



## **MFM Bulletin: 003-2023**

**Date:** January 11, 2023

**Subject:** Freddie Mac Selling Guide changes

Freddie Mac has recently published a series of Bulletins announcing changes to the Freddie Mac Selling Guide. Please see the following Freddie Mac Bulletins below: 2022-25, 2022-23, 2022-20, 2022-18. **All changes are effective immediately unless otherwise noted.**

### **Freddie Mac Bulletin 2022-25**

#### **DEFINITION OF "RELATED PERSONS"**

Where applicable, expanded definition of "Related Person" to include unrelated individuals with close, family-like ties to the Borrower.

#### **ESTATES AND TRUSTS OF RELATED PERSONS AS ELIGIBLE DONORS OF GIFT FUNDS AND GIFT OF EQUITY**

In addition to expanding the definition of "Related Person," as described above, Freddie has provided further flexibility by adding a trust established by a Related Person and an estate of a Related Person as eligible donors of gift funds and gifts of equity.

The gift letter must be signed by the trustee or the authorized representative of the estate and indicate the gift funds or gift of equity were provided by a trust established by a Related Person or an estate of a Related Person and include the mailing address and telephone number of the trustee or authorized representative, as applicable.

#### **EXCLUSION OF PROPERTY-RELATED CONTINGENT EXPENSES FROM THE DTI RATIO**

Permits exclusion of property-related expenses (e.g., taxes, insurance, homeowners association dues, etc.) from the DTI ratio when documentation in the Mortgage file confirms that a party other than the Borrower has been making timely payments for the most recent 12 months and the party making the payments is not an interested party to the subject real estate or Mortgage transaction.

#### **CASH-OUT REFINANCE: SEASONING REQUIREMENTS FOR THE FIRST MORTGAGE BEING REFINANCED**

***Effective for Mortgages with loan application on or after January 15, 2023, and delivered to Freddie Mac on or after March 7, 2023.***

When proceeds of a cash-out refinance Mortgage are used to pay off a First Lien Mortgage, the First Lien Mortgage being refinanced must be seasoned for at least 12 months from the note date on current loan to the new closing date. The seasoning requirement does not apply when:

- The cash-out refinance Mortgage is a special purpose cash-out refinance Mortgage that meets the requirements in Freddie Mac Selling Guide 4301.6, or;
- The First Lien Mortgage being refinanced is a Home Equity Line of Credit (HELOC)



#### **EXCLUSION OF UNSECURED ASSIGNED DEBTS FROM THE DTI RATIO**

Removed the requirement that the debt must be secured in order to be excluded from the monthly DTI ratio if the obligation to make the payments on the debt has been assigned to another party by a documented court order, such as a divorce decree.

#### **Freddie Mac Bulletin 2022-23**

##### **CREDIT CARD REWARD POINTS AS A SOURCE OF FUNDS**

Credit card reward points are an eligible source of funds when the points are redeemed for cash. The following documentation is required:

- Evidence of the Borrower's ownership of the reward points and their cash value, and;
- Evidence the reward points are redeemed for cash prior to closing, which may include a direct transfer of the cash to the settlement or closing agent.

#### **Freddie Mac Bulletin 2022-20**

##### **EMPLOYMENT/INCOME CHARACTERISTICS: BORROWERS WITH BUSINESS OWNERSHIP INTEREST(S) LESS THAN 25%**

*Effective for Mortgages delivered to Freddie Mac on or after February 5, 2023.*

Currently, Freddie Mac's selling guide does not specify requirements for Borrowers who own less than 25% of the business and receive ordinary income or guaranteed payments reported on an IRS Schedule K-1. The new requirements and guidance for these situations is as follows:

The file must include:

- Schedule K-1(s) for the most recent two calendar years
- **Document verifying the year-to-date business or guaranteed payment income (such as profit and loss statement, documentation of distributions received, etc.) except when this information is not attainable, and we are able to document and justify the income stability without this information.**

The Borrower must not have an ownership interest of 25% or more in **any** business. A two-year history of receipt is required. However, in certain instances, a shorter history of no less than 12 months may be considered stable if the Seller provides a written analysis and sufficient supporting documentation.

Historical cash distributions must be reasonably consistent with the ordinary business income. Verification of current existence of business is required.



## Freddie Mac Bulletin 2022-18

### EMPLOYMENT/INCOME CHARACTERISTICS: INCOME REPORTED ON IRS FORM 1099 FOR SERVICES PERFORMED

*Effective immediately*

Income received on IRS Form 1099 for services performed and reported on IRS Schedule C may now be treated as non-self-employed income under certain limited circumstances. This pay structure is often referred to in terms such as “contractor” or “contingent worker.”

The Mortgage file must include:

- IRS Form 1099(s) for services performed for most recent two calendar years.
- Tax return (pages one and two and applicable schedules) for the most recent year (Updated).
- YTD income documentation from source of income such as YTD earning statements or evidence of payments for services performed.

A two-year history of receipt is required. However, in certain instances, a shorter history of no less than 12 months documented on the tax returns may be considered stable.

IRS Schedule C must evidence the following (NEW):

- Gross receipts must be equal to the total amount(s) reported on IRS Form 1099(s)
- Total expenses must be  $\leq$  5% of gross receipts or sales after deducting non-cash expenses (e.g., depreciation)
- Cost of goods sold must = \$0
- Full 12-month history of 1099 income and reported expenses

### GIFT FUNDS AND GIFT LETTER REQUIREMENTS

Graduation gifts are now allowed from a related or unrelated person(s) as an eligible source of funds for a purchase of a Primary Residence. The following documentation is required:

- Evidence of graduation from an educational institution (e.g., diploma or transcripts) that supports the date of graduation.
- A verification of the gift funds in the Borrower’s depository account. Gift funds must be deposited within 90 days of the date of graduation.

In addition, Freddie has updated requirements to allow gift letters to state the maximum amount of the gift funds or gift of equity, or the actual amount. This change will eliminate the need to obtain a corrected gift letter, should the actual amount of the gift be less than the amount stated on the gift letter. Updated gift information must still be resubmitted to LPA.