

Industry Letter



We make home possibleSM

July 26, 2005

Subject: Enhancements to Home PossibleSM Mortgages and Loan Prospector[®] Assessments

To: All Freddie Mac Sellers and Servicers

In our continuing effort to meet changing market needs and improve flexibility, Freddie Mac is pleased to introduce enhancements to Home Possible Mortgages and Loan Prospector assessments.

Enhancements to Home Possible Mortgages

Freddie Mac's Home Possible Mortgages help Sellers meet the needs of low- to moderate-income Borrowers who need low down payment options and credit flexibility. This letter updates our Home Possible Mortgage requirements announced in the *Single-Family Seller/Servicer Guide* (Guide) Bulletin 2005-1 (dated February 17, 2005) with the following enhancements:

- **5/1 adjustable-rate Mortgages (ARMs) are eligible for purchase**
Home Possible Mortgages that are nonconvertible or convertible 5/1 Treasury- and LIBOR-indexed ARMs with 2/2/5 cap structures are eligible for purchase if they are secured by 1- or 2-unit Primary Residences and are not secured by Manufactured Homes.

- **Permitted secondary financing is expanded to include other types of secondary financing in addition to Affordable Seconds[®]**
Home Possible Mortgages with other types of secondary financing must meet the requirements of Guide Sections 25.1(b), (c) and (f) in addition to the requirements below:
 - The secondary financing cannot be a Home Equity Line of Credit (HELOC)
 - The secondary financing source may not be the property seller
 - If the secondary financing has a variable interest rate
 - Its terms must require that the monthly payment remain constant for each 12-month period, and
 - The change in the interest rate must be limited to an increase of 1% or less during each 12-month period, and
 - The First Lien Mortgage may not be subject to a temporary subsidy buydown plan
 - The terms of the secondary financing must permit prepayment at any time without penalty

Affordable Seconds meeting the requirements of Guide Section 25.1(g) continue to be permitted.

■ **Mortgage insurance coverage levels are reduced to the following:**

1- to 4-Unit Primary Residences other than Manufactured Homes with the following LTV Ratios	Mortgage Insurance Coverage
Greater than 97% up to and including 100%	20%
Greater than 95% up to and including 97%	18%
Greater than 90% up to and including 95%	16%
Greater than 85% up to and including 90%	12%
Greater than 80% up to and including 85%	6%
Manufactured Homes	As required by Guide Section H33.3(f)

Special selling requirements

When selling a Home Possible Mortgage with secondary financing that is not an Affordable Second, Sellers must complete the field titled “Secondary Financing Sources” on the Form 11, Mortgage Submission Schedule, and Form 13SF, Mortgage Submission Voucher, as applicable, with the value of “30” to indicate “Other Secondary Financing.”

All other requirements for delivery of Home Possible Mortgages remain the same.

Postsettlement delivery fees (delivery fees) for Home Possible Mortgages

In addition to the standard Home Possible delivery fee, Home Possible Mortgages that are originated with secondary financing other than an Affordable Second will be assessed a secondary financing delivery fee, as shown in the chart below, which amends Guide Exhibit 19, Postsettlement Delivery Fees:

HOME POSSIBLE MORTGAGES WITH SECONDARY FINANCING	
Product	All Eligible Financing Structures
All Eligible Product	0.50%

A secondary financing delivery fee is not assessed on a Home Possible Mortgage with an Affordable Second meeting the requirements of Guide Section 25.1(g).

Additionally, Home Possible Mortgages that are 5/1 ARMs will be assessed the standard ARM delivery fee as shown in the following chart, which amends Guide Exhibit 19:

ADJUSTABLE-RATE MORTGAGES	
Product	LTV Ratios
	> 90%
All Eligible Product	0.25%

Home Possible Mortgages that are 7/1 ARMs and 10/1 ARMs meeting the requirements of Chapter A34 are not subject to the ARM delivery fee.

Sellers should refer to this Industry Letter for information on secondary financing delivery fees and ARM delivery fees for Home Possible Mortgages until these changes are incorporated into Exhibit 19.

Effective dates

Effective July 27, Loan Prospector will assess Home Possible Mortgages with the enhancements described above. Loan Prospector Feedback Certificates will also be updated on this date.

Effective August 15, Sellers may sell Home Possible Mortgages with the enhancements described above to Freddie Mac.

Loan Prospector—usable Credit Scores

Currently, Loan Prospector requires that all Borrowers have usable Credit Scores to complete its assessment of a transaction. For those transactions with Borrowers who do not have usable Credit Scores, Loan Prospector returns an AUS/Evaluation Status of “Incomplete.” Freddie Mac is enhancing Loan Prospector so that if certain requirements are met, it will complete the assessment for transactions that include Borrowers without a usable Credit Score if one or more other Borrowers on the transaction have a usable Credit Score, as determined by Loan Prospector. This new feature in Loan Prospector will assist Sellers in meeting the needs of Borrowers who have little or no credit established.

When the new feature is implemented on September 18, 2005, Loan Prospector will assess transactions for which not all Borrowers have usable Credit Scores if the following requirements are met:

- At least one Borrower has a usable Credit Score, as determined by Loan Prospector
- The transaction is a purchase, “no cash-out” refinance or streamlined refinance Mortgage
- The Mortgage is secured by a 1-unit property and all Borrowers occupy the property as their Primary Residence
- Borrower(s) with usable Credit Scores contribute more than 50% of the total monthly income
- Borrower(s) without a usable Credit Score are not self-employed

If the requirements above are met, Sellers will receive an AUS/Evaluation Status of “Complete” on the Loan Prospector Feedback Certificate. For all transactions with an AUS/Evaluation Status of “Complete,” the Seller must document that for all Borrowers without usable Credit Scores any debt not reported on the credit report is being repaid in a satisfactory manner, and that payment must be included in the total monthly debt-payment-to-income ratio.

If any of the requirements for Loan Prospector to assess a transaction where one or more Borrowers do not have usable Credit Scores are not met, Sellers must adhere to the requirements in their Purchase Documents for Manually Underwritten Mortgages.

Effective date

Effective September 18, 2005, Loan Prospector will assess transactions for Borrowers without usable Credit Scores in accordance with the requirements set forth above. Loan Prospector Feedback Certificates will also be updated on this date.

Conclusion

These enhancements demonstrate our continuing support to expand homeownership opportunities. Applicable Guide chapters, forms and exhibits will be updated to reflect our requirements in a future Guide Bulletin. Until that time, this Industry Letter serves as Freddie Mac’s written communication amending our Guide provisions, in accordance with Section 1.2 of the Guide.

If you have questions about these enhancements, please call your Freddie Mac Account Manager or (800) FREDDIE.

Sincerely,



James J. Cotton
Vice President
Single-Family Marketing