

Freddie Mac

We have included the most recent information available at the date of publication. At the end of each section, we include a list of resources with web links where you can find updates, as well as information about additional programs and other helpful information related to the subject.

OVERVIEW

Freddie Mac is a government-sponsored enterprise or GSE, created by the federal government to ensure access to home mortgage credit. Freddie Mac has a statutory mission to provide liquidity, stability, and affordability to the U.S. housing market. Freddie Mac does not make loans directly to homebuyers. The primary business of Freddie Mac is to purchase loans from lenders to replenish their supply of funds so they can make more mortgage loans to other borrowers. Freddie Mac then issues securities backed by pools of these mortgages that it sells to the capital markets. Freddie Mac guarantees to investors prompt payment of interest and principal on the mortgages backing the securities. Banks may sell loans to Freddie Mac individually or pooled with other loans, directly or through intermediaries.

Freddie Mac funds its operations and loan loss reserves primarily through fees, which banks may pass through to borrowers. Freddie Mac charges both guarantee fees and loan-level price adjustments (LLPAs). LLPAs vary based on credit score, loan-to-value ratio, type of product used, and various other factors.

Freddie Mac is charged with affordable housing goals.²¹ The goals were first implemented in 1993 and provide clear guidelines for low- and moderate-income (LMI) lending that the GSEs are required to facilitate. Freddie Mac operates special programs with underwriting standards that eliminate common barriers to low-income homeownership, such as high down payments, credit history issues, and the inability to get affordable fixed-rate financing on unusual property types that tend to be more affordable, such as manufactured homes and properties

with significant deferred maintenance. Freddie Mac also purchases loans secured by condominiums and properties in rural areas. Freddie Mac provides training to lender customers through its online Learning Center and has pioneered a multilingual Credit Smart online curriculum to help borrowers know their pre-purchase counseling options.

MORTGAGE INSURANCE AND LOAN LIMITS

Freddie Mac requires mortgage insurance (MI) on all loan amounts that exceed 80 percent of the property value. The amount of MI coverage required varies by transaction type and loan-to-value range. Freddie Mac offers standard and/or flexible MI pricing options for all loan products. Flexible mortgage insurance options include reduced MI and custom MI options.

Custom MI coverage options typically carry corresponding post-settlement delivery fees. Post-settlement delivery fees are risk-based pricing adjustments and vary by product type and loan-to-value ratio. Custom mortgage insurance delivery fees range from 0.375 percent to 0.75 percent. The Federal Housing Finance Agency (FHFA) publishes Freddie Mac's conforming loan limits annually. Loan limits vary by number of units and by property location. Properties in areas defined as "high cost" are associated with higher loan limits. For current limits, see link in Resources.

²¹ By statute, the Federal Housing Finance Agency is required to set annual housing goals for mortgages bought by Fannie Mae and Freddie Mac. The agency's goals for single-family housing include categories for mortgages for low-income families, very low-income families, and families that live in low-income areas, and mortgage refinancing. The multifamily goals include separate categories for mortgages on properties with five or more units affordable to low-income families and very low-income families.

This Guide covers the following Freddie Mac homeownership options:

HomeOneSM: Low down payment financing for first-time homebuyers with no geographic or income restrictions.

Home Possible[®]: Low down payment financing with discounted fees for creditworthy LMI borrowers and first-time homebuyers.

Construction Conversion and Renovation Mortgage: Financing that covers property purchase and renovation/construction costs in a single mortgage.

Manufactured Home Mortgage: Financing for manufactured homes that uses the credit standards of the home mortgage market.

Relief RefinanceSM/Home Affordable Refinance Program (HARP): Helps borrowers with good payment records who have little or no home equity refinance into more affordable mortgages.

DOING BUSINESS WITH FREDDIE MAC

Benefits

Delivering mortgage loans to the secondary market through Freddie Mac can help community banks access sustainable affordable mortgage products and responsibly expand mortgage business opportunities while limiting long-term credit, prepayment, and interest rate risks.

Delivery Options

There are several ways for banks to deliver loans to Freddie Mac. They can become direct Freddie Mac approved sellers or seller/ servicers. They can act as a correspondent lender by originating and funding loans and then selling them to investors or aggregators that sell to Freddie Mac. Banks can also generate loans that are funded in the name of an investor and then sold to Freddie Mac. Lenders selling to Freddie Mac must make directly or indirectly through a service provider, certain representations and warranties (reps and warrants).

Delivering to Freddie Mac as a direct seller or seller/servicer

In order for banks to deliver loans directly to Freddie Mac, they must become approved sellers or seller/servicers. Freddie Mac approved sellers and seller/servicers are able to deliver a wide range of single-family mortgage products including purchases and refinances on one- to four-unit properties through Home Possible[®], HomeOneSM, and refinances through the Home Affordable Refinance Program. Both fixed-rate and adjustable-rate products are available.

Approved sellers or seller/servicers are also provided with training, technical support, and business development support. Once approved, lenders are assigned a Freddie Mac representative to help them navigate Freddie Mac's benefits, systems, and requirements.

PROGRAMS IN THIS SECTION:

HomeOneSM: Low down payment financing for first-time homebuyers with no geographic or income restrictions.

Home Possible[®]: Low down payment financing with discounted fees for creditworthy LMI borrowers and first-time homebuyers.

Construction Conversion and Renovation Mortgage: Financing that covers property purchase and renovation/construction costs in a single mortgage.

Manufactured Home Mortgage: Financing for manufactured homes that uses the credit standards of the home mortgage market.

Relief RefinanceSM/Home Affordable Refinance Program (HARP): Helps borrowers with good payment records who have little or no home equity refinance into more affordable mortgages.

Approval process to deliver as Freddie Mac direct seller or seller/servicer

Lenders can be approved through Freddie Mac as a seller/servicer or as a seller only. Freddie Mac seller/servicers either service loans directly or contract with a Freddie Mac approved subservicer. If approved as a seller only, servicing rights must be transferred to a Freddie Mac approved servicer.

The seller/servicer approval process is estimated to take between four and six months from the time of application through final approval. Banks interested in becoming a Freddie Mac approved seller or seller/servicer must meet minimum financial standards including a minimum net worth of \$2.5 million plus 25 basis points of unpaid principal balance for total one- to four-unit residential mortgage loans serviced. Operational standards related to quality control and servicing apply as well.

Delivering to Freddie Mac through other third parties

Smaller lenders often turn to investors or aggregators to help them carry out underwriting, funding, and/or secondary market sales functions. Correspondent lenders typically fund loans in their own names and then sell them to investors, who in turn sell the loans into the secondary market. In some cases, the correspondent lenders handle the underwriting in-house. In others, the investor acts as the underwriter. Smaller lenders that are interested in originating loans but do not have the internal capacity to either underwrite or fund the loans can also work with investors to carry out the origination function while looking to the investor to underwrite and fund the loans in the name of the investor.

Lenders can work with sponsoring Freddie Mac approved seller/servicers to originate Freddie Mac loan products. Originating loans for or selling loans to a Freddie Mac approved aggregator can be useful to banks that do not meet minimum standards and/or do not have the internal capacity to become approved by Freddie Mac. However, many aggregators and/or investors administer their own underwriting guidelines or overlays, which may be more restrictive than standard Freddie Mac program requirements. Final underwriting decisions, standards for delivery, and fees for participation are set by each investor.

DUTY TO SERVE

The Housing and Economic Reform Act of 2008 required the GSEs to serve sectors of the housing market that lack adequate access to conventional financing by increasing market access to mortgages for very low-, low-, and moderate-income families in three specific underserved markets: manufactured housing, affordable housing preservation, and rural housing.

In response to this legislation, the FHFA, the federal regulator responsible for overseeing Fannie Mae and Freddie Mac, issued the Duty to Serve Underserved Markets rule, under which the GSEs were required to develop a three-year plan for each underserved area (Plans).²² These Plans, informed by public comment and feedback from the FHFA, detail the specific outreach, product development, and loan purchase activities designed to support mortgage financing in each of the underserved markets. The first Plan is effective January 2018 through December 2020. The statute requires FHFA to evaluate and rate Freddie Mac's compliance with its Duty to Serve requirements annually and to report to Congress on these evaluations.

2018-2020 Underserved Markets Plans

Each of Freddie Mac's Plans describes the objectives and time-bound actions that Freddie Mac will pursue in an effort to help resolve underserved market challenges and meet the requirements of the

²² The Duty to Serve regulation allows Fannie Mae and Freddie Mac to request to modify their Plans at any time. The FHFA and the GSE may seek public input on the proposed modifications, and the FHFA must provide a "Non-Objection" to a proposed modification for it to become part of a Plan. The FHFA publishes modified Plans, as well as redlined versions of the portions modified on its website at <https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/Duty-to-Serve.aspx>.

Duty to Serve regulations. The objectives and specific action plans generated for each underserved market generally seek to accomplish one or more of the following:

- conduct analysis and publish findings that might promote a greater understanding of the underserved markets;
- conduct research and outreach in the underserved markets;
- facilitate market collaboration and participation in the underserved markets;
- develop policies and standards to expand market access to an underserved market;
- increase the purchase of loans in a designated underserved market; and
- develop new or expand current products to meet an unmet market need.

Manufactured Housing

In the manufactured housing sector, Freddie Mac will be eligible to receive Duty to Serve credit for activities related to increasing market access to loans on manufactured housing units, as well as blanket loans on manufactured housing communities and by bringing standards to the manufactured housing market.

Over the three-year period, Freddie Mac is committed to purchasing over 9,775 manufactured loans, which incrementally grows to a 34 percent increase over the baseline by 2020. The GSE will also undertake a comprehensive review of its existing product offerings and develop product features and policies that will expand the reach of its manufactured housing products.

Freddie Mac will conduct outreach and research that supports the development of a chattel loan pilot and market standardization of a product for chattel loans and will purchase at least 800 chattel loans once it secures approval to do so from FHFA. Additionally, Freddie Mac will expand its current pre-purchase homebuyer education curriculum to examine the unique characteristics of manufactured housing chattel loans, as well as the benefits of energy efficient manufactured homes. Freddie Mac will also develop a pilot program for resident-owned communities and create a loan enhancement for manufactured housing

communities with specified minimum tenant pad lease protections.

Potential Benefits for Community Bankers:

- Increased opportunities to deliver manufactured home loans on real property to Freddie Mac.
- Enhanced manufactured housing loan policies and product.
- Chattel loan pilot that supports market standardization.

Affordable Housing Preservation

To preserve affordable housing, Freddie Mac will increase its support of the Low Income Housing Tax Credit, Section 8 Voucher and USDA Section 515 programs. In addition, the GSE will increase its financing of small multifamily rental properties by developing new offerings and mechanisms that support small financial institutions including enhanced pooling, credit enhancement, and securitization. This effort will include the purchase of up to six pools of seasoned small balance multifamily loans over the three-year period.

Freddie Mac's Underserved Markets Plan also supports energy and water efficiency improvements for both single-family and multifamily as well as shared equity homeownership financing.

Potential Benefits for Community Bankers:

- Increased opportunities to deliver loans for small multifamily properties to Freddie Mac.
- Enhanced credit pooling, credit enhancement, and securitization for small multifamily loans.

Rural Housing

The rural housing Duty to Serve regulations support the financing of both single-family and multifamily housing in certain high-needs rural areas²³ and populations that have been particularly underserved.

Freddie Mac will increase its purchase of single-family loans in high-needs rural areas through various purchase execution options including selling for cash, bulk portfolio sales, and flow purchases. In 2018-2020, the GSE will purchase up to 75,500 single-family loans, resulting in an increase of 5.9 percent to 14.8 percent over the baseline by 2020. Freddie Mac will also look for ways to expand product flexibilities in the areas of borrower qualification, collateral valuation, down payment and closing costs, and pricing criteria to further meet the needs of the market. The GSE will also provide both new and improved renovation mortgage product features to support the financing of renovation costs for single-family homes in rural areas.

Freddie Mac will also provide over \$460 million per year in liquidity to small financial institutions that serve high-needs rural areas purchasing up to 15,600 new loans, resulting in an increase of 16.8 percent to 54 percent over the baseline by 2020. Freddie Mac will also support small multifamily rental properties in rural areas by developing new offerings that support properties with USDA 515 debt and by developing a new offering that supports the USDA 538 program.

Potential Benefits for Community Bankers:

- New opportunities for small financial institutions to deliver rural single-family loans Freddie Mac.
- Expanded loan products and policies designed to increase single-family and multifamily loan purchases in high needs rural areas.
- Enhanced renovation loan products for single-family homes in rural areas.

Freddie Mac's 2018-2020 Underserved Markets Plan General Information

<http://www.freddiemac.com/about/duty-to-serve/>

Freddie Mac Duty to Serve Underserved Markets Plan Summary

<http://www.freddiemac.com/about/duty-to-serve/docs/Freddie-Mac-Underserved-Markets-Plan-Highlights.pdf>

Freddie Mac Duty to Serve Underserved Markets Plan

<http://www.freddiemac.com/about/duty-to-serve/docs/Freddie-Mac-Underserved-Markets-Plan.pdf>

Questions about Duty to Serve

Call 1-800-FREDDIE, Option 2

SYSTEM REQUIREMENTS AND QUALITY CONTROL

Freddie Mac offers the Loan Product Advisor®, which is a portal system that provides product guidelines and preliminary automated underwriting to lenders working with investors. Lenders can underwrite loans manually or electronically with the use of Loan Product Advisor®. Loan Product Advisor® provides an assessment of a loan's eligibility for sale and delivery to Freddie Mac. Lenders can access Loan Product Advisor® through an interface on FreddieMac.com, a third-party vendor, or direct integration with a lender's proprietary loan origination system. There is no charge for Loan Product Advisor®.

Freddie Mac sellers are also required to have a quality control program in place that includes pre-funding and post funding quality control reviews, covers the full scope of the mortgage origination business of the bank, and includes an active role by senior management in the effective resolution of gaps discovered in the origination process.

²³ The FHFA's Duty to Serve regulations define "rural area" as: "1) a census tract outside of a metropolitan statistical area as designated by the Office of Management and Budget; or 2) a census tract in a metropolitan statistical area as designated by the Office of Management and Budget that is outside of the metropolitan statistical area's Urbanized Areas as designated by the U.S. Department of Agriculture's (USDA) Rural-Urban Commuting Area (RUCA) Code #1, and outside of tracts with a housing density of over 64 housing units per square mile for USDA's RUCA Code #2."

RESOURCES

Direct access to the following web links can be found at <https://www.fdic.gov/mortgagelending>.

FHFA Conforming loan limits

<https://www.fhfa.gov/DataTools/Downloads/Pages/Conforming-Loan-Limits.aspx>

Freddie Mac eligibility requirements

<https://ww3.freddie.mac.com/ds1/singlefamily/beourcustomer.nsf/frmEligReq?OpenForm>

Freddie Mac application process

<http://www.freddie.mac.com/singlefamily/doingbusiness/>

Freddie Mac sales and delivery information: Information about pricing, sales executions, and delivery and funding requirements.

<http://www.freddie.mac.com/singlefamily/sell/>

Freddie Mac's Learning Center: Ongoing training opportunities.

<http://www.freddie.mac.com/learn/>

Freddie Mac's Single Family Seller/Service Guide: Rules and regulations covering all aspects of selling loans to Freddie Mac including lender approval, loan origination, loan delivery, quality control, and servicing requirements.

<http://www.freddie.mac.com/singlefamily/guide/>

Freddie Mac participating wholesale lenders list: List of Freddie Mac approved aggregators.

<http://www.freddie.mac.com/loanadvisorsuite/loanproductadvisor/wholesaler.html>

Freddie Mac Community Lender Resource Center

http://www.freddie.mac.com/singlefamily/community_lenders/

Federal Housing Finance Agency Duty to Serve Program

<https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/Duty-To-Serve.aspx>

Freddie Mac Duty to Serve Underserved Markets Plan 2018-2020

https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/Freddie-Mac_Final-UMP.pdf

HUD Section 8 Housing Voucher Program

https://www.hud.gov/topics/housing_choice_voucher_program_section_8

USDA Section 515 Rural Housing Program

<http://ruralhome.org/storage/documents/rd515rental.pdf>

USDA Section 538 Rural Housing Program

https://www.rd.usda.gov/files/GRRHP_Application_FY2018.pdf

USDA Section 538 Rural Housing Program Lenders

https://www.rd.usda.gov/files/TX_Sec%20538%20GRRHP%20Approved%26EligLenders.pdf

Using Freddie Mac's Home Possible® Product

The FDIC talked with community bankers about their participation in Freddie Mac's Home Possible® and other mortgage products. The following are excerpts from these discussions.

Freddie Mac Home Possible® mortgages include features that are designed to serve low- and moderate-income borrowers and first-time homebuyers. Features include down payments as low as 3 percent, fixed rates, and reduced mortgage insurance coverage levels.

Working with Freddie Mac

A banker from the west coast explained that his bank has used Freddie Mac products since 1988. Another banker from the east coast said that her bank has used Freddie Mac products for over 20 years.

Both banks are using Freddie Mac's Home Possible® mortgages because the 15-year or 30-year fixed-rate conventional loan product is popular with applicants. One banker said, "Using Freddie Mac products enable us to offer competitive rates and terms for our borrowers. Our staff and underwriters have a good understanding of the Freddie Mac's guidelines, which helps us to sell loans without any major issues during the process."

Both bankers stated that training is done on all products when new staff is hired. One bank representative pointed out that the general product training takes about two weeks, but developing a full understanding of the product may take three or more months.

Both banks are approved seller/servicers with Freddie Mac, delivering loans directly to the company. They estimated that the seller/servicer approval process takes between four and six months from the time of application through final approval.

Benefits of Offering Home Possible® Mortgages

One banker said that Freddie Mac's products offer another way to help customers become homeowners and enables the bank to deliver loans into the secondary market. The Home Possible® maximum loan-to-value ratio is 95 percent, and that assists borrowers with good credit, but limited funds for a down payment, to buy a home.

Another representative said that his bank takes advantage of Freddie Mac's program allowing up to 105 percent combined loan-to-value ratio by pairing it with subordinate liens for down payment assistance, closing costs, or renovations. The banker noted that, "We offer a down payment assistance program that allows the use of non-traditional payment history, such as rent or utility receipts to demonstrate good credit. There are no rate lock-in fees and we even waive the monthly maintenance charge if the borrower has a personal checking account with the bank. Combining this product with Home Possible® allows us to better serve our customers with limited funds or a less established credit history."

Challenges of Offering Home Possible® Mortgages

One bank representative stated that the bank's underwriting guidelines are sometimes more flexible than Freddie Mac's guidelines, which means that the bank keeps some mortgages in portfolio. Meeting the Freddie Mac rate lock and other timelines can also be occasionally challenging, said another bank representative. One bank representative said that loan level price adjustments (LLPAs), which are risk-based pricing adjustments that vary based on a number of factors and affect borrower costs, can also be a challenge to administer.

Advice to Other Bankers Considering Freddie Mac

When asked what advice they would give to other bankers considering offering Freddie Mac's Home Possible® product, one banker stated, "It is very important that bankers understand Freddie Mac's underwriting guidelines, rate-lock process, and selling system for post-closing files."

The bankers also noted that because Freddie Mac offers long-term fixed-rate mortgages, Home Possible® is a tool they use for low- and moderate-income borrowers who need lower down payments and smaller monthly payments.