Freddie Mac Updates Alter DTI Calculations, Multi Property Requirements

By: Jann Swanson | Thu, Jul 16 2015, 10:16 AM

A number of selling updates to Freddie Mac's Single-Family Seller/Servicer Guide are slated to go into effect over the next several months. The largest number of updates concern credit and underwriting

The first of these changes effect the **calculation of debt payment-to-income ratios (DTI)** where a borrower is obligated by student loans. Effective for mortgages with settlement dates on or after August 1 the minimum payment that must be used in lieu of a verified monthly payment, i.e. when a loan is in forbearance or deferred, will drop to 1 percent from 2 percent of the outstanding loan balance. This could change the required imputed minimum payment on a 2014 graduate's average student loan balance of $33,000 from $660 a month to $330.

The new Seller letter will also allow the substitution of a percentage based payment on student loans, revolving and open-end accounts only when there is no verification of an actual required payment. Also, monthly payments can be excluded from the DTI calculation **if the borrower is self-employed** and the payment is made by his or her business.

In analyzing other real estate financed by a borrower who is applying for a mortgage for a **second home or investment property** the number off allowable other properties for which the borrower is financially obligated will be increased from four to six. The change will also remove the requirements that a borrower must have a two-year history of managing investment properties and that he/she maintain six months of rent loss insurance in order to use income from an investment property (whether the subject property or another) for qualifying purposes. These changes will be effective for settlement dates on or after October 26, 2015.

Another change involves mortgages with **abatements**. Loans with funds provided to a lender or third party by an interested party to pay or reimburse in whole or in part a certain number of the Borrower's Mortgage payments in excess of the Prepaids/Escrows are not eligible for sale to Freddie Mac. This is being revised to exclude payment of up to 12 months of homeowners' association dues by an interested party from definition as an abatement considering it instead as an interested party contribution subject to those requirements and other conditions.

Other changes include:

- Where gift funds are used for Borrower Funds or reserves a gift letter is still required, however for **settlement dates on or after August 1** that letter need no longer identify the mortgaged premises.
- When conducted verbal verifications of employment the borrowers employment status must be verified but not whether the borrower is employed or on leave.

The letter also extends the time for changes announced earlier to requirements for comparable sales for properties located in new subdivisions, Planned Unit Developments and new and recently converted condo projects and Updates the New Mexico and Kentucky Security instruments and the Texas Home Equity Affidavit Agreement.

The company also announced a change affecting loan origination companies in three states, Delaware, Maine, and Missouri. Those states **did not require** such companies to register and obtain identification numbers from the National Mortgage Loan System (NMLS) so Freddie Mac issued special delivery codes to those originations. All three states now require NMLS registration so effective August 24, 2015 use of the special delivery codes will be ended.

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