

“Let’s QC” Webinar Series – Community Lending

Defect Trends, Credit Events and Affordable Seconds®

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Speakers: George Karinshak, Kelly Marrocco,
Susan Wrenn-Linderman and Mike Zeman

May 20, 2021

Session Housekeeping

Before we begin today's session let's quickly review a few **housekeeping items** and **engagement tools**.

Muted Lines. All lines have been muted upon entry and will remain on mute to prevent interference.

Recording. This session is being recorded and will be available on the QC Webpage. If you have any objections, please disconnect now.

Questions. Please enter your questions directly into the Q&A box in the bottom right corner of your screen.

Technical Issues. Please use the raise hand icon to request assistance.

Survey. Please participate in the short survey at the end of the call.

LET'S

QC



Welcome!

2021 Q2 “Let’s QC” Webinar –
Community Lending Series

Goal of Series



01 Provide training and guidance

02 Allow transparency and insight into our quality control loan review process

03 Give you useful information to incorporate into your underwriting and QC process

Defect Trends, Credit Events and Affordable Seconds[®]



Topic 1:

Defect Trending

- Top 10 Overall
- Quarter over Quarter
- Second Home and Investment Properties



Topic 2:

Adverse Credit Events

- Scenario 1 – Mortgages Included in Bankruptcies
- Scenario 2 – Evaluating a Borrower's Credit for Manual Underwriting



Topic 3:

Affordable Seconds[®]

- Policy Overview
- Delivery Requirements

Topic 1 – Defect Trending

- Top 10 Overall
- Quarter over Quarter
- Second Home and Investment Properties






Top 10 Defects Overall

of Defects in Q1 2021 increased from 366 to 448.

Category	Defect	# of Loans	vs. Prior Quarter
1. Legal / Insurance	Tax/Ins missing or insufficient	↑ 123	95
2. Collateral	Appraisal flexibility violation	↑ 76	44
3. Liabilities	Liability doc missing or insufficient	55	54
4. Assets	Insufficient funds – docs missing	↑ 50	25
5. Income	Income calculated incorrectly	↑ 42	30

Top 10 Defects Overall

of Defects in Q1 2021 increased from 366 to 448.

Category	Defect	# of Loans	vs. Prior Quarter
6. Income	Income docs missing	 41	42
7. Income	COVID-19 temporary income violation	 40	13
8. Liabilities	Docs to exclude debts missing or insufficient	 18	13
9. Credit	Bankruptcy docs missing or insufficient	 14	10
10. Liabilities	Undisclosed non-mortgage debt	 11	8

Key Takeaways

01

COVID-19 temporary appraisal flexibility violations are still a concern

03

Uptick in missing source of funds to close

02

Income calculation and missing documentation remain elevated

04

Collateral defects outside of COVID-19 temporary guideline violations remain low

Defect Trending – Changes in Defect Rates

Q4 2020 vs Q1 2021

Defect Category	Change in rate Quarter over Quarter
Income, including COVID-19 temp requirements	4% increase Wage Earner (57 to 59) 145% increase for Self Employed (22 to 54)
Bankruptcy documentation	100% drop in Second Homes / Investment Properties (2 to 0) 75% increase for Owner Occupied (8 to 14)
COVID-19 temp income requirements	57% increase in Cash-Out Refinances (7 to 11) 350% for No-Cash Out (4 to 14) and 450% for Purchases (2 to 11)
Liability docs missing or insufficient	17% decrease in Wage Earner and Self-Employed (52 to 43) 500% increase from Other Sources of income (2 to 12)

Key Takeaways

01

Remain Vigilant – Defects can exist and shift among many categories

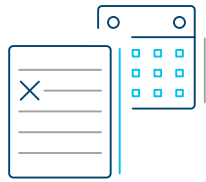
02

COVID-19 temporary requirements are still in effect

03

Income and Liability defects remain elevated

Defects for Second Homes and Investment Properties



Taxes and insurance documents missing or insufficient



Liability documents missing or insufficient



Income docs missing or insufficient



Questions?

Topic 2 – Adverse Credit Events

Loan Scenario 1 – Mortgages Included in Bankruptcies

Loan Scenario

- **Purpose:** Purchase
- **Occupancy:** Owner-Occupied
- **Property:** Single-Family Dwelling
- **Loan-To-Value:** 80%
- **Debt To Income:** 30%
- **Loan Product Advisor Risk Class:** Caution
- **Adverse Credit:** Credit report reflects a prior Chapter 7 bankruptcy



- Bankruptcy/Significant derogatory appears on credit report
- Analysis of credit history is recommended
- Delinquency reported on accounts
- Number of inquiries-high risk combined w/other factors
- High overall utilization of revolving credit adds risk
- For mortgages no verified on credit report, direct verification of payment history is required

Credit Analysis

- Review of the credit report revealed a bankruptcy was filed in 12/16 and discharged in 5/17.
- The Note date for the subject loan is 10/1/2020.
- A mortgage tradeline was reflected with history reporting through 12/16 that included the following verbiage:
 “Bankruptcy Chapter 7; Real Estate Mortgage; Bankruptcy Discharged”
- File included sufficient documentation and rationale from the lender to support extenuating circumstances existed, which led to the bankruptcy.

<u>LENDER</u> 1234XXXXXX	Opened 01/14	Reported 12/16	High balance 90,000	Reviewed 36 mos	30 0	60 0	90 0	Pastdue 0	Payment BANKRUPTCY	Balance 0
	Last active 12/16	*EFX *XPN *TUC	High limit ...	(M8) Mortgage						
	BANKRUPTCY CHAPTER 7; REAL ESTATE MORTGAGE; BANKRUPTCY DISCHARGED									

Credit Analysis (continued)



- Further analysis of the credit report reflected 8 tradelines that were currently open and active comprised of the following:
 - Auto loan paid as agreed for 36 months
 - Two student loans paid as agreed with > 24 month history
 - 5 revolving accounts, all paid as agreed with > 12 month history
- All re-established credit has been paid as agreed.

Guide Section 5202.5(a)(i)

5202.5: Adverse or derogatory credit information

(a) Evaluating adverse or derogatory credit information

i. Handling significant adverse or derogatory information caused by extenuating circumstances for Manually Underwritten Mortgages

Significant Derogatory Event	Recovery Time Periods for Reestablishment of Credit with Extenuating Circumstances	Additional Requirements
Bankruptcy (all bankruptcy actions)	24 months from the discharge or dismissal date	Whenever a Borrower has had a bankruptcy within the last seven years, the Mortgage file must also contain: <ul style="list-style-type: none">• Copies of the bankruptcy petition, schedule of debts and discharge or dismissal• Evidence to indicate that all debts not satisfied by the bankruptcy have been paid or are being paid• Any other evidence necessary to support the Seller's determination that the Borrower has reestablished and maintained an acceptable credit reputation

- Guide Section 5202.5(a)(i) confirms that additional documentation is required.
- The file did not include the Bankruptcy Papers as required. This documentation is required per the Guide and is further needed to determine what occurred with the mortgage that the credit report indicated was discharged through the Bankruptcy.
- In this case Freddie Mac had to issue a repurchase due to the insufficient documentation and inability to determine that the credit reputation was acceptable.

**excerpt from Guide Section 5202.5*

Appeal



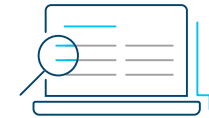
- On appeal the lender provided the Bankruptcy Papers as required.



- The papers included the Statement of Intention that reflected the mortgage from the credit report and the property that it was secured by.



- The Statement of Intention further reflected that the borrower intended to retain the property and enter into a Reaffirmation Agreement.



- A public record printout was included confirming that the property was still owned by the borrower.

Final Decision

- In this case the bankruptcy papers alone are not sufficient to establish an acceptable credit reputation for the borrower.
- The appeal documentation verified the disposition of the property; however, there is still additional documentation required. Guide Section 5202.5 also requires evidence to indicate that all debts not satisfied by the bankruptcy have been paid or are being paid and this documentation has not been provided.
- Due to the insufficient documentation the repurchase would remain outstanding.

Key Takeaways

01

A mortgage debt reported as being included or discharged in a bankruptcy on the credit report does not prove that the debt(s) was discharged. The discharge must be verified with the bankruptcy papers.

02

Verification of the property disposition alone may not be sufficient. Additional pay history documentation may also be required.

03

When a significant derogatory event is identified, be sure to reference Guide Section 5202.5.



Questions?

Topic 2 – Adverse Credit Events

**Loan Scenario 2 – Evaluating a Borrower’s Credit for
Manual Underwriting**

Guide Section 5202.3

5202.3: Evaluating Borrower credit reputation for Manually Underwritten Mortgages

The Seller must review the credit reports and direct verifications and thoroughly evaluate the Borrower's credit reputation in accordance with the requirements set forth in this section and document in the Mortgage file the Seller's conclusion the reputation is acceptable. The Seller must determine that each Borrower individually, and that all Borrowers collectively, have acceptable credit reputations. The acceptable credit reputation of one Borrower cannot be used to offset the unacceptable credit reputation of another.

**excerpt from Guide Section 5202.3*

Loan Product Advisor® Feedback & Guide Reference

Loan Product Advisor Full Feedback Certificate

Evaluation Summary

- PURCHASE ELIGIBILITY: ELIGIBLE
- RISK CLASS: CAUTION
- COLLATERAL R&W* RELIEF: ELIGIBLE
- ASSET R&W* RELIEF: NOT ELIGIBLE

Loan Data

Feedback Summary 36

EMPLOYMENT AND INCOME	ASSETS AND RESERVES	CREDIT AND LIABILITIES	PROPERTY AND APPRAISAL	GENERAL MESSAGES	MORTGAGE INSURANCE & FEES
7	10	13	4	2	0
RESULTS	RESULTS	RESULTS	RESULTS	RESULTS	RESULTS

Credit & Liabilities

CODE	MESSAGES
SW	Delinquency/derogatory on mortgage trade adds risk.
44	Analysis of credit history is recommended.
64	Mortgage delinquency appears on the credit report.
CS	Number of accounts with delinquency
CJ	Balances to credit limits too high on revolving accounts
CM	Time since delinquency is too recent or unknown
K3	Serious delinquency
5M	Credit report for WINTER CYRIAQUE reflects at least 1 creditor inquiry within the previous 90 days. If additional credit was granted, obtain verification of debt and include the payment in the monthly debt ratio.
A6	Ratio Warranty: Required to determine if the borrower's primary housing expense-to-income and total obligation-to-income ratios meet Freddie Mac requirements.
1D	For mortgages not verified on credit report, direct verification of payment history is required.
NA	The following debt(s) was submitted as paid off and/or excluded and is therefore omitted from the debt-to-income (DTI) ratio; include evidence to support omission in the mortgage file: Creditor: WFHM, Acct: ***8012,





Loan Product Advisor Feedback & Guide Reference

5202.5: Adverse or derogatory credit information

(a) Evaluating adverse or derogatory credit information

Adverse credit information in and of itself does not mean the Borrower's credit reputation is unacceptable. When there is adverse or derogatory information in the Borrower's credit history, the Seller must determine whether the derogatory information is significant.

**excerpt from Guide Section 5202.5*

Credit & Liabilities	
CODE	MESSAGES
SW	Delinquency/derogatory on mortgage trade adds risk. 
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NA	The following debt(s) was submitted as paid off and/or excluded and is therefore omitted from the debt-to-income (DTI) ratio; include evidence to support omission in the mortgage file: Creditor: WFHM, Acct: ***8012,

Red Flag #1

Credit Report

Request New Tradeline											Display Trended Data	
E C O A	W H O S E	CREDITOR	DATE REPORTED	DATE OPENED	HIGH CREDIT OR LIMIT	BALANCE	PAST DUE	MO REV	30	60	90+	STATUS
			DLA	ACCT TYPE	TERMS	SOURCE						
						01/20	10/05 06/17	\$420000 MTG	\$567738 480 \$2758	\$84058	80	7

Late Dates: 1/20-120, 12/19-120, 11/19-120, 10/19-120, 9/19-120, 8/19-120, 7/19-120, 6/19-120, 5/19-120, 4/19-120, 3/19-120, 2/19-120, 1/19-120, 12/18-120, 11/18-120, 10/18-120, 9/18-120, 8/18-120, 7/18-120, 6/18-120, 5/18-120, 4/18-120, 3/18-120, 2/18-120, 1/18-120, 12/17-120, 11/17-120, 10/17-120, 9/17-90, 8/17-60, 7/17-30, 6/17-30, 5/17-30, 4/17-30, 3/17-30, 2/17-30, 12/16-60, 11/16-30, 8/16-120, 7/16-120, 6/16-120, 5/16-120, 4/16-120, 3/16-120, 1/16-120

DISPUTE RESOLVED - CUSTOMER DISAGREES; CONVENTIONAL REAL ESTATE MORTGAGE; FANNIE MAE ACCOUNT; CONSUMER DISPUTES AFTER RESOLUTION

Property Search

		MIN Information
123 Street		Inactive MOM First Lien Reg Date: 04/05/2016 Note Amount: \$320,512.00 Note Date: 04/05/2016 Owner Occupied: Yes
Originating Organization		1002849 - Franklin First Financial Ltd dba Franklin First Mtg Bankers
Primary Borrower		

Red Flag #2

Loan Application

Borrower		III. BORROWER	
Borrower's Name (include Jr. or Sr. if applicable)			
Social Security Number	Home Phone (incl. area code)	DOB (mm/dd/yyyy)	Yrs. School
			16
<input checked="" type="checkbox"/> Married <input type="checkbox"/> Unmarried (include single, divorced, widowed)		Dependents (not listed by Co-Borrower)	
<input type="checkbox"/> Separated		no.	ages
		0	
Present Address (street, city, state, ZIP)		<input checked="" type="checkbox"/> Own <input type="checkbox"/> Rent	No. Yrs.
123 Street			3Y 0M
Mailing Address, if different from Present Address			
<i>If residing at present address for less than two years, complete the follow</i>			

Schedule of Real Estate Owned (if additional properties are owned, use continuation sheet.)							
Property Address (enter S if sold, PS if pending sale or R if rental being held for income)	Type of Property	Present Market Value	Amount of Mortgages & Liens	Gross Rental Income	Mortgage Payments	Insurance, Maintenance, Taxes & Misc.	Net Rental Income
	SFR	\$	\$ 300,858.00	\$	\$ 2,849.00	\$ 0.00	\$
Totals		\$	\$ 300,858.00	\$	\$ 2,849.00	\$	\$
List any additional names under which credit has previously been received and indicate appropriate creditor name(s) and account number(s):							
Alternate Name		Creditor Name		Account Number			
VII. DETAILS OF TRANSACTION				VIII. DECLARATIONS			
a. Purchase Price	\$	If you answer "Yes" to any questions a through i, please use continuation sheet for explanation.		Borrower		Co-Borrower	
b. Alterations, improvements, repairs				Yes	No	Yes	No
c. Land (if acquired separately)				<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Refinance (incl. debts to be paid off)	300,858.00			<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Estimated prepaid items	6,147.15			<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Estimated closing costs	10,600.11			<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. PMI, MIP, Funding Fee				<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h. Discount (if Borrower will pay)	2,490.00			<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i. Total costs (add items a through h)	320,005.26						
j. Subordinate financing							
k. Borrower's closing costs paid by Seller							

Repurchase

GENERAL ELIGIBILITY REQUIREMENTS

The general requirements for a Manually Underwritten Mortgage (MUM) were not met pursuant to Freddie Mac Guidelines outlined in Chapter 5202.

For Manually Underwritten Mortgages, the Seller's evaluation of the Borrower's credit reputation must be based on the entire credit history documented in the Mortgage file.

The Borrower has not established an acceptable credit reputation.

When using FICO scores with at least two reason codes related to nonpayment of obligations, the Seller must presume the derogatory information is significant and the Seller must document the extenuating circumstances or conclude that the difficulties were due to financial mismanagement.

The following derogatory information is considered significant:

- *Delinquency/derogatory on mortgage trade adds risk
- *Mortgage delinquency appears on credit report
- *Number of accounts with delinquency
- *Time since delinquency is too recent or unknown
- *Serious delinquency

The overall credit reputation of the Borrower as stipulated in Guide Sections 5202.1 through 5202.3 were not met.

The Seller's conclusion that the Borrower's creditworthiness had been established was not provided.

The subject loan is not eligible for sale to Freddie Mac.

Appeal

SEPARATION AND SETTLEMENT AGREEMENT

Between
Husband
and
Wife

Husband shall order a Judgment and Lien search on the marital residence at his cost upon the signing of this agreement. If any liens or judgments which are joint obligations on said premises other than the mortgages with _____ are disclosed each party shall be equally responsible for the cost, if any, to satisfy said liens or judgments. Any violation or lien in the husband’s or wife’s name alone shall be the responsibility of the party to whom it was issued, for example parking violations shall be the responsibility of the party who it was issued against. **Wife vacated the premises and shall not be liable for any judgments or liens after August 1, 2012, except if it was the result of wife’s actions.**

Guide Section 5202.5

Borrower met the requirements of Guide Section 5202.5. The account reflecting the derogatory credit was not the borrower’s responsibility and therefore not included in overall risk of loan.

- The mortgage on the borrower's previous marital residence was 120 days delinquent as of 1/2016
- Wife was relieved liability of the marital residence as of August 2012 per the Divorce Settlement statement.

Click the hyperlink to view the full section and all the requirements from our Digital Guide:



[Guide Section 5202.5: Adverse or derogatory credit information](#)

Key Takeaways

01

Review the Loan Product Advisor Credit Messaging

02

Review the credit requirements outlined in Guide Section 5202

03

Always investigate red flags



Questions?

Topic 3 – Affordable Seconds[®]

- Sources of Affordable Seconds[®]
- Requirements for Participation in Appreciation
- Mortgages with Affordable Seconds that are used to subsidize the purchase price of resale restricted properties
- Affordable Seconds[®] Checklist
- Investor Feature Identifiers (IFIs)

Sources of Affordable Seconds

The source of the Affordable Second must not be the property seller or another interested party to the transaction **EXCEPT** as provided in [Guide Sections 4204.2\(a\)\(i\)\(B\) Special requirements for Seller-funded Affordable Seconds](#) and [4204.2\(a\)\(i\)\(C\) Special requirements for Mortgages secured by properties subject to income-based resale restrictions](#)



Seller-Funded Affordable Second

Seller requirements:

- Depository institution
- Programs that have been established to support Community Reinvestment Act (CRA) mandates
- Must not participate in appreciation (equity sharing)



Seller-Funded Affordable Second

Affordable Second

- Must not be funded through the first lien mortgage transaction
- May be forgivable or repayable
- May be used toward the minimum down payment requirement

**Additional requirements in Guide Section 4204.2 for Affordable Seconds*

First Lien Mortgage

- Must be a purchase of a 1-unit primary residence
- Must be Home Possible® mortgage
- Must be a retail mortgage



Another Source of an Affordable Second

The source of the Affordable Second must not be the property seller or another interested party to the transaction **EXCEPT** as provided in [Guide Sections 4204.2\(a\)\(i\)\(B\) Special requirements for Seller-funded Affordable Seconds](#) and [4204.2\(a\)\(i\)\(C\) Special requirements for Mortgages secured by properties subject to income-based resale restrictions](#)

ACCEPTABLE SOURCE OF AN AFFORDABLE SECOND: If the property seller is a non-profit or government agency and is selling a property with income-based resale restrictions



Affordable Seconds from the Property Seller

This is permitted in two circumstances for income-based resale restricted properties:

- The property seller may be a government agency or a non-profit entity that acts on behalf of the government agency.
- The property seller may be a non-profit entity not affiliated with a government agency. An example of this could be a Habitat for Humanity chapter.

But remember that these require Freddie Mac's written approval.



Delivery Instructions

Investor Feature Identifiers (IFIs) are used to identify the source of the Affordable Second

The following IFI's were introduced in March of 2020

- **IFI J07** – Affordable Second and the source is from a non-profit not affiliated with a government agency
- **IFI J54** – Affordable Second and the source is from the Seller (Seller-funded Affordable Second)



Participation in Appreciation (equity sharing)

An Agency typically is one of the following:

- A municipality which includes any duly authorized authority or agency or the federal, state, local or municipal government
- A non-profit community or religious organization, other than a credit union
- The borrower's employer
- A regional Federal Home Loan Bank under one of its affordable housing programs

Added the term [subsidy provider](#)

- A party who can share in the appreciation

For-profit entities may not participate in appreciation



Flexibility for Subsidy Providers

- The terms of the Affordable Second may permit the agency or subsidy provider a share of appreciation exceeding the percentage of the Affordable Second if all of the following requirements are met.

Example:

If you have a 90% first lien mortgage and a 10% Affordable Second

- The **percentage** of the Affordable Second is **10%**
- Therefore the **equity share to the subsidy provider is at 10%**



Guide Section 4204.2

Cannot exceed the percentage of the Affordable Second unless:

- The agency or subsidy provider must not charge interest on the Affordable Second
 - The agency's share of appreciation must not exceed 75% unless the Affordable Second provider is a subsidy provider or program administrator managing an income-based resale restricted program and the Seller confirms that:
 - All of the special requirement for mortgages secured by properties subject to income-based resale restrictions in Guide Section 4406.2 are met
- AND -**
- The subsidy provider or program administrator has processes in place to allow the borrower to receive a share of the proceeds of subsequent sales in instances where the subsidized resale price of the property increases at resale.

**highlighted portions are new in the Guide*



Participation in Appreciation

Requirements that protect the borrower's investment in the property

The terms of the Affordable Second must allow the Borrower to recover all of the following before the Agency or subsidy provider is able to share in the appreciation.

- The down payment paid from borrower funds
- Customary costs incurred by the borrower for selling the property
- The payments of principal of the first lien mortgage
- Costs for improvements to the property that were allowed by the agency or under the agency's program (this was moved to requirements for subsidy providers)
- Note that for-profit entities may not participate in appreciation



How Affordable Seconds are Used to Subsidize the Property's Sales Price

Market Value - Resale Restricted Price = Subsidy Amount

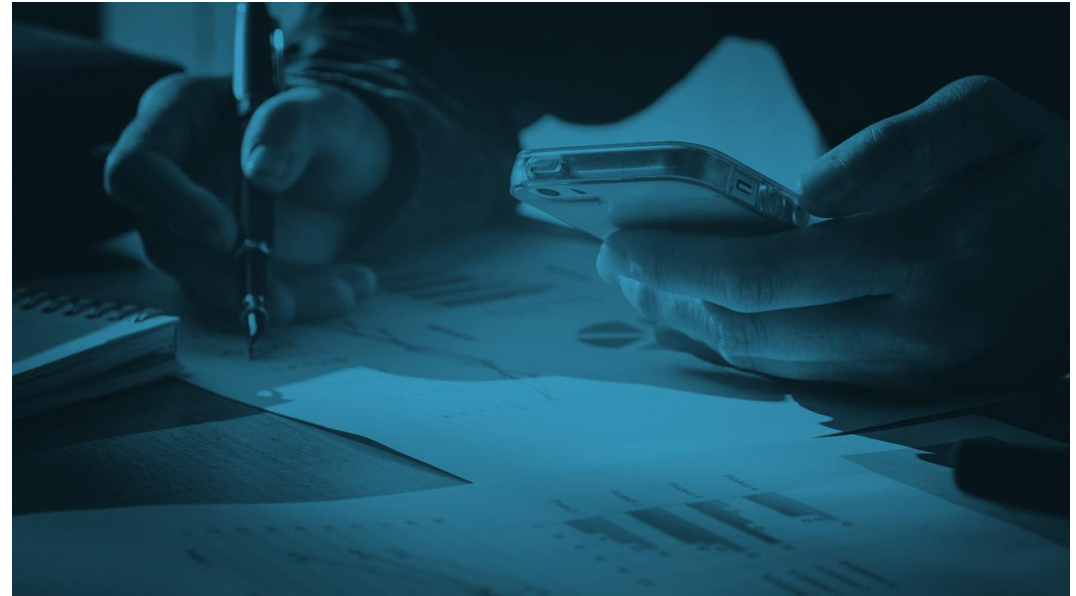
Example:

$\$300,000 - \$200,000 = \$100,000$

\$300,000 is the market sale price

\$200,000 is the restricted price

\$100,000 is the subsidy amount and the Affordable Second amount

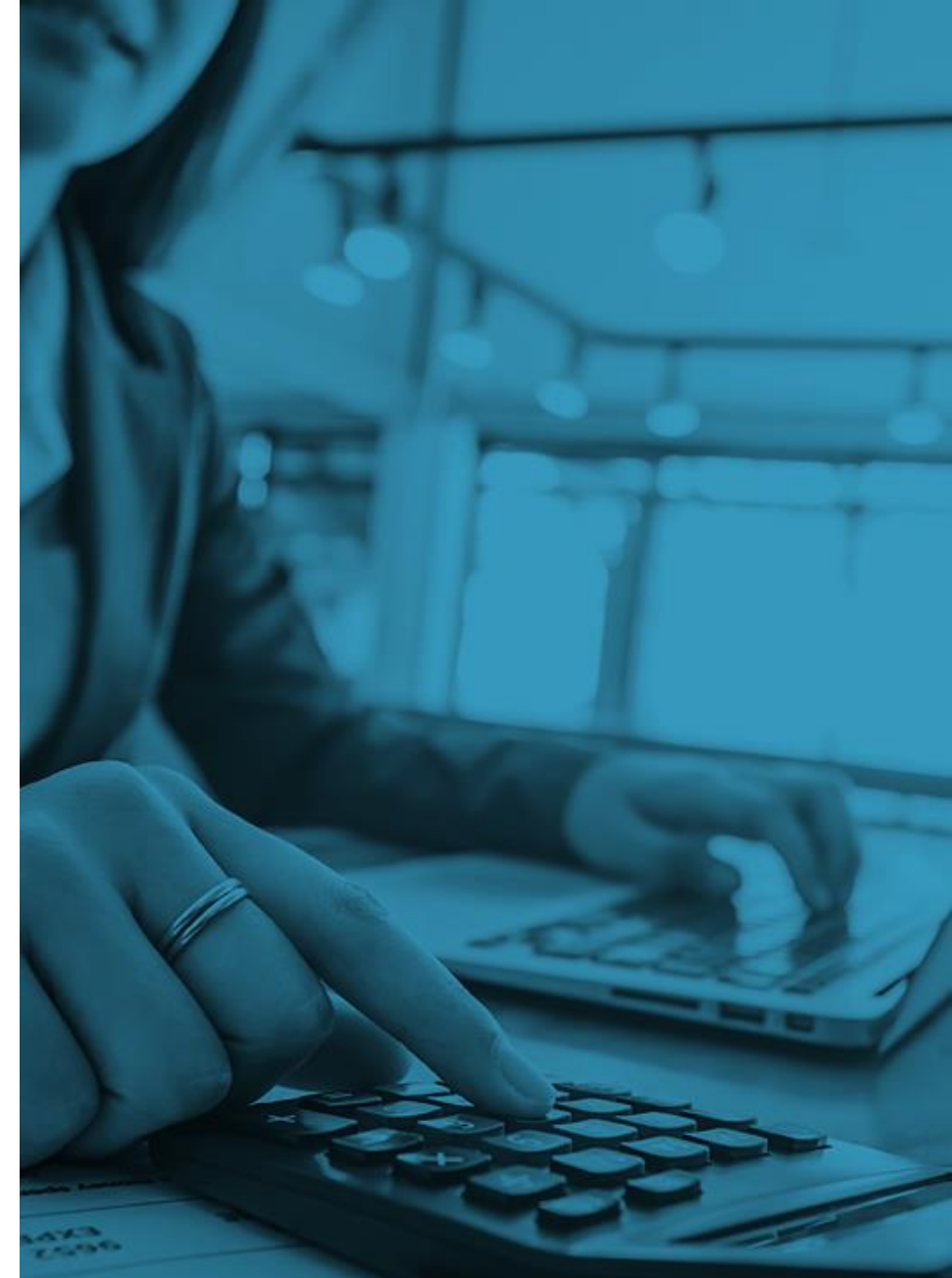


Affordable Second as a Subsidy

The typical terms of this type of Affordable Second

- No payments or deferred payments
- Entire balance may be forgiven at some specified point in time

May not restrict Freddie Mac's sale or transfer of a property once Freddie Mac has acquired title to the property as an Real Estate Owned (REO).



Affordable Seconds Checklist

Freddie Mac
Single-Family

Affordable Seconds® Checklist

Expand access to credit for your qualified borrowers with Affordable Seconds®. Use the checklist below to help you determine if your secondary financing meets Freddie Mac's requirements for Affordable Seconds.

If all of the statements below are true and the secondary financing otherwise meets Freddie Mac's requirements in the *Freddie Mac Single-Family Seller/Servicer Guide (Guide)*, the related first lien mortgage may be eligible for delivery if the first lien mortgage satisfies Freddie Mac's eligibility criteria and underwriting requirements. This checklist does not apply to Affordable Seconds used to subsidize the sales price of a resale restricted property. Refer to Guide Sections 4204.2 and 4406.2 for those requirements.

For complete requirements and steps on how to underwrite a first lien mortgage with an Affordable Second, refer to Guide Sections 4204.1 and 4204.2.

Checklist – Check off the true statements.

Source of Secondary Financing

- The source is an Agency, typically a duly authorized authority or agency of the federal, state, local or municipal government; a nonprofit community or religious organization other than a credit union; the borrower's employer; or a regional Federal Home Loan Bank under one of its affordable housing programs.
- The source is not the property seller or another interested party to the transaction unless it meets the special requirements in the box below.

Seller-Funded Affordable Seconds - Special Requirements

The Seller

- Is a depository institution.
- Has an established Affordable Second program that supports the Community Reinvestment Act (CRA) mandates.
- Does not participate in the appreciation of the Mortgaged Premises.

Checklist continues on back

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The information in this document is not a replacement or substitute for information found in the Single-Family Seller/Servicer Guide and/or the terms of your Master Agreement and/or Master Commitment. Publication number 1012 | November 2019

Checklist – Check off the true statements. *Continued from the front*

The Affordable Second

- Is not funded in any way through the mortgage transaction, including differential pricing in rate, discount points, or fees for individual loans.
- May be forgivable or repayable.
- May be used toward the minimum down payment requirement.

The First Lien Mortgage

- Is a purchase transaction mortgage secured by a 1-unit Primary Residence only.
- Is a Home Possible® mortgage submitted to Loan Product Advisor® and receives a risk classification of Accept.
- Is a Retail Mortgage.

- For a mortgage secured by a 1-unit property, the total loan-to-value (TLTV) ratio for the first lien and the secondary financing does not exceed 95%. For Affordable Seconds, the maximum TLTV ratio is 105% when the first lien mortgage is a Home Possible or Home One® mortgage secured by a 1-unit property.
- The proceeds from the secondary financing will be used for down payment assistance and/or payment of closing costs.
- The secondary financing will not result in a priority lien.
- The interest rate on the secondary financing is not more than 2 percentage points higher than the rate of the first lien mortgage.
- The terms of the secondary financing do not require a balloon payment before the maturity or payment in full of the first lien mortgage.
- The secondary financing is not a Home Equity Line of Credit.
- Interest accruals when added to the principal do not increase the TLTV ratio beyond the maximum TLTV ratio allowed for the first lien mortgage at any time during the term of the first lien mortgage.

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Checklist – Check off the true statements. *Continued from the front*

- If the terms of the secondary financing so permit, an Agency or subsidy provider may share in the appreciation of the Mortgaged Premises. For-profit entities may not participate in the appreciation.
- If the terms of the secondary financing permit the Agency or subsidy provider to share in the appreciation of the Mortgaged Premises, at the time of origination of the Affordable Second, the Agency's or subsidy provider's share of appreciation, as a percentage, does not exceed the principal amount of the Affordable Second divided by value unless it meets Freddie Mac's requirements in [Section 4204.2 \(a\) \(vi\)](#).

More Information

Refer to Guide Bulletin 2019-22, Guide Section updates effective March 1, 2020, Freddie Mac Guide Section 4204.2, Special Requirements for Affordable Seconds, Affordable Lending Sources: sf.freddiemac.com/homepossible sf.freddiemac.com/affordableseconds

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Link to checklist – https://sf.freddiemac.com/content/assets/resources/pdf/fact-sheets/affordable_seconds_guidelines_factsheet.pdf.

Key Takeaways

01

New sources of Affordable Seconds

- Seller-funded Affordable Second
- Affordable Second funded by property seller - government agency or non-profit
- New IFIs

03

Mortgages with Affordable Seconds that are used to subsidize the purchase price of resale restricted properties

02

Revised requirements for participation in appreciation

- Does not restrict the share of appreciation to the subsidy provider if certain requirements are met
- More affordable housing programs will be eligible with the revised requirements

04

Affordable Seconds checklist - revised with a link in the Guide



Topic 3 – Affordable Seconds[®]

- Loan Product Advisor[®]
- Delivery Requirements

Determine the Type of Secondary Financing

- **What are the terms of the secondary financing?**
- **Is this an Affordable Second?**
 - If so, does it meet the requirements outlined in Guide Section 4204.2?
- **Does the Affordable Second require a payment before the due date of the 61st monthly payment?**
 - The answer will determine how you will enter the Affordable Second in Loan Product Advisor



Affordable Second and Delivery

(Loan Product Advisor version 5.0.06 and higher)

If NO repayment is due within the first 5 years (the payment is “deferred”):

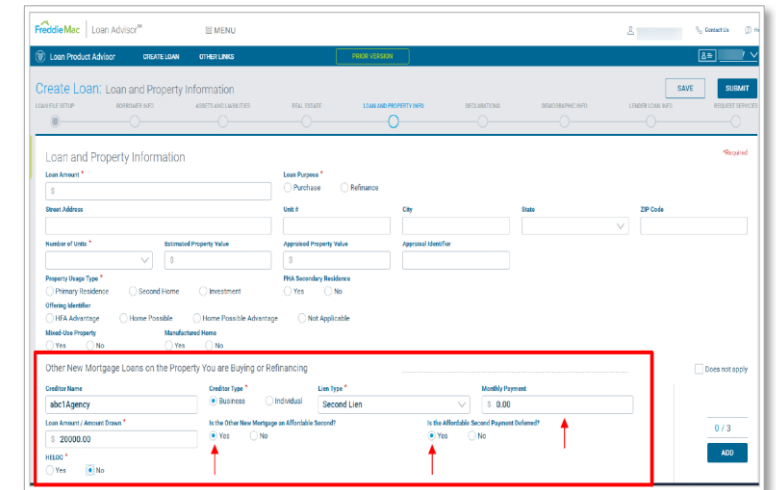
- The Seller must enter the Affordable Seconds terms in the “Other New Mortgage Loans on the Property You are Buying or Refinancing” section, selecting the following:
 - Monthly payment = \$0
 - “Yes” for “Is the Other New Mortgage an Affordable Second?”
 - “Yes” for “Is the Affordable Second Payment Deferred?”

The Seller must enter the ULDD Data Point “true” for “Affordable Loan Indicator”; however, the IFI Code that is required in v4.8.01 and lower is NOT required.



Affordable Second and Delivery (Loan Product Advisor version 5.0.06 and higher)

If the Payment on the Affordable Second is deferred:
(NO repayment is due within the First 5 Years)



Other New Mortgage Loans on the Property You are Buying or Refinancing

Creditor Name abc1Agency	Creditor Type * <input checked="" type="radio"/> Business <input type="radio"/> Individual	Lien Type * Second Lien	Monthly Payment \$ 0.00
Loan Amount / Amount Drawn * \$ 20000.00	Is the Other New Mortgage an Affordable Second? <input checked="" type="radio"/> Yes <input type="radio"/> No	Is the Affordable Second Payment Deferred? <input checked="" type="radio"/> Yes <input type="radio"/> No	
HELOC * <input type="radio"/> Yes <input checked="" type="radio"/> No			



Affordable Second and Delivery

(Loan Product Advisor version 5.0.06 and higher)

If the payment on the Affordable Second is **NOT** deferred:

- The Seller must enter the Affordable Second terms in the [Other New Mortgage Loans on the Property You are Buying or Refinancing](#) section, selecting the following:
 - **Monthly payment = the required monthly payment on the Affordable Second**
 - **“Yes” for “Is the Other New Mortgage an Affordable Second?”**
 - **“No” for “Is the Affordable Second Payment Deferred?”**

The Seller must enter the ULDD Data Point **“true”** for **“Affordable Loan Indicator”**; however, the IFI Code that is required in LPA v4.8.01 and lower is NOT required



Affordable Second and Delivery (Loan Product Advisor version 5.0.06 and higher)

IF the payment on the Affordable Second is **NOT deferred**:

Other New Mortgage Loans on the Property You are Buying or Refinancing Does not apply

Creditor Name <input type="text" value="Best Bank"/>	Creditor Type * <input type="radio"/> Business <input checked="" type="radio"/> Individual	Lien Type * <input type="text" value="Second Lien"/>	Monthly Payment ↓ <input type="text" value="\$ 100.00"/>	<hr/> 0 / 3 <hr/> <input type="button" value="ADD"/>
Loan Amount / Amount Drawn * <input type="text" value="\$ 1000.00"/>	Is the Other New Mortgage an Affordable Second? <input checked="" type="radio"/> Yes <input type="radio"/> No	Is the Affordable Second Payment Deferred? <input type="radio"/> Yes <input checked="" type="radio"/> No		
HELOC * <input type="radio"/> Yes <input checked="" type="radio"/> No	↑	↑		



Key Takeaways

01

Two different ways an Affordable Seconds can be entered into Loan Product Advisor

03

Another way if there are no deferred payments

02

One way if the Affordable Seconds has deferred payments

04

Make sure the loan has been entered correctly to ensure the Affordable Second is treated properly



Questions?

Additional Resources



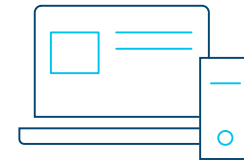
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“Let’s QC” Quarterly Webinar Series – Community Lending

Thank You