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**TO: Freddie Mac Sellers and Servicers**

September 26, 2018 | 2018-16

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## **SUBJECT: DUTY TO SERVE AFFORDABLE HOUSING PRESERVATION AND RURAL HOUSING**

Making housing available and affordable nationwide is fundamental to Freddie Mac's community mission. Over the past several years, we have increased our efforts to stabilize communities, responsibly expand credit, prevent foreclosures, educate future borrowers and counsel existing Borrowers. In our Duty to Serve plan, we committed to increasing our support for very low-, low- and moderate-income families in three historically underserved markets: manufactured housing, rural housing and affordable housing preservation. This Bulletin announces new and revised underwriting guidelines to facilitate a secondary market for Mortgages in support of affordable housing preservation and rural housing.

In response to industry feedback and current market practices, and to help preserve affordable housing, we are announcing:

- The eligibility of [Community Land Trust Mortgages](#) for sale to Freddie Mac
- Updated requirements for Mortgages secured by [properties subject to resale restrictions](#), including resale restrictions imposed to limit the occupancy and resale of the property to individuals or households of very-low, low- or moderate-incomes

We are also introducing more flexible requirements to use [sweat equity](#) as a source of Down Payment and/or Closing Costs for our Home Possible® Mortgage offering to make housing affordable, particularly in rural areas.

## **COMMUNITY LAND TRUST MORTGAGES ELIGIBLE FOR SALE – SELLING AND SERVICING REQUIREMENTS**

**Effective November 5, 2018**

Community Land Trusts seek to preserve affordability of homes by retaining ownership of land and leasing it under a long-term ground lease to a homebuyer who purchases the improvements on the land at a below market rate. Access to traditional mortgage financing through Community Land Trust Mortgages has been limited.

To facilitate the origination and Servicing of Community Land Trust Mortgages, Freddie Mac has developed the following requirements:

### **Selling requirements**

The requirements provided in new Guide Chapter 4502 include, but are not limited to, the following:

- A Borrower must be an eligible Borrower under the Community Land Trust's program requirements
  - The Mortgage must be a First Lien, conventional fixed-rate Mortgage secured by a 1-unit Primary Residence that is not a Manufactured Home
  - Purchase and "no cash-out" refinance transactions, and as permitted by the Community Land Trust, cash-out refinance transactions, are eligible
  - A Community Land Trust Mortgage may be submitted to Loan Product Advisor® or may be a Manually Underwritten Mortgage
  - Borrowers must execute a specified form of ground lease meeting certain requirements (a "Community Land Trust Ground Lease"), as well as Freddie Mac's new form of Community Land Trust Ground Lease Rider, new Guide Form 490
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- The appraiser must develop the opinion of value for the leasehold interest based on the hypothetical condition that the property right being appraised is the leasehold interest without the resale and other restrictions included in the Community Land Trust Ground Lease, which are removed by Form 490 upon foreclosure (or expiration of any applicable redemption period) or recordation of a deed-in-lieu of foreclosure
  - In the case of a purchase or refinance transaction, “value” is the appraised value on the Note Date
  - Special negotiated Mortgage products and offerings may not be used with Community Land Trust Mortgages unless specifically permitted by Freddie Mac in writing

### ***Freddie Mac prior approval and Community Land Trust training***

Although the eligibility requirements are provided in the Guide, a Seller must obtain Freddie Mac’s written approval before selling Community Land Trust Mortgages to Freddie Mac by contacting its Freddie Mac representative or the Customer Support Contact Center at 800-FREDDIE. As a prerequisite to obtaining approval, the Seller will need to complete Freddie Mac’s Seller/Service [Community Land Trust training](#), which will be available on the [Freddie Mac Learning Center](#).

### ***Special delivery requirements***

We are adding new Guide Section 6302.42 for special delivery requirements for Community Land Trust Mortgages. Sellers must enter the valid value of “Leasehold” for ULDD Data Point *Property Estate Type* (Sort ID 63). For ULDD Data Points *Purchase Price Amount* (Sort ID 195) and *Property Valuation Amount* (Sort ID 83), Sellers must enter the appraised value determined in accordance with Section 4502.8. Additionally, Sellers must enter the valid value of “J09” for ULDD Data Point *Investor Feature Identifier* (Sort ID 368) to indicate the Mortgage is a Duty to Serve Community Land Trust Mortgage.

### ***Servicing requirements***

In connection with Freddie Mac’s purchase of Community Land Trust Mortgages, and to provide Community Land Trusts (or their duly authorized representatives) opportunities to help resolve Borrower defaults and preserve their affordable housing inventory over time, Servicers of Community Land Trust Mortgages must implement Servicing requirements applicable only to Community Land Trust Mortgages. These Servicing requirements are described briefly below and in more detail in new Chapter 8701.

### ***Servicers of Community Land Trust Mortgages***

To be authorized to service Community Land Trust Mortgages pursuant to new Section 8701.1, the Servicer must be a Seller/Service approved to sell Community Land Trust Mortgages to Freddie Mac in accordance with Chapter 4502.

An authorized Servicer may engage in a Transfer of Servicing involving Community Land Trust Mortgages provided the Transferee Servicer is also a Seller/Service approved to sell Community Land Trust Mortgages to Freddie Mac. See new Section 8701.3 regarding Concurrent and Subsequent Transfers of Servicing with respect to Community Land Trust Mortgages.

Subject to existing requirements set forth in Chapter 8102, an authorized Servicer may, as a Master Servicer, engage a Servicer as its Servicing Agent to service Community Land Trust Mortgages, including Servicing Agents that are not separately approved or authorized as Sellers or Servicers of Community Land Trust Mortgages.

### ***Tracking Community Land Trust Mortgages***

Servicers of Community Land Trust Mortgages must implement policies, procedures and systems to identify and track Community Land Trust Mortgages to ensure that such Mortgages are serviced in accordance with the Guide’s Servicing requirements, including Chapter 8701.

In addition, Servicers of Community Land Trust Mortgages must maintain contact information necessary to service such Mortgages (e.g., address of the Community Land Trust or its duly authorized representative) so that all disclosures and notices required under the Community Land Trust Ground Lease, as amended by Form 490 (the “ground lease, as amended”), are provided on a timely basis.

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In connection with a Transfer of Servicing, the Transferor Servicer must inform the Transferee Servicer whether the transfer involves Community Land Trust Mortgages, and, upon request, must provide to the Transferee Servicer a list of such Mortgages. Also, all data and correspondence with the Community Land Trust or its duly authorized representative related to such Mortgages including, but not limited to, contact information and any change of address notifications, must be delivered to the Transferee Servicer when transferring records and related data pursuant to Section 7101.8.

### ***Form 490, Community Land Trust Ground Lease Rider***

To enable Community Land Trusts to help Borrowers in default, a Servicer must comply with the provisions of Form 490 when Servicing the Community Land Trust Mortgage including, but not limited to, provisions related to the following:

- A Borrower's written consent to the Servicer's disclosure of certain information to the lessor (e.g., the Community Land Trust or its duly authorized representative) in the event of Borrower default or when evaluating the Borrower for workout or relief options
- The Servicer's obligation to provide to the lessor all notices and disclosures required under the ground lease, as amended
- Upon delivery of required notices and disclosures to the lessor, the Servicer must honor the lessor's timely exercise of certain rights available to it under the ground lease, as amended
- The termination of any resale restrictions contained in the ground lease, as amended, upon foreclosure (or expiration of any applicable redemption period) or recordation of a deed-in-lieu of foreclosure
- For a Borrower being considered for an alternative to foreclosure, the Servicer is not required to obtain the lessor's approval of any proposed workout or relief options

### ***Leasehold Mortgages***

Unless inconsistent with a Servicing requirement set forth in Chapter 8701, all Servicing requirements of the Guide governing Mortgages secured by leasehold estates (leasehold Mortgages) apply to Community Land Trust Mortgages.

### ***Resale restrictions***

As described in Chapter 4502, the Community Land Trust Ground Lease includes resale restrictions. Unless inconsistent with a Servicing requirement set forth in Chapter 8701, all Servicing requirements of the Guide governing resale restrictions that terminate upon foreclosure (or expiration of any applicable redemption period) or recordation of a deed-in-lieu of foreclosure apply to Community Land Trust Mortgages.

### ***Delinquency management for Community Land Trust Mortgages***

In addition to other Servicing requirements, when a Borrower obligated under a Community Land Trust Mortgage is delinquent in his or her Mortgage payments, the Servicer of such Mortgage must follow the steps outlined in new Section 8701.4, which include, but are not limited to:

- With certain exceptions, offering Early Delinquency Counseling as described in Sections 9101.2 and 9102.4, as applicable, regardless of the Mortgage product type
- Providing all disclosures and notices required under the ground lease, as amended, to both the lessor and Borrower on a timely basis during Delinquency and prior to foreclosure referral
- In response to a timely notice of the lessor's intent to exercise certain rights (e.g., cure a Borrower's Delinquency) available to it under the ground lease, as amended, suspending the foreclosure referral for 60 days or until the 181st day of Delinquency, whichever is later, to allow the lessor to exercise such rights; and
- Completing a pre-foreclosure referral account review of the Community Land Trust Mortgage file in addition to the requirements in Section 9301.4

Regardless of the additional Servicing requirements specified in Chapter 8701 that are applicable only to Community Land Trust Mortgages, in the event a foreclosure sale occurs, the Servicer's performance will be

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measured against Freddie Mac's State foreclosure timelines (refer to Guide Exhibit 83). However, the Servicer may seek recourse against the lessor for certain delays in foreclosure in accordance with the provisions of Form 490.

### **Guide updates**

We are adding new Chapter 4502 for selling requirements for Community Land Trust Mortgages, and updating Sections 1301.11, 3401.29, 4101.2, 4203.1, 4203.4, 4205.3, 4205.4, 4304.1, 4402.2, 4402.4, 4403.1, 4601.1, 4602.2, 4603.3, 4702.1 through 4702.3, 5601.9, 5703.3, 5704.1, 6302.34 and 6302.42. We are also adding new Form 490.

We are adding new Chapter 8701 for Servicing requirements for Community Land Trust Mortgages and updating Sections 9202.16, 9202.17, 9208.2, 9208.5, 9301.26, 9301.31, 9301.32, 9301.34, 9401.3 and 9701.10 relating to Servicing requirements for leasehold Mortgages and resale restrictions.

## **ORIGINATION AND SELLING REQUIREMENTS FOR MORTGAGES SECURED BY PROPERTIES SUBJECT TO RESALE RESTRICTIONS**

### **Effective November 5, 2018**

While we continue to purchase Mortgages secured by properties subject to income-based and age-based resale restrictions, we are revising our requirements for such Mortgages when the resale restrictions terminate upon foreclosure (or expiration of any applicable redemption period) or recordation of a deed-in-lieu of foreclosure as follows:

- The appraisal must reflect the market value of the property without resale restrictions
- The Seller, or any third party authorized by the Seller, must ensure that the Borrower and appraiser are aware of the resale restrictions and must advise the appraiser that he or she must include the following statement in the appraisal report:  
*"This appraisal is made on the basis of a hypothetical condition that the property rights being appraised are without resale and other restrictions that are terminated automatically upon the latter of foreclosure or the expiration of any applicable redemption period, or upon recordation of a deed-in-lieu of foreclosure."*
- The loan-to-value (LTV), total LTV (TLTV) and Home Equity Line of Credit (HELOC) TLTV (HTLTV) ratios are determined using the appraised value
- The appraisal report no longer must include two comparable sales with similar resale restrictions. The appraisal report must note the existence of the resale restriction and analyze and reflect on any impact of the resale restrictions on the property's value and marketability.

Additionally, we are:

- Moving our requirements for resale restrictions from Section 4201.17 to new Chapter 4406
- Adding new Chapter 4503 to direct Sellers to Chapter 4406 for resale restrictions that may be imposed to create and preserve affordable housing by limiting the occupancy and resale of the property to individuals or households of very-low, low- or moderate-incomes

We are also providing additional requirements for Mortgages specific to income-based resale restrictions in new Section 4406.2. The new section includes a list of Mortgages that are ineligible for sale when secured by properties subject to income-based resale restrictions that terminate upon foreclosure (or expiration of any applicable redemption period) or recordation of a deed-in-lieu of foreclosure and when value is determined based on the hypothetical condition. Construction Conversion and Renovation Mortgages remain ineligible for purchase if the property securing the Mortgage is subject to income-based resale restrictions.

### **Special delivery requirements**

We are revising Section 6302.37 to add special delivery requirements for properties with resale restrictions that terminate upon foreclosure (or expiration of any applicable redemption period) or recordation of a deed-in-lieu of foreclosure for which the Seller must determine value in accordance with the requirements of

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Section 4406.1(g)(ii). For these Mortgages, when delivering ULDD Data Points *Purchase Price Amount* (Sort ID 195) and *Property Valuation Amount* (Sort ID 83), Sellers must enter the appraised value determined in accordance with Section 4406.1(g)(ii).

Additionally, for Mortgages secured by properties with income-based resale restrictions, Sellers must continue to deliver ULDD Data Point *Investor Feature Identifier* (Sort ID 368) and enter valid values of "630" or "631," as applicable. However, we are modifying the existing valid value of "630" to indicate both termination of resale restrictions upon foreclosure (or expiration of any applicable redemption period) or recordation of a deed-in-lieu of foreclosure and appraised value determined in accordance with Section 4406.1(g).

## Guide updates

We are adding new Chapters 4406 and 4503, updating Sections 1301.11, 4203.1, 4205.3, 4205.4, 4302.2, 4303.2, 4304.1, 4402.2, 4402.4, 4403.1, 4601.1, 4602.2, 4603.3, 4604.2, 5101.9, 5601.9, 5703.3, 6302.34, 6302.37 and Exhibit 34 and deleting Section 4201.17 to reflect these changes to our requirements for Mortgages secured by properties subject to resale restrictions.

## SWEAT EQUITY SELLING REQUIREMENTS FOR HOME POSSIBLE MORTGAGES

### Effective for Mortgages with Application Received Dates on and after September 26, 2018

Sweat Equity is credit for labor performed on the Mortgaged Premises and/or materials furnished for the Mortgaged Premises by the Borrower. The Home Possible Mortgage offering allows for the use of sweat equity, but currently requires the Borrower to have 5% of his or her own funds in the transaction to use sweat equity as a source of Down Payment.

To provide flexibility, we are revising the Home Possible requirements to permit sweat equity as a source of funds to cover the entire amount of cash to close for Down Payment and/or Closing Costs. The sweat equity enhancement will benefit Sellers by providing a higher allowable LTV ratio when sweat equity is used as a source of funds and give Borrowers additional financing options for an affordable home purchase.

We are expanding our sweat equity requirements for Home Possible Mortgages as follows:

- Allowing sweat equity as a source of funds to cover the entire amount of Down Payment and/or Closing Costs, up to a maximum LTV ratio of 97%, where permitted. Sweat Equity can be combined with an Affordable Second<sup>®</sup> up to a maximum 105% TLTV ratio.
- Allowing sweat equity on Manufactured Homes up to a maximum LTV ratio of 95%

We are also providing detail to our sweat equity requirements as follows:

- Sweat equity may be used as an eligible source of funds in connection with the following repairs and improvements:
  - All repairs and improvements to be completed by the Borrower that are listed in the sales contract and included in the appraisal report
  - Repairs or improvements that are reflected on the appraisal report that are outstanding at the time of the appraisal. Credit for work completed prior to the original property inspection by the appraiser is not eligible for sweat equity.
- The value of the sweat equity that may be used as an eligible source of funds must equal the value of the labor performed plus the value of the materials furnished, documented as follows:
  - The value of the labor performed must be estimated by the appraiser or a cost estimating service and documented in the appraisal report or separately in the Mortgage file; and
  - The value for materials furnished must either be estimated by the appraiser or a cost estimating service, or be calculated using receipts from the purchase of the materials. The estimates or costs as evidenced by receipts must be documented in the Mortgage file.

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To help Sellers further understand the updates to the Home Possible sweat equity enhancement, additional information, training programs, job aid and/or reference documents will be available on the [Freddie Mac Learning Center](#).

### **Delivery requirements**

In addition to the ULDD Data Points required for Home Possible Mortgages in Section 6302.14(b)(i), for Home Possible Mortgages originated with sweat equity as a credit towards the Down Payment and/or Closing Costs, the Seller must deliver ULDD Data Point *Investor Feature Identifier* (Sort ID 368) and enter a valid value of "J11."

### **Guide updates**

We are updating Sections 4501.10, 6302.14 and Exhibit 34 to reflect these updates to our sweat equity requirements for Home Possible Mortgages.

### **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 2018-16 (Duty to Serve Affordable Housing Preservation) Guide Updates Spreadsheet available at [http://www.freddiemac.com/singlefamily/guide/docs/bl1816\\_spreadsheet.xls](http://www.freddiemac.com/singlefamily/guide/docs/bl1816_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