing all costs to the homebuyer and property seller, if applicable.

Guide impact: Section 3401.25

11th District Cost of Funds Index retirement

The 11th District Cost of Funds Index (11th District COFI) (for ARMs, the monthly average cost of savings, borrowings and advances of the members of the Federal Home Loan Bank of San Francisco (the “Bank”), as made available by the Bank) is scheduled to be retired in January 2020. As a result, Freddie Mac is retiring Form 3510, Multistate Adjustable-Rate Mortgage Note, and Form 3120, Security Instrument Rider, specific to use of the 11th District COFI. The [Uniform Instrument web page](#) has been updated to reflect these changes. At a future date, we will provide instructions to Servicers on the substitute index for 11th District COFI ARMs that are being serviced for Freddie Mac.

11th District COFI ARMs are not eligible for sale to Freddie Mac and have not been eligible for sale since MIDANET® was retired in March 2012.

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 2019-5 (Selling) Guide Updates Spreadsheet available at http://www.freddiemac.com/singlefamily/guide/docs/bll1905_spreadsheet.xls.

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 Business