



## Bulletin 2020-5

# Selling Guidance Related to COVID-19

Issued 03/23/2020

TO: Freddie Mac Sellers

SUBJECT: SELLING GUIDANCE RELATED TO COVID-19

The coronavirus disease (COVID-19) is a rapidly evolving situation with significant economic implications and impacts to our Sellers and their Borrowers. In response to our Sellers' questions and concerns, this Bulletin provides:

- Temporary guidance related to our credit underwriting requirements
- Temporary guidance related to our property valuation requirements
- Expansion of our automated collateral evaluation eligibility
- An extension to the deadline for certain annual reporting requirements

This Bulletin also provides reminders regarding:

- Use of Electronic Records and Signatures
- Title insurance
- Seller/Servicer business continuity plan requirements and information about Freddie Mac's business continuity plan

We have been working closely with Fannie Mae under the guidance of the FHFA to introduce these temporary measures to help provide Sellers with the clarity and flexibility to continue to lend in a prudent and responsible manner. We are actively monitoring the developments and will continue to issue additional guidance as appropriate.

\_CREDIT UNDERWRITING

These temporary flexibilities are effective immediately for all Mortgages in process and remain in place for Mortgages with Application Received Dates on or before May 17, 2020.

## **Employed income – 10-day pre-closing verification**

To provide flexibility during the COVID-19 pandemic, the Seller may obtain the following documentation in lieu of obtaining one of the 10-day pre-closing verification (PCV) types permitted in Guide Section 5302.2(d):

- An e-mail directly from the employer's work e-mail address that identifies the name and title of the verifier and the Borrower's name and current employment status, or
- Year-to-date (YTD) paystub from the pay period that immediately precedes the Note Date, or
- An asset account statement evidencing the payroll deposit from the pay period that immediately precedes the Note Date

While the Guide permits obtaining the 10-day PCV after the Note Date but prior to delivery to Freddie Mac, Sellers are encouraged to confirm the Borrower's employment prior to the Note Date.

## **Continuance of income**

Given the current COVID-19 situation and its impact on the economy including Borrower employment and income, Freddie Mac recommends that Sellers practice additional due diligence to ensure that accurate Borrower information is obtained and that the Borrower's ability to repay the Mortgage is not negatively impacted. During these uncertain times, it is our goal to partner with our Sellers to help them ensure sustainable homeownership for the Borrower.

As an example of additional due diligence for a self-employed Borrower, Sellers are encouraged to attempt to verify that the Borrower's business is operational closer to the Note Date than permitted under the current Guide requirements (e.g., within 15 days instead of 120 days).

## **\_PROPERTY VALUATIONS – APPRAISAL FLEXIBILITIES**

**These temporary flexibilities are effective immediately for all Mortgages in process and remain in place for Mortgages with Application Received Dates on or before May 17, 2020.**

We understand that due to the COVID-19 pandemic there may be instances where a Seller is unable to obtain an interior inspection of the subject property. As a result, we are allowing temporary exceptions to our property eligibility and appraisal requirements.

Freddie Mac is revising its appraisal inspection and reporting requirements. As described in detail below, for certain Mortgages, when a Seller cannot obtain an appraisal with an interior inspection as a result of the COVID-19 pandemic, Freddie Mac will accept either an appraisal with an exterior-only inspection or a desktop appraisal (as described below) in lieu of the interior and exterior inspection appraisal required under Section 5601.5(a).

There may be instances where there is insufficient information about the property for an appraiser to complete an appraisal assignment with a desktop appraisal or an appraisal with an exterior-only inspection. In these instances, the Mortgage will not be eligible for sale to Freddie Mac until the appraiser has sufficient information to complete the desktop appraisal or an appraisal with an exterior-only inspection, or an appraisal with an interior and exterior inspection is obtained.

The following table provides appraisal requirements based on Mortgage purpose, loan-to-value (LTV) ratio, occupancy type and Mortgage ownership

<b>Permissible appraisal requirements</b>				
<b>Mortgage purpose</b>	<b>LTV ratio</b>	<b>Occupancy type</b>	<b>Ownership of Mortgage being refinanced</b>	<b>Permissible appraisals</b>
Purchase transaction*	Up to 97%	Primary Residence	N/A	Interior and exterior inspection appraisal, desktop appraisal or exterior-only appraisal
	≤85%	Second homes and Investment Properties	N/A	Interior and exterior inspection appraisal, desktop appraisal or exterior-only appraisal
	>85%	Second homes	N/A	Interior and exterior inspection appraisal
No cash-out refinance	As permitted in the Guide	All	Mortgage being refinanced owned by Freddie Mac	Interior and exterior inspection appraisal or exterior-only inspection
			Mortgage being refinanced not owned by Freddie Mac	Interior and exterior inspection appraisal
Cash-out refinance	As permitted in the Guide	All	Mortgage being refinanced owned or not owned by Freddie Mac	Interior and exterior inspection appraisal

\*These flexibilities are not permitted for Construction Conversion, Renovation or new construction properties.

Note: For all Mortgages with LTV ratios greater than 80%, we require mortgage insurance in accordance with Guide requirements. Sellers must consult with their mortgage insurance companies to confirm coverage for Mortgages using one of the temporary appraisal flexibilities.

To accommodate these flexibilities using existing appraisal forms, Freddie Mac and Fannie Mae have worked together to develop Scope of Work documents, which are provided as Attachment A to this Bulletin (see Download dropdown above) for desktop appraisals and Attachment B to this Bulletin (see Download button above) for appraisals with an exterior-only inspection. Each Scope of Work document includes modified language for scope of work, statement of assumptions and limiting conditions, and certifications to ensure the language in these sections supports the temporary exceptions.

#### *Appraisals with exterior-only inspections*

The table below provides the appraisal report form that must be used to complete an appraisal with an exterior-only inspection for each property type. Because there are not appropriate exterior-only appraisal report forms available for 2- to 4-unit properties and Manufactured Homes, we will accept an exterior-only appraisal scope of work completed using the applicable forms listed below.

<b>Property type</b>	<b>Acceptable appraisal form</b>
1-unit property, including a unit in a Planned Unit Development (PUD) or a Detached Condominium Unit	<u><a href="#">Guide Form 2055, Exterior-Only Inspection Residential Appraisal Report</a></u>
Attached Condominium Unit	<u><a href="#">Form 466, Exterior-Only Inspection Individual Condominium Unit Appraisal Report</a></u>
Cooperative Unit	Fannie Mae Form 2095, Exterior Only Individual Cooperative Interest Appraisal Report
2- to 4-unit property	<u><a href="#">Form 72, Small Residential Income Property Appraisal Report</a></u>
Manufactured Home	<u><a href="#">Form 70B, Manufactured Home Appraisal Report</a></u>

Mortgages with appraisals with exterior-only inspections will not receive the appraised value representation and warranty relief described in [Section 5601.9\(b\)](#).

### *Exhibits for exterior-only inspection appraisals*

Sellers are reminded that the following are required in connection with an appraisal with an exterior-only inspection:

- A street map that shows the location of the subject property and of all comparables that the appraiser used
- Clear, descriptive photographs (either in black and white or color) that show the front of the subject property, and that are appropriately identified. (Photographs must be originals that are produced either by photography or electronic imaging); and
- Any other data (as an attachment or addendum to the appraisal report form) that are necessary to provide an adequately supported opinion of market value

### *Desktop appraisals*

For purchase transaction Mortgages, Sellers are encouraged to obtain a desktop appraisal in lieu of an appraisal with an exterior-only inspection when an interior and exterior inspection is not available.

The minimum scope of work for a desktop appraisal does not include an inspection of the subject property or comparable sales. The appraiser relies on public records, multiple listing service (MLS) information or other third party data sources to identify the property characteristics.

When a desktop appraisal is obtained using [Form 70, Uniform Residential Appraisal Report](#), or [Form 465, Individual Condominium Unit Appraisal Report](#), and submitted to the Uniform Collateral Data Portal<sup>®</sup> (UCDP<sup>®</sup>), the appraisal will be assessed for valuation representation and warranty relief in Loan Collateral Advisor<sup>®</sup>. All appraisals with a risk score of 2.5 or less that meet the requirements in [Section 5601.9\(b\)](#) will receive valuation representation and warranty relief and Sellers will have the added risk management and efficiency benefit of being able to use Loan Collateral Advisor to aid in the appraisal review process.

The table below provides the appraisal report form that must be used to complete the desktop appraisal for each property type.

Property type	Acceptable appraisal form
1-unit property, including a unit in a Planned Unit Development (PUD) or a Detached Condominium Unit	<a href="#">Form 70, Uniform Residential Appraisal Report</a>

Condominium Unit	<u>Form 465, Individual Condominium Unit Appraisal Report</u>
Cooperative Unit	Fannie Mae Form 2090, Individual Cooperative Interest Appraisal Report
2- to 4-unit property	<u>Form 72, Small Residential Income Property Appraisal Report</u>
Manufactured Home	<u>Form 70B, Manufactured Home Appraisal Report</u>

### *Exhibits for desktop appraisals*

Each desktop appraisal must include the following exhibits:

- Photographs of the subject property. Freddie Mac recognizes it may be challenging in some instances to obtain photographs; however, it is expected that the appraiser utilize available means to obtain relevant pictures of the subject property.
- A location map indicating the location of the subject and comparables

### *Revisions to the scope of work, statements of assumptions and limiting conditions, and appraiser's certifications*

Freddie Mac recognizes that the existing appraisal report forms do not accommodate the revised scope of work, statement of assumptions and limiting conditions, and certifications for some of the scenarios presented. To accommodate the flexibilities announced in this Bulletin, Freddie Mac and Fannie Mae have jointly developed Scope of Work documents that include modified language to be used with desktop appraisals (see Attachment A via Download button above) and exterior-only appraisal reports (see Attachment B via Download button above). The Scope of Work documents include modified language for the scope of work, statement of assumptions and limiting conditions, and certifications. It is important to note, certification #10 has been removed in recognition that the appraiser may have relied on information from an interested party to the transaction (Borrower, realtor, property contact, etc.) and additional verification may not have been possible. Desktop appraisal and appraisal with an exterior-only inspection reports submitted in accordance with the flexibilities announced in this Bulletin must include the applicable Scope of Work documents.

### *Additional form instructions for appraisals*


For an appraisal with an exterior-only inspection or a desktop appraisal that is completed on a form for an interior and exterior inspection (e.g., Form 70), as permitted above, the appraisal report must include, in the “Map Reference” field, the corresponding text identifier that verifies the type of appraisal completed; specifically, “exterior” or “desktop”.

The following example shows the appropriate text in the Map Reference field for a desktop appraisal:

## Uniform Residential Appraisal Report File #

This summary appraisal report is to provide the lender/client with an accurate, and adequately supported, opinion of the market value of

	City	State
Owner of Public Record	County	
Tax Year	R.E. Taxes \$	
Map Reference	desktop	Census Tract
Owner <input type="checkbox"/> Tenant <input type="checkbox"/> Vacant <input type="checkbox"/>	Special Assessments \$	<input type="checkbox"/> PUD    HOA \$ <input type="checkbox"/> p
<input type="checkbox"/> Unimproved <input type="checkbox"/> Fee Simple <input type="checkbox"/> Leasehold <input type="checkbox"/> Other (describe)		



### *Identifying a Freddie Mac-owned Mortgage*

Sellers can determine whether the existing Mortgage is owned by Freddie Mac by referencing their own Servicing records or by accessing the Freddie Mac [Loan Look-Up Tool](#), provided the Borrower has authorized the Seller to obtain this information on its behalf.

### *Delivery requirements*

At this time, Sellers are not required to make any changes to the data they submit to Loan Selling Advisor<sup>®</sup> in connection with the flexibilities announced in this Bulletin. Freddie Mac will assess whether changes will be necessary and will notify Sellers if changes are required at a future date.

### *Completion reports*

Freddie Mac requires Form 442, Appraisal Update and/or Completion Report, to evidence completion when the appraisal report has been completed “subject to.” With the exception of CHOICERenovation<sup>SM</sup> and GreenCHOICE Mortgages<sup>SM</sup>, for Mortgages that require a completion report, but no completion report is available due to COVID-19 related issues, Freddie Mac will permit a signed letter from the Borrower confirming that the work was completed. Sellers must also provide further evidence of completion which may include photographs of the completed work, paid invoices indicating completion, occupancy permits, or other substantially similar documentation. All completion documentation must be retained in the Mortgage file.

### *CHOICERenovation and GreenCHOICE Mortgages*

The appraisal flexibilities announced in this Bulletin may not be used with CHOICERenovation Mortgages or GreenCHOICE Mortgages with appraisals subject to completion. For these Mortgages, Sellers must obtain an appraisal with an interior and exterior inspection as well as Form 442 when one is required. If a Seller is unable to obtain an appraisal with an interior and exterior inspection, then the Mortgage is not eligible for sale to Freddie Mac. Additional information concerning other requirements for CHOICERenovation Mortgages will be provided in a forthcoming Bulletin.

### AUTOMATED COLLATERAL EVALUATION

In order to reduce contact between appraisers, homeowners, and home purchasers, when eligible, Sellers are encouraged to accept appraisal waiver offers provided through Loan Product Advisor<sup>®</sup>. Sellers are encouraged to submit the Mortgage to Loan Product Advisor prior to ordering an appraisal to determine whether an appraisal waiver is available. Appraisal waivers are subject to the requirements in Section 5601.9(c).

Effective for new submissions and resubmissions to Loan Product Advisor<sup>®</sup> on and after March 29, 2020

We are expanding eligibility for automated collateral evaluation (ACE) appraisal waivers to include certain cash-out and “no cash-out” refinances as described in the table below. The Guide will be updated at a later date to reflect this change. We are continuing to monitor the impact of COVID-19 and will evaluate continuance of appraisal waiver flexibilities if the situation warrants such action.

	Cash-out refinances	"No cash-out" refinances
Property type	Maximum total LTV (TLTV) ratio	
Primary Residence	≤70%	≤90%



	<b>Cash-out refinances</b>	<b>"No cash-out" refinances</b>
Second home	≤60%	≤90%

## ANNUAL REPORTING DEADLINE EXTENSION

In light of the outbreak of COVID-19 and the challenges faced with meeting the March 31, 2020 annual reporting deadline, we are extending this deadline to April 30, 2020 for reporting the following:

- [Form 16SF, Annual Eligibility Certification Report](#) (see [Section 2101.10](#))
- Audited or reviewed financial statements, as required in [Section 2101.4](#)
- Annual Document Custodian Eligibility Certification (see Chapter 1 of the [Document Custodian Procedures Handbook](#))

## USE OF ELECTRONIC RECORDS AND SIGNATURES

Seller/Servicers may currently take full advantage of Electronic Records and Signatures in connection with their origination processes – both with Borrowers and with related third parties, as detailed in [Chapter 1401](#). This includes the use of Electronic real estate purchase and sale agreements, as well as Electronic initial and final disclosures often provided at closing.

Freddie Mac also permits Seller/Servicers to use Electronic Signatures and Records as part of the closing process, and, in many instances, to conduct Electronic closings in which even the Note is created and signed electronically (i.e., "eMortgage" closings), as detailed in [Chapter 1402](#). In order for eMortgages to be eligible for sale to Freddie Mac, there is a specific approval process the Seller/Servicer must follow, but in most instances such approvals are forthcoming within a week after Seller/Servicer integration with approved systems and the MERS® eRegistry.

## TITLE INSURANCE

We understand that land record recording offices are closed in many areas due to public health directives associated with COVID-19 and that such closures present challenges for Sellers to comply with title requirements in [Chapter 4702](#). We are working to address these challenges, but in the meantime, we want to remind Sellers that the 2006 ALTA Loan Policy or an equivalent title product, which we require to be delivered with every Mortgage, contains a "Covered Risk #14" that covers matters arising between closing and recordation of the Security Instrument. So long as there is no exception for this coverage under Schedule B of the policy, we will accept it.

## BUSINESS CONTINUITY PLANS

## **Seller/Servicer business continuity plan**

Freddie Mac expects Sellers and Servicers to maintain a business continuity plan in accordance with the requirements in [Section 1302.3](#). Seller and Servicer business continuity plans must support their ongoing ability to conduct business operations in the event of a disaster or other interruption to business operations and processes. We expect Sellers and Servicers to follow their business continuity plans during the COVID-19 pandemic.

In addition, we have been in communication with the Document Custodians at Bank of New York Mellon, our Designated Document Custodian, Wells Fargo, Deutsche Bank, US Bank and Bank of America and have verified their business continuity plans are in place. Sellers using other Document Custodians should contact them to inquire about their business continuity plans.

## **Freddie Mac's business continuity plan**

As the situation evolves, we want to reassure Sellers that, as we undertake our own corporate precautionary measures, we are open for business and continue to fulfill our mission.

We have business continuity plans in place to make sure Seller/Servicers continue to receive the service and support needed during these extraordinary times.

### **SYSTEM AND GUIDE UPDATES**

We are not updating Loan Product Advisor feedback messages or the Guide at this time to reflect any of the changes noted in this Bulletin.

### **ADDITIONAL RESOURCES**

We encourage Sellers to review the following resources:

- Our web page on Freddie Mac's response to [COVID-19](#)
- Our [Selling FAQs](#) Related to COVID-19
- The Center for Disease Control's web page on [COVID-19](#)
- The Appraisal Foundation's [Appraiser Qualifications and Standards Q&As](#)
- The Appraisal Institute's [Coronavirus-related Direction for Appraisers](#)
- National Association of Realtors [Coronavirus Guide for Realtors](#)

## 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,

Danny Gardner

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