

# Bulletin

TO: Freddie Mac Sellers

August 7, 2024 | 2024-10

## SUBJECT: SELLING UPDATES

This Guide Bulletin announces:

- **Income underwriting and documentation requirements**
  - Updates to income underwriting and documentation requirements related to:
    - [Self-employed income](#) – November 8, 2024
    - Income from [non-arm's length employment](#) – November 8, 2024
    - Calculation of income from [fluctuating hourly employment](#)
    - [Social Security retirement and Social Security disability](#) income types
- **Asset and income modeler**
  - An enhancement to [automated income assessment](#) with Loan Product Advisor® using employed income data for Closed Loans
- **Internal Revenue Service (IRS) Form 8821**
  - [IRS Form 8821](#) as an acceptable alternative to IRS Form 4506-C
- **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.

## INCOME UNDERWRITING AND DOCUMENTATION REQUIREMENTS

### Self-employed income

**Effective for Mortgages with Note Dates on or after November 8, 2024, but Sellers are encouraged to implement immediately**

We are making the following updates related to self-employed income:

- Self-employed history of less than two years:
  - Specifying that the Borrower must have a combined two-year history of receipt of income from the current self-employment and the prior job in the same or similar occupation or industry
  - Specifying that the qualifying income must be determined by using the lesser of the stable monthly income from the new business or the stable monthly income earned in the previous occupation
- Business structure changes: Adding guidance and requirements to address business structure changes (e.g., the Borrower's business structure changed from a sole proprietorship to an S-corporation), including requiring that there must be no change in the Borrower's percentage of ownership interest in order for the current and prior business structures to be considered the same business



Additionally, as part of the ongoing effort to improve the ease of use of our Guide, Chapter 5304 has been reformatted to enhance readability. No requirements were changed as a result of this new formatting.

Guide impacts: Sections 4407.3, 5102.4, 5302.4, 5303.2, 5304.1, 5306.4, 5501.3, 5902.2, 5903.6 and Form 91

### **Employed income: non-arm's length employment**

**Effective for Mortgages with Note Dates on or after November 8, 2024, but Sellers are encouraged to implement immediately**

We are updating our requirements to:

- Permit the use of the Internal Revenue Service (IRS) wage and income transcript for the most recent year in lieu of the tax returns, and
- Specify that the documentation must validate the prior year earnings from current employment and support the current income level. If the current income level is not supported, the Seller may use the validated income amount from the prior year as qualifying income.

Guide impact: Section 5303.2

### **Feedback messages**

A new Loan Product Advisor feedback message will be introduced for this topic in the near future.

### **Calculation of income from fluctuating hourly employment**

We have specified that in certain instances, the income average for fluctuating earnings may be based on a shorter number of months than the standard requirement.

Guide impact: Section 5303.4

### **Documentation for Social Security retirement and Social Security disability income types**

We have expanded our documentation requirements for Social Security retirement and Social Security disability income types to permit IRS Form 1099-SSA and pages 1 and 2 of the Borrower's most recent federal individual income tax return or pages 1–3 if the tax return was filed using IRS Form 1040-SR. When using tax returns that were filed jointly with an individual who is not a Borrower on the transaction, additional documentation is required.

Guide impact: Section 5305.2

## **AUTOMATED INCOME ASSESSMENT WITH LOAN PRODUCT ADVISOR USING EMPLOYED INCOME DATA**

We have enhanced automated income assessment with Loan Product Advisor using employed income data, which is part of asset and income modeler (AIM). This update allows Sellers to access certain AIM capabilities on a Closed Loan (as defined in Section 2402.3(c)) using our existing AIM Check for Payroll Income application programming interface (API). Loan Product Advisor must have assessed the Closed Loan. When submitting to the API, data sourced directly from Borrowers' paystub(s) and W-2 form(s) can now be assessed for income representation and warranty relief. If the Mortgage is eligible for income representation and warranty relief, the result will be indicated on the API response file ("AIM Payroll API R&W Assessment"). Sellers should reach out to their Freddie Mac representative or 800-FREDDIE to request Freddie Mac's approval to access this capability.

Guide impacts: Sections 5901.1, 5901.4 and 5901.5

### **Additional resources**

We encourage Sellers to access our [AIM training resources](#) to learn more about how to automate the income assessment.



## IRS FORM 8821

Section 3402.5 has been updated to align with Section 5302.5 in stating that IRS Form 8821 is an acceptable alternative to IRS Form 4506-C. Using IRS Form 8821 in lieu of IRS Form 4506-C to obtain tax transcripts from the IRS through a third-party service provider using a direct connection to the IRS may reduce fulfillment time (often same day versus weeks), reduce costs and provide certain income representation and warranty relief when using automated income assessment with Loan Product Advisor using tax data, part of AIM. Furthermore, tax transcripts can be used for fraud prevention.

Guide impact: Section 3402.5

## ADDITIONAL GUIDE UPDATES

### Co-Issue XChange®

#### Effective August 14, 2024

Servicing-Released XChange® is Freddie Mac's suite of executions that provides market liquidity for Servicing Contract Rights and helps Sellers easily transfer Servicing Contract Rights to an approved Transferee Servicer. To provide greater transparency and increase operational efficiency, we are adding Co-Issue XChange, one of the executions available under Servicing-Released XChange, to the Guide.

[Co-Issue XChange](#) allows Sellers to transfer Servicing Contract Rights to a Transferee Servicer at the same time a loan is sold to us. Under this program, the "Origination and Sale" representations and warranties and "Servicing" representations and warranties are bifurcated by Freddie Mac.

Currently, to participate in Co-Issue XChange, each Seller and Servicer must execute Form 960CB and return it to us. With this change, we are eliminating the need to execute a form and will be placing the obligations and requirements of the program into the Guide as new Guide Exhibit 26, *Agreement for Concurrent Transfer of Single-Family Mortgage Servicing Contract Rights with Complete/Full Bifurcation*.

Additionally, we are adding an optional Loan Sale and Servicing Transfer Agreement for Co-Issue XChange with Complete/Full Bifurcation as Exhibit 27, *Loan Sale and Servicing Transfer Agreement for Co-Issue XChange® with Complete/Full Bifurcation*. This exhibit will be available to Servicers to use with potential Sellers that would like to enter into Servicing transfer relationships for this program.

Both changes detailed above are being implemented to aid Sellers and Servicers by simplifying and speeding up the process to establish Servicing transfer relationships in the program.

Finally, we are creating new Chapter 6307, which provides an overview of the Co-Issue XChange program available through Loan Selling Advisor. With this new chapter, we are streamlining our bifurcated co-issue contracting process by eliminating our negotiated Form 960CB. We have also recently enhanced our tools to include relationship management and servicing-released premium price sharing information between Seller/Transferor Servicers and Transferee Servicers that participate in our bifurcated Co-Issue XChange program. A direct communication will be coming through e-mail from [Freddie Mac Servicing Released Executions@FreddieMac.com](mailto:FreddieMacServicingReleasedExecutions@FreddieMac.com).

Guide impacts: Chapter 6307 (**new**), Exhibit 26 (**new**) and Exhibit 27 (**new**)

#### **Additional resources**

Read more about this update in our [July 29, 2024 Single-Family news article](#), and for more information on any of these Co-Issue XChange updates, please contact your Freddie Mac representative or e-mail [Freddie Mac Servicing Released Executions@FreddieMac.com](mailto:FreddieMacServicingReleasedExecutions@FreddieMac.com).

### ARM rate adjustments

#### Effective August 14, 2024

We are removing duplicative language regarding ARM rate adjustments in Section 4401.5 and including a reference to Section 8502.2. Refer to Section 8502.2 for requirements related to determining Note Rate changes on ARMs.

Guide impact: Section 4401.5



## Reformatting of Chapters 5401 and 5601

As part of the ongoing effort to improve the ease of use of our Guide, Chapters 5401 and 5601 have been reformatted to enhance readability, and cross-references reflecting the changes in Chapter 5401 have been updated. No requirements were changed as a result of this new formatting, but the September 5, 2024 versions of Sections 5401.1 and 5401.2 that were previously announced in Bulletin 2024-7 have also been reformatted.

Guide impacts: Sections 4201.15, 4606.3, 5301.1, 5304.1, 5306.4, 5401.1, 5401.2, 5501.3, 5601.1 through 5601.6 and Form 92

## 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 2024-10 (Selling) Guide Updates Spreadsheet via the Download drop-down available at <https://guide.freddiemac.com/app/guide/bulletin/2024-10>.

## 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,

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Senior Vice President, Single-Family Seller Engagement