

Bulletin

TO: Freddie Mac Sellers

August 5, 2020 | 2020-31

SUBJECT: SELLING UPDATES

This Guide Bulletin announces:

- **Monthly obligations – November 5, 2020**
 - Revisions to our requirements for including [rental housing payments](#) in the calculation of the monthly housing expense-to-income ratio
 - Revisions to our requirements for [documenting liabilities](#) included in the debt payment-to-income (DTI) ratio
 - Updates to requirements for loans secured by the [Borrower's assets other than real property](#)
 - Clarification regarding the allowable age of documentation used to support [excluding contingent liabilities](#) from the DTI ratio
 - Clarification regarding the use of [estimated real estate taxes](#) in calculating the monthly housing expense-to-income ratio
- **Property eligibility and appraisal requirements**
 - Changes to requirements for [building sketches](#)
 - Additional specificity concerning requirements for [subsequent appraisals](#)
- **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.

MONTHLY OBLIGATIONS

Effective for Mortgages with Settlement Dates on and after November 5, 2020; however, Sellers are encouraged to implement as soon as possible

We have reviewed our requirements for evaluating a Borrower's monthly obligations and, as a result, are making several updates as described below.

Rental housing payments

For Mortgages with a non-occupying Borrower and Mortgages secured by second homes and Investment Properties, when the Borrower does not own, but rents their principal domicile (i.e., the primary residential property physically occupied by the Borrower), the monthly rental housing payment for that principal domicile must be included in the calculation of the monthly housing expense-to-income ratio.

The rental housing payment included in the monthly housing expense-to-income ratio must be documented as follows:

- Direct verification of rent from a management company, or

- Direct verification of rent from an individual landlord (supported by two months of canceled checks or other evidence of two months' payments), or
- A copy of the current, fully-executed lease agreement (supported by two months of canceled checks or other evidence of two months' payments), or
- Six months of canceled checks or bank statements supporting consistent payments in the amount used in qualifying

Guide impact: Guide Section 5401.1

Documentation of liabilities

To ensure accurate payment amounts are included in the monthly DTI ratio, we are updating the Guide to require:

- Documentation of all payment amounts included in the monthly DTI ratio except as otherwise stated in Section 5401.2
- Documentation of the remaining term for installment loans, child support, alimony and maintenance payments omitted from the DTI ratio if there are 10 or fewer months of payments remaining
- The monthly amount of child support, alimony and separate maintenance payments be documented with a copy of the signed court order, legally binding separation agreement and/or final divorce decree, or equivalent documentation

Guide impact: Section 5401.2

Documentation of proceeds from a loan secured by the Borrower's assets other than real property

We are making the following revisions to the documentation requirements for proceeds from a loan secured by a Borrower's asset other than real property (e.g., 401(k), artwork, jewelry, etc.):

- Removing the requirement for documentation of the loan terms. As with all other liabilities, the monthly payment included in the DTI ratio must be documented in the Mortgage file in accordance with the updated requirements in Section 5401.2.
- In addition to documentation verifying the value and ownership of the asset, requiring documentation supporting that the loan is secured by that same asset
- Adding a reference to Section 5401.2(a) that addresses when the monthly payment on a loan secured by a Borrower's financial asset may be excluded from the monthly DTI ratio

Loan Product Advisor® messaging will be updated by November 5, 2020 to reflect this change.

Guide impact: Section 5501.3

Age of documentation requirements for contingent liabilities excluded from the DTI ratio

In response to Seller questions related to the age of documentation required in Section 5401.2 in order to exclude a contingent liability from the DTI ratio, we are adding a cross-reference to Section 5102.4 to highlight the age of documentation requirements for credit and capacity documentation.

Guide impact: Section 5401.2

Estimated real estate taxes

We are clarifying that the use of estimated real estate taxes based on the value of the improvements plus the value of the land to calculate the monthly housing expense-to-income ratio applies only to newly constructed properties when the actual real estate tax amount is not yet available.

Guide impact: Section 5401.1

PROPERTY ELIGIBILITY AND APPRAISAL REQUIREMENTS

Building sketch exhibit for appraisal reports

We have simplified the building sketch requirements for appraisal reports and removed the requirement that each unit's entry way be included on the building sketch exhibit for all 2- to 4-unit properties (Guide Form 72, *Small Residential Income Property Appraisal Report*).

Additionally, when any subject property has a floor plan that is unusual or is functionally obsolete, the appraiser is required to provide a floor plan sketch that reflects the obsolescence. Comments and/or adjustments, if applicable, are also required within the appraisal report addressing any limitations to market appeal in comparison with other properties within the subject's neighborhood or market area.

Guide impact: Section 5601.10

Subsequent appraisal report clarification

Freddie Mac permits the use of Form 1033, *One-Unit Residential Appraisal Desk Review Report*, under specific conditions. With this Bulletin, we are acknowledging the use of a desk review in Section 5601.13 as an acceptable subsequent opinion of market value.

Additionally, we are providing direction on documentation requirements when the Seller obtains multiple opinions of value. If an appraisal desk or field review is used to underwrite the Mortgage, it must be retained in the Mortgage file.

Guide impact: Section 5601.13

ADDITIONAL GUIDE UPDATES

Representation and warranty framework relief for Mortgages subject to forbearance agreements

Effective May 19, 2020

In Bulletin 2020-17, we announced that a Mortgage that was subject to a forbearance agreement during the payment history period may be eligible for relief from enforcement of selling representations and warranties regardless of the forbearance agreement, provided the acceptable payment history requirements in Section 1301.11 are met. These Mortgages also continue to be eligible for relief based on a satisfactory conclusion of a Freddie Mac quality control review of the Mortgage file if the Mortgage otherwise meets the requirements in version 2 of the selling representation and warranty framework.

We are now updating Section 1301.11 to reflect this change and remove the requirement that in order to qualify for selling representation and warranty relief, a Mortgage must not have been subject to a forbearance agreement during the payment history period.

Guide impact: Section 1301.11

Document custody

Bulletin 2020-29 announced the following updates related to document custody.

Original Security Instrument requirements

We updated Section 3302.2(b) to remove the requirement that, when a Security Instrument is stored as an Electronic document, the Servicer represents and warrants to, and covenants with, Freddie Mac that all Security Instruments that have been recorded have been delivered to the Document Custodian as original paper documents showing their recording information. Per Section 3301.1, Sellers are required to comply with the requirements of Guide Chapter 3302.

Insurance coverage

Effective November 1, 2020

We are updating Sections 2202.2 and 2202.5 to clarify requirements for Document Custodians and Servicers covered under their parents' insurance programs. Section 2202.5 reiterates that Servicers are always responsible for physical Notes and incorporates reference to LNAs that were added to the Guide with Bulletin 2020-29. It also requires a written agreement for Servicers relying on their Document Custodians to provide insurance coverage for Notes while in transit.

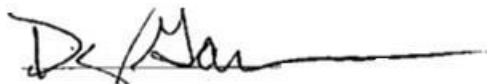
GUIDE UPDATES SPREADSHEET

For a detailed list of the Guide updates associated with this Bulletin and the topics with which they correspond, access the Bulletin 2020-31 (Selling) Guide Updates Spreadsheet via the Download drop-down available at <https://guide.freddiemac.com/app/guide/bulletin/2020-31>.

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