Frequently Asked Questions: Preferred Stock Purchase Agreement (PSPA)

General PSPA

Q1: [05.19.21] What is the PSPA?

The Senior Preferred Stock Purchase Agreement (PSPA) is an agreement that Freddie Mac entered into, through the Federal Housing Finance Agency (FHFA) as conservator acting on our behalf, with the U.S. Department of Treasury (Treasury) relating to the Treasury’s purchase of senior preferred stock and a warrant, as subsequently amended. The PSPA includes terms by which Treasury provides financial support to Freddie Mac.

Fannie Mae has a nearly identical PSPA with the Treasury. Both PSPAs were executed on September 7, 2008, the day after FHFA, as regulator, placed Freddie Mac and Fannie Mae (the GSEs) into separate conservatorships due to the financial crisis impacting the housing market and the GSEs at that time. The agreements have been amended on several occasions since then. Most recently, the PSPA was amended on January 14, 2021.

The PSPAs were designed to ensure that the GSEs: (i) provide stability to the financial markets; (ii) prevent disruptions in the availability of mortgage finance; and (iii) protect the taxpayer.

Q2: [05.19.21] Why was the PSPA amended?

During conservatorship, the PSPAs were amended multiple times, for several reasons, including:

- Increasing Treasury’s commitment of financial support.
- Replacing Treasury’s commitments with new formulaic commitments.
- Allowing the GSEs to retain a limited amount of capital reserve in accordance with FHFA capital requirements (most recent amendment).

These changes were designed to provide certainty to the market that the GSEs, while in conservatorship, could perform their critical mission of providing liquidity and stability to the country’s housing market. The amendments also aim to provide additional assurances for investors in GSE debt and mortgage-backed securities that the government funding commitment continues to remain in place.

Q3: [05.19.21] We’ve been hearing from industry stakeholders about the limits in the amended PSPA, such as the limits on mortgages secured by second homes and investment properties, mortgages with certain risk characteristics, cash window sales, and eligible mortgage acquisitions. Can you clarify what those limits are and if those are limits that Sellers need to follow?

There are two acquisition limits placed on Freddie Mac (not on the Sellers). These are:

- **7% second home/investment property limit**: A 7% limit on mortgages secured by second homes and investment properties measured by unpaid principal balance (UPB) over the preceding 52-week period. See Section 5.14(b) of the PSPA.

- **6% purchase / 3% refinance layered risk limit**: A 6% layered risk limit in purchase transactions and 3% layered risk limit in refinance transactions for loans that have 2 out of 3 of these risk characteristics measured by UPB over the preceding 52-week period. See Section 5.14(a) of the PSPA.
  - Combined LTV ratio over 90%
There are two acquisition limits that restrict what loans and in what manner we can purchase loans. These are:

- **$1.5 billion cash volume limit**: Section 5.12(c) of the PSPA imposes a $1.5 billion volume limit in loan sales via the cash window over a four-quarter period beginning on January 1, 2022 for all Sellers. Unlike the acquisition limits in Section 5.14 which are imposed on Freddie Mac, the cash volume limit is applied to the aggregate sales by all affiliated Sellers.

- **Single-Family mortgage eligibility program**: In Section 5.14(c), the PSPA requires Freddie Mac to implement a program by July 1, 2021, reasonably designed to ensure that single-family loans we acquire meet the requirements listed under Section 5.14(c) or an approved FHFA exception. This includes, but is not limited to, requirements related to qualified mortgages (QM).

**Q4: [05.19.21]** Does Freddie Mac require Sellers to adopt the same limits when selling loans to Freddie Mac? If so, why have we not seen those limits spelled out in a Single-Family Seller/Servicer Guide (Guide) Bulletin?

The 7% second home/investment property limit and the 6%/3% purchase / 3% refinance layered risk limits outlined in PSPA Section 5.14 are acquisition limits placed on Freddie Mac, not our Sellers. To help us manage to those limits, we have been implementing various solutions (e.g., updates to our selling requirements, technology solutions, issuing or updating terms of business for certain clients.)

We are exploring all alternatives, gathering client feedback, monitoring our purchases and working closely with FHFA to determine the actions we may take to ensure our continued compliance with the PSPA.

The $1.5 billion volume limit in loan sales via the cash window requires us to adopt requirements to apply the cash volume limit to the aggregate sales of each group of affiliated Sellers over a 4-quarter measurement period beginning on January 1, 2022. Loan Selling Advisor® will be updated before January 1, 2022, to limit a Seller’s funding capacity to align with the PSPA requirements.

**Q5: [05.19.21]** How are Freddie Mac acquisition limits measured? How do these limits impact your selling and eligibility requirements?

The 7% limit on second homes and investment properties and the 6%/3% layered risk limits on purchases/refinances (2 of 3 risk characteristics) are measured on a 52-week lookback period and by funded UPB. This means loans we purchase today are already counting towards this limit.

This also means that as periods from the past 52 weeks roll off, loan concentrations may shift based on current purchase volumes and market developments that may influence volume. This is the basic premise and the data we are acting on when we explore our compliance solutions.

- **For the 7% limit on second homes and investment properties.**
  - We have been applying immediate measures that are more meaningful and impactful to ensure our continued compliance.
  - We will continuously monitor and track our acquisitions of these loans and adjust our measures as necessary.
  - If we become concerned that we could breach this limit, we may need to deploy immediate tactics to address this.

- **For the 2 out of 3 loan-level layered risk characteristics.** We have determined that we are not at risk of breaching the applicable limits following our 52-week lookback review and our current acquisition trends. We are not considering any immediate solutioning for this PSPA limit at this time. We continue to track our purchase and refinance loan acquisitions against the risk characteristics identified in the PSPA and will act accordingly if we deem it necessary to do so.

Please continue to monitor the online FAQs as the PDF and the HTML FAQs may be updated on an ongoing basis.
• **For the $1.5 billion cash volume limit.** We anticipate publishing a Guide Bulletin and related Guide updates in late third-quarter or early fourth quarter of this year applying the $1.5 billion cash volume limit to all Sellers and their affiliated Sellers with an effective date of January 1, 2022.

• **For the Single-Family mortgage eligibility program.** We anticipate publishing a Bulletin shortly and a subsequent Bulletin implementing future updates to our Guide to implement this program, in particular, with respect to requirements related to the revised QM rule to be effective for loan acquisitions with related loan applications on or after July 1, 2021 and all loans purchased on and after September 1, 2021.

Q6: [05.19.21] Given that the 7% second home/investment property and layered risk limits are imposed on Freddie Mac, are we also required to follow these limits? If we deliver beyond those limits, are we subject to remedies in the Guide?

These acquisition limits are for Freddie Mac to manage. We have been taking various actions including updating our Guide requirements and other eligibility requirements.

You must continue to comply with the requirements in your Purchase Documents, including those outlined in the Guide or Guide Bulletins related to the PSPA.

As standard practice, loans delivered and subsequently found to be ineligible per your Purchase Documents will be subject to the remedies outlined in the Guide, including, but not limited to, repurchase.

Q7: [NEW 07.08.21] Once Freddie Mac Refi PossibleSM mortgages are eligible for delivery to Freddie Mac, will they count toward the 3% refinance limit identified in 5.14(a) of the PSPA?

A: Any loan we purchase, including a Refi Possible mortgage, will count towards the limit if the loan has at least 2 out of the 3 risk characteristics identified in Section 5.14 (a) of the PSPA. We are tracking our refinance loan acquisitions and we are not at risk of breaching the 3% limit at this time. Should we need to take new measures in the future to ensure our compliance with this limit, we will consider client impacts and provide clients with advance information prior to implementation of those measures. We remain committed to expanding credit responsibly where it is needed, while balancing the need to meet our regulatory and contractual obligations.

Q8. [05.19.21] Does Freddie Mac have a way of helping us track our sale of mortgages that are identified in the PSPA?

**ECO®** now generates a PSPA report updated daily that will enable clients to monitor their deliveries against the PSPA requirements imposed on Freddie Mac. The PSPA report reflects deliveries of second homes investment property mortgages and purchase and refinance loans with the layered risks. Reporting on the cash purchase volume will soon follow. The PSPA report will be displayed on the **ECO Purchase Summary** page.

Sellers are responsible for determining compliance with or exemptions from the Revised QM Rule, which takes effect for loans with application dates on or after July 1, 2021, or loans with settlement dates on or after September 1, 2021. Freddie Mac does not make these determinations through its systems and reports.

Reminder: **Uniform Data Closi**ng **Dataset:**

- If a loan is subject to the Ability to Repay (ATR) rule and its related QM requirements, Sellers must provide the value of “General” in UCD Form Field ID # 3.027.
- If a loan is not subject to the ATR rule and its related QM requirements, Sellers must provide the value of “Exempt” in UCD Form Field ID # 3.027.

Q9. [05.19.21] How can we access the ECO tool?

ECO is available through **Access Manager**, our self-service system that facilitates access to most Single-Family sourcing and servicing tools and applications.

Q10. [05.19.21] Where can we find more information about Freddie Mac’s activities related to PSPA?

*Please continue to monitor the online FAQs as the PDF and the HTML FAQs may be updated on an ongoing basis.*
Please visit our [PSPA Resource Center](#) for valuable resources and the latest updates related to our compliance with the PSPA.