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**TO: Freddie Mac Sellers**

June 27, 2018 | 2018-10

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## **SUBJECT: SELLING UPDATES**

This Guide Bulletin announces:

### **Property eligibility and appraisal requirements**

- Eligibility of Condominium Units for [automated collateral evaluation](#) – **July 16, 2018 (New)**
- Updates to our [comparable sales selection](#) requirements

### **Condominium Projects**

- Revisions to our requirements for [Detached Condominium Projects](#) – **June 28, 2018**
- Updates to our requirements for [Freddie Mac-owned “no cash-out” refinance](#) Condominium Unit Mortgages
- Updates to our requirements for [New Condominium Projects](#)
- Revisions to our general [Condominium Project eligibility](#) requirements

### **Maximum number of financed properties**

- Increase in the [maximum number of financed properties](#) that a Borrower may be obligated on when the subject property is a second home or an Investment Property, provided that additional requirements are met – **August 20, 2018**

### **Cash-Servicing Released**

- Guide revisions to reflect the rebranding of our [Servicing-released executions](#)
- Implementation of [Freddie Automated Servicing Transfer<sup>SM</sup> \(FAST<sup>SM</sup>\)](#) – **October 1, 2018 (New)**

### **Additional Guide updates and reminders**

- Further updates and reminders as described in the [Additional Guide Updates and Reminders](#) section of this Bulletin

## **EFFECTIVE DATE**

All of the changes announced in this Bulletin are effective immediately unless otherwise noted.

## **PROPERTY ELIGIBILITY AND APPRAISAL REQUIREMENTS**

### **Automated collateral evaluation**

#### **Effective for new submissions and resubmissions to Loan Product Advisor® on and after July 16, 2018**

As part of our continued focus on leveraging big data and advanced analytics to bring greater efficiencies to the loan origination process, we are expanding eligibility for automated collateral evaluation (ACE) appraisal waivers to include Mortgages secured by Condominium Units. As a result, Mortgages secured by Condominium Units that qualify for ACE may receive relief from representation and warranties related to the property’s value, condition and marketability, providing Sellers with greater purchase certainty.

Additionally, we are updating the Guide to specifically state that to qualify for an ACE appraisal waiver, the Mortgage must receive a Loan Product Advisor® Risk Classification of Accept.

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Guide impact: Guide Section 5601.9

### **Comparable sales selection**

We are updating our comparable sales selection requirements for properties located in new subdivisions, units in new Planned Unit Developments (PUDs) or units in recently converted or New Condominium Projects to provide flexibility when the new subdivision or project has no contract sales. The appraiser may now develop an appraisal report with all comparable sales from outside the new subdivision or project. However, the appraiser must comment on the marketability of the new development or project and justify and support the use of the comparable sales from outside the new subdivision or project.

We are also clarifying that the appraiser may use comparable sales that are older than 12 months as long as the appraiser can justify and support such use in the appraisal report.

Guide impact: Section 5601.12

## **CONDOMINIUM PROJECTS**

### **Detached Condominium Projects**

#### **Effective June 28, 2018**

Previously, when a Condominium Unit Mortgage was secured by a Detached Condominium Unit in a Condominium Project with a mix of attached, detached and/or semi-detached units, Sellers were required to review the project under one of the following project review types for these Mortgages:

- New Condominium Projects
- Established Condominium Projects
- Streamlined reviews
- Reciprocal reviews

#### ***Expansion of Detached Condominium Projects review type***

In response to Seller feedback, we are expanding the availability of the Detached Condominium Projects review type to Condominium Unit Mortgages secured by Detached Condominium Units in a project with a mix of attached, detached and/or semi-detached units. Sellers may use the Detached Condominium Projects review type for projects that are comprised solely of detached units and now may also use this project review type for Mortgages secured by Detached Condominium Units in projects with a mix of attached, detached and/or semi-detached units.

As a reminder, under the Detached Condominium Projects review type, Sellers do not need to comply with the general Condominium Project eligibility requirements in Section 5701.2(b), and are not subject to the ineligible project requirements in Section 5701.3.

In connection with this change, we are updating the Glossary to add a definition for “Detached Condominium Unit” and revising the definitions of “2- to 4-Unit Condominium Project” and “Detached Condominium Project.”

#### ***Delivery requirements***

We are updating Section 6302.20 to:

- Include the newly defined term “Detached Condominium Unit,” where applicable
- Reflect the new flexibility to allow the valid value of “Full Review” for Detached Condominium Units for ULDD Data Point, *Project Classification Identifier*, (Sort ID 42), regardless of the attachment type of the project
- Narrow the requirement of additional project data in Section 6302.20(b)(ii) to only those Mortgages secured by attached or semi-detached Condominium Units

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Sellers may deliver an appraisal of a Detached Condominium Unit using Guide Form 70, *Uniform Residential Appraisal Report*, or Form 2055, *Exterior-Only Inspection Residential Appraisal Report*, when applicable, regardless of whether the unit is in a project that consists solely of Detached Condominium Units or in a project that consists of attached, detached and semi-detached units.

### **Project insurance**

Seller/Service providers are not required to determine the existence or adequacy of the project liability insurance and/or the fidelity or employee dishonesty insurance as required in Sections 8202.5 and 8202.6 for a Detached Condominium Unit reviewed under the Detached Condominium Projects review type.

### **2- to 4-Unit Condominium Projects**

As announced in Bulletin 2018-5, effective June 28, 2018, we are eliminating the 2- to 4-Unit Condominium Projects review type and providing Sellers the flexibility to choose from the following review types for a Mortgage secured by a Condominium Unit in a 2- to 4-Unit Condominium Project:

- Streamlined reviews
- Established Condominium Projects
- New Condominium Projects, or
- Reciprocal project reviews

Due to the expanded availability of the Detached Condominium Projects review type, effective June 28, 2018, a Detached Condominium Unit in a 2- to 4-Unit Condominium Project will be eligible for review under the Detached Condominium Projects review type.

### **System and Guide updates**

Loan Selling Advisor<sup>SM</sup> will be updated by June 28, 2018 to only require ULDD Data Points, *Project Design Type/Project Design Type Other Description*, (Sort ID 43/33), *Project Dwelling Unit Count*, (Sort ID 45), and *Project Dwelling Units Sold Count*, (Sort ID 46) for Mortgages secured by attached or semi-detached Condominium Units. These changes, in addition to the updates in Section 6302.20, will be reflected in a future Uniform Loan Delivery Dataset (ULDD) specification addendum.

We are updating Sections 5601.2, 5601.5, 5601.7, 5601.10, 5701.1 through 5701.3, 5701.7, 5701.8, 5701.12, 6302.20, 8202.2, 8202.5, 8202.6, Guide Exhibit 19, Exhibit 34 and Glossary A-I to reflect these changes related to Detached Condominium Projects and Units.

### **Freddie Mac-owned “no cash-out” refinance Condominium Unit Mortgages**

In response to Seller inquiries, we will no longer require:

- The transfer of any existing credit enhancement on the mortgage being refinanced to the refinance Mortgage
- Delivery of the associated Freddie Mac loan number of the mortgage being refinanced

Although not required, Sellers should deliver with ULDD Data Point, *Related Investor Loan Identifier*, (Sort ID 221) the associated Freddie Mac loan number of the mortgage being refinanced, if available. To identify if Freddie Mac owns the Mortgage, the Borrower can look up the loan in Freddie Mac's [Loan Look-Up Tool](#) or authorize the Seller to obtain this information on the Borrower's behalf.

Loan Selling Advisor<sup>SM</sup> will be updated by June 28, 2018 in support of these changes. Additionally, the update to ULDD Data Point, *Related Investor Loan Identifier*, (Sort ID 221) will be reflected in a future ULDD specification addendum.

Guide impacts: Sections 5701.2, 6302.16 and Exhibit 34

### **New Condominium Projects**

In response to Seller feedback, we are updating the following requirements for New Condominium Projects.

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## **Conversions**

Previously, Sellers were required to review an engineer's report to determine project eligibility for a Condominium Project that was created by a conversion involving a Non-Gut Rehabilitation of a prior use of a building that was legally created within the past five years.

We are updating the Guide to allow Sellers to review documentation that is functionally equivalent to an engineer's report (instead of an engineer's report), provided that certain conditions are met.

## **Limitations on ability to sell and right of first refusal**

We are eliminating the requirement relating to how the right of first refusal could be exercised when the project documents allow the homeowners association (HOA) to retain that right.

## **Project budget and working capital fund**

Previously, if a Condominium Project's budget did not provide a replacement reserve of at least 10% of the budget for capital expenditures and deferred maintenance, a Seller could rely on a reserve study as long as the requirements in Section 5701.6(l) were met.

To provide an additional option, we are adding that a Seller may rely on a working capital fund as long as the requirements in Section 5701.6(m) are met. This is in consideration that not all budgets will meet the minimum reserve allocation requirement and not all projects will have a reserve study.

We are also clarifying that when a project is recently converted, the required working capital fund can be funded through contributions made by the developer and/or purchasers of the Condominium Units.

## **Guide update**

We are updating Section 5701.6 to reflect these changes to our New Condominium Project requirements.

## **Eligibility of Condominium Projects**

We are updating the following requirements related to the eligibility and ineligibility of Condominium Projects.

### **Commercial space**

Previously, a project was considered ineligible if more than 25% of the total above and below grade square footage of the project or building in which the project is located was used as commercial or non-residential space.

Considering the growing number of Condominium Projects with commercial or non-residential space that exceeds 25%, a project (or building in which the project is located) will be considered ineligible only if it includes more than **35%** of the total above and below grade square footage as commercial or non-residential space.

As a reminder, if the subject Condominium Unit is located within a building in which all or part of the building is in a "Special Flood Hazard Area" as identified by the Federal Emergency Management Agency (FEMA) through the National Flood Insurance Program, the Seller must ensure that the flood insurance coverage meets our requirements in Section 8202.3.

### **Litigation**

Previously, when the litigation amount was unknown, the attorney letter was required to include the upper and lower limits of any potential monetary judgment against the HOA.

In response to Seller inquiries, when the litigation amount is unknown, we are revising the information that must be included in the attorney letter relating to any potential monetary judgement against or settlement with the HOA, including punitive damages. The attorney letter must indicate that the potential monetary judgement or settlement, including punitive damages, will likely be covered by the HOA's insurance policy, rather than the upper and lower limits as previously required.

Additionally, we are updating the Guide to specify that a project is eligible if the Seller determines that the reason for the pending litigation is that the HOA is the plaintiff in a foreclosure action or action for past due HOA assessments.

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### ***Single investor concentration***

Previously, for projects with 21 or more units, a Housing Finance Agency (HFA) (or similar entity based on State or local law or regulation) could own no more than 15% of the total number of units in a project without the ownership being considered as excessive single investor concentration.

We are increasing this maximum single investor concentration requirement to 25%. We are also allowing this maximum 25% single-investor concentration to be applicable to developer leased units used for low- or moderate-income rental purposes (in accordance with State or local law or regulation). The same requirements that apply to the HFA-owned units apply to the developer leased units.

### ***Guide updates***

We are updating Sections 5701.3 and 5701.11 to reflect these changes to our Condominium Project eligibility requirements.

## **MAXIMUM NUMBER OF FINANCED PROPERTIES**

### **Effective August 20, 2018**

For second home and Investment Property Mortgages, we currently limit the number of 1- to 4-unit financed properties that a Borrower individually is, and all Borrowers collectively are, obligated on to six (including the subject property and the Borrower's Primary Residence).

In response to Seller requests, we are increasing the maximum number of financed properties permitted to 10 provided that, when the number of financed properties is greater than six:

- The Mortgage must:
  - Be a Loan Product Advisor Mortgage with a Risk Class of Accept
  - Have a minimum Indicator Score of 720
- The Seller must verify reserves of eight months of the monthly payment (as described in Section 5501.2(a)) on each additional second home and/or 1- to 4-unit Investment Property that is financed and on which the Borrower is obligated.

Loan Product Advisor will be updated by August 20, 2018 to reflect this change.

Guide impacts: Sections 4201.15, 4201.16 and 5501.2

## **CASH-RELEASED XCHANGE<sup>SM</sup>**

### **Servicing-released executions rebranding**

Freddie Mac has rebranded its servicing-released executions under the umbrella of Servicing-Released XChange<sup>SM</sup>. This rebranding supports new participants and technological enhancements planned for these executions over the next 18 to 24 months. Visit the [Servicing Released Xchange web page](#) for more information on our servicing-released executions.

The Servicing Released Sales Process is now Cash-Released XChange<sup>SM</sup>. Under Cash-Released XChange, Sellers may sell one or more fixed-rate Mortgages to Freddie Mac for cash and transfer the Servicing on those Mortgages in a single transaction to a Transferee Servicer approved and selected by Freddie Mac.

We are revising the Guide to refer to Cash-Released XChange and to reflect the recent changes associated with the new Glossary definition of Servicing Contract Rights, which were announced in Bulletin 2018-6.

Although the Servicing Released Sales Process has been rebranded as Cash-Released XChange, there may be screens in Loan Selling Advisor that continue to refer to the Servicing Released Sales Process or to Servicing Released. These references are to be deemed to refer to Cash-Released XChange. Loan Selling Advisor screen updates will be made at a future date.

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Guide impacts: Sections 2202.3, 4302.3, 4303.4, 5203.2, 6101.2, 6101.6, 6101.7, 6301.8, 6302.6, 6302,18, 6302.26, 6302.40, 6303.1, 6304.1, 7101.2, 7101.9, 7101.15, Exhibits 6, 8, 28A, Glossaries A-I, R-Z and Directory 4

## **Freddie Automated Servicing Transfer<sup>SM</sup> (FAST<sup>SM</sup>)**

**Sellers and Transferee Servicers participating in Cash-Released XChange may begin using FAST on and after August 1, 2018 and must begin using FAST on and after October 1, 2018**

After a Mortgage is sold through Cash-Released XChange, a Seller has three Business Days to deliver related loan files to the Transferee Servicer. Currently, each participating Transferee Servicer has its own requirements for the loan file delivery processes, including its own tools and a requisite document stacking order for paper and/or imaged documents.

Implementing FAST will streamline the servicing file transfer process for Sellers by offering a single unified process and tool for all loans sold through the execution. FAST will enable Sellers to save time, lower costs and make it easier to work with multiple Transferee Servicers. FAST will also help Transferee Servicers more efficiently onboard Seller Mortgage documents and records.

Information regarding access to FAST (including user IDs and passwords) will be sent directly to Sellers participating in Cash-Released XChange prior to August 1, 2018.

In addition, we are updating the [Servicing Transfer Instructions for Cash-Released XChange<sup>SM</sup>](#) user guide effective August 1, 2018, with changes related to FAST. The updated instructions may be accessed via the "Settlement" menu in Loan Selling Advisor<sup>SM</sup>. Click the "Servicing Transfer Instructions" link for the most up-to-date instructions. As provided in Exhibit 28A, Sellers must submit required information and complete applicable forms for the Transfer of Servicing for each loan in accordance with the [Servicing Transfer Instructions for Cash-Released XChange<sup>SM</sup>](#) user guide.

## **ADDITIONAL GUIDE UPDATES AND REMINDERS**

### **Special property insurance requirements for Condominium Projects and Planned Unit Developments**

**Effective June 13, 2018**

As announced in Bulletin 2018-9, in response to Seller/Servicer inquiries, we have updated our property insurance requirements in Section 8202.2 to include additional detail on the requirements for special endorsements, as follows:

- The inflation guard endorsement is required when it is applicable to the coverage and available in the insurance market
- The building ordinance or law endorsement is not required if the building is legally conforming under current building, zoning or land use laws or is not available; however, it is required if the enforcement of any law or ordinance results in increased costs such as demolition or loss to the undamaged portions of the building and the coverage is available in the insurance market
- The steam boiler and machinery or equipment breakdown endorsement is required if the building has a central heating ventilation and cooling (HVAC) system and the coverage is available in the insurance market

### **Transient housing**

We are clarifying that transient housing that includes hotel type services and characteristics is an ineligible property.

Guide impact: Section 5601.2

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## GUIDE UPDATES SPREADSHEET

For a detailed list of the Guide updates associated with this Bulletin and the topics with which they correspond, refer to the Bulletin 2018-10 (Selling) Guide Updates Spreadsheet available at [http://www.freddiemac.com/singlefamily/guide/docs/bll1810\\_spreadsheet.xls](http://www.freddiemac.com/singlefamily/guide/docs/bll1810_spreadsheet.xls).

## 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,



Christina K. Boyle  
Senior Vice President  
Single-Family Sales, Marketing and Relationship Management