

Bulletin

TO: Freddie Mac Sellers

October 5, 2022 | 2022-20

SUBJECT: SELLING UPDATES

This Guide Bulletin announces:

- **Condo Project Advisor®**
 - [Condo Project Advisor Project Assessment Request](#), an enhancement to Freddie Mac Condo Project Advisor – **October 24, 2022**
- **Employment/income characteristics – Borrowers with business ownership interest(s) less than 25%**
 - Updated requirements for the treatment of income for [Borrowers with business ownership interest\(s\) less than 25%](#) – **February 5, 2023**
- **Property eligibility and appraisals**
 - Expanded examples of [prohibited language](#) in appraisals
 - The ability to use desktop appraisals for [age-based resale-restricted properties and leasehold estates](#)
- **Property insurance**
 - Updates to [Cooperative Corporation hazard insurance requirements](#) – **January 5, 2023**
- **Seller/Servicer financial eligibility Guide updates**
 - Guide updates in support of the [Seller/Servicer financial eligibility requirements](#) announced in [Bulletin 2022-19](#)
- **Seller/Servicer grant of security interest**
 - A new requirement related to [Servicing Contract Rights](#) – **October 12, 2022**
- **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.

FREDDIE MAC CONDO PROJECT ADVISOR

Effective October 24, 2022

We are announcing Condo Project Advisor Project Assessment Request (PAR), an enhancement to Freddie Mac Condo Project Advisor, which will be accessible through Freddie Mac Loan Advisor® beginning on October 24, 2022. With this Bulletin, we are updating the Guide to include the requirements applicable to the enhancement.

Condo Project Advisor PAR allows authorized Sellers to submit the name of a Condominium Project in Condo Project Advisor and obtain feedback (referred to as the “PAR findings”) regarding the project’s compliance with the project review requirements assessed by Condo Product Advisor.

Sellers will not be responsible for ensuring compliance with the project review requirements for Established Condominium Projects assessed by Condo Product Advisor if Condo Product Advisor finds that the Established Condominium Project complies with the requirement(s) and the PAR findings are detailed on a Condo Project Advisor Feedback Certificate maintained in the subject Mortgage file.

See Guide Section 5701.1(d) for details on what Condo Project Advisor PAR assesses and does not assess, the PAR findings and all requirements regarding PARs.

We are also updating the licensing framework to reflect the addition of the Condo Product Advisor enhancement to the system-specific license for Freddie Mac Loan Advisor.

Delivery requirements

Mortgages with PAR findings must be secured by a Condominium Unit in an Established Condominium Project, must be a Loan Product Advisor Mortgage and must be delivered to Freddie Mac within 120 days after the Note Date. Seller must deliver “K01” for ULDD Data Point *Investor Feature Identifier* (Sort ID 368). If the Mortgage is not delivered within 120 days after the Note Date, the Seller must submit a new PAR and obtain a new Condo Project Advisor Feedback Certificate prior to delivery.

Reminder for Condo Project Advisor Project Waiver Request

Authorized Sellers will continue to be able to submit in Condo Product Advisor a request for single loan exceptions (referred to as a Project Waiver Request (PWR) for Established Condominium Projects that do not meet certain Condominium Project eligibility requirements. See Section 5701.1(c) for details on PWRs.

Guide impacts

Sections 2402.2, 5701.1 and 6302.20 and Exhibit 34, *Investor Feature Identifiers*, have been updated to reflect these requirements.

Additional resources

Sellers should refer to our [Condo Project Advisor web page](#), review our updated [FAQs](#) and attend our [Condo Project Advisor: Assessments & Waiver Requests webinar](#) for more information. In addition, please contact your Freddie Mac representative or call the Customer Support Contact Center at 800-FREDDIE.

EMPLOYMENT/INCOME CHARACTERISTICS – BORROWERS WITH BUSINESS OWNERSHIP INTEREST(S) LESS THAN 25%

Effective for Mortgages with Settlement Dates on and after February 5, 2023, but Sellers may implement immediately

Currently, our Guide does not specify requirements for Borrowers who hold a business ownership interest(s) of less than 25% and receive ordinary income or guaranteed payments reported on an IRS Schedule K-1 for partnerships and S - corporations.

We are updating the Guide to require that for Borrowers with this income characteristic, Sellers must use either:

- The requirements and guidance for self-employed income in Guide Chapter 5304, or
- The new requirements and guidance in Section 5303.2(d), as summarized below

Summary of the new requirements

The new requirements include, but are not limited to, the following:

- The Mortgage file must include:
 - Schedule K-1(s) for the most recent two calendar years
 - Year-to-date income documentation, except when this information is not attainable, and the Seller is able to document and justify the income stability without this information
- The Borrower should not have an ownership interest of 25% or more in any business
- A two-year history of receipt is required. However, in certain instances, a shorter history of no less than 12 months may be considered stable if the Seller provides a written analysis and sufficient supporting documentation.
- Historical cash distributions must be reasonably consistent with the ordinary business income
- Verification of current existence of business in accordance with Section 5304.1(g) must be included

Currently, Loan Product Advisor® issues feedback messages based on whether the Borrower is marked as self-employed (e.g., tax returns versus paystubs and W-2s), and Loan Product Advisor does not consider percentage of business ownership interest (i.e., whether or not it is equal to or greater than 25%) or address Schedule K-1 income. We are currently evaluating how to best provide appropriate feedback messages for these income characteristics and will communicate updates as they become available.

Guide impacts: Sections 5303.2, 5304.1, 5901.2 and 5903.4

PROPERTY ELIGIBILITY AND APPRAISALS

Prohibited language in appraisals

We have added more examples of unacceptable terms and phrases to help identify prohibited language in appraisal reports.

Guide impact: Section 5603.4

Desktop appraisal eligibility expansion – age-based resale restricted properties and leasehold estates

We have expanded desktop appraisal eligibility to include Mortgages secured by the following:

- Properties subject to age-based resale-restrictions, and
- Leasehold estates

Guide impact: Section 5604.1

COOPERATIVE CORPORATION HAZARD INSURANCE REQUIREMENTS

Effective January 5, 2023, but Sellers may implement immediately

In response to Seller inquiries, we are updating our requirements for hazard insurance for Cooperative Corporations. Currently, we require the Cooperative Corporation policy to provide insurance coverage for fixtures, improvements, alterations and equipment within the individual Cooperative Units. We are updating the Guide to require an H-06 unit owner's policy to insure these items when they are not included in the Cooperative Corporation policy.

Guide impact: Section 4703.2

SELLER/SERVICER FINANCIAL ELIGIBILITY REQUIREMENT GUIDE UPDATES

Effective September 30, 2023, unless otherwise indicated in Bulletin 2022-19

As announced in Bulletin 2022-19, at the direction of the FHFA and in coordination with Fannie Mae, we are revising our Seller/Servicer minimum financial eligibility requirements to better manage Freddie Mac's counterparty risk exposure. With this Bulletin, we are updating the Guide to reflect these new requirements.

Guide impacts: Sections 2101.1, 2101.2, 2101.4 and 2301.2

GRANT OF SECURITY INTEREST

Effective October 12, 2022

We are requiring each Seller/Servicer, as a condition of their eligibility to continue doing business with Freddie Mac, to grant to Freddie Mac a security interest in the Servicing Contract Rights that they hold related to Mortgages Freddie Mac owns or guarantees as collateral for Freddie Mac's Claims and other Seller/Servicer obligations. We are updating the Guide to include the Seller/Servicer's:

- Grant of this security interest to Freddie Mac
- Authorization of Freddie Mac to file a UCC financing statement at Seller/Servicer's expense

New Guide Exhibit 105, *Pledge and Security Agreement*, will also reflect the Guide language and may operate as a standalone security agreement under certain circumstances.

A Seller's use of Loan Selling Advisor® and/or a Servicer's use of Servicing Gateway constitutes an Electronic Transaction under which a Seller/Servicer agrees to the provisions of Section 1101.2(c)(vi) whereby the Seller/Servicer grants to Freddie Mac a security interest in and to the Freddie Mac Collateral (as defined in Section 1101.2(c)(vi)).

We also are updating the Guide to state that Freddie Mac's Claims related to the Seller/Servicer shall be deemed immediately and automatically due and payable, without the need for further action by Freddie Mac or any other party, upon the occurrence of a Transfer of Servicing of all or substantially all of the Servicer's Servicing Contract Rights, and upon other Claims Events.

We are adding the following Glossary terms to the Guide: "Claims," "Claims Event" and "Freddie Mac's Claims."

Guide impacts: Sections 1101.2, 1101.3 (**new**), 2101.1, 3601.1, 7101.2, Glossary and Exhibit 105 (**new**)

ADDITIONAL GUIDE UPDATES

Seller/Servicers and Tri-Party agreements

To provide additional flexibility, we are expanding the number of Document Custodians that Seller/Servicers are permitted to contract with from five to 10. Section 2202.1 and the *Document Custody Procedures Handbook* have been updated to reflect this change.

Guide impact: Section 2202.1

Document Custody Procedures Handbook

The updated *Document Custody Procedures Handbook* is now available on [Freddie Mac's website](#) and AllRegs. Notable changes include:

- Changes to our power of attorney requirements for Mortgages and eMortgages to better align with the Guide
- Removal of the requirement that Self-Custodians and Document Custodians covered under their parent's insurance policies must have Freddie Mac's prior written permission for any waiver or modification to our insurance requirements

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 2022-20 (Selling) Guide Updates Spreadsheet via the Download drop-down available at <https://guide.freddiemac.com/app/guide/bulletin/2022-20>.

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,



Kevin Kauffman
Vice President, Single-Family Client Engagement