

Chapter 4204: Secondary Financing and Other Financing Arrangements

4204.1: Mortgages with secondary financing (03/05/25)

This section contains information related to:

- [Requirements for all secondary financing](#)
- [Additional requirements for new secondary financing](#)
- [Additional requirements for existing secondary financing](#)
- [Credit Fees and other delivery instructions for Mortgages with secondary financing](#)

(a) Requirements for all secondary financing

Secondary financing means any financing that is subordinate in lien priority to the First Lien Mortgage. Freddie Mac will purchase First Lien Mortgages with secondary financing under the terms of the Purchase Documents and this section.

The terms of any secondary financing must be disclosed to the appraiser and to the MI. The secondary financing terms that must be disclosed include the Note Rate and the name of the institution or individual providing the financing. The Seller may not indicate a value needed to support the transaction, or provide to the appraiser any information about an expected loan-to-value (LTV) ratio.

Except as specifically stated in Section 4204.2 with respect to Affordable Seconds[®], the terms of secondary financing must not permit the provider or any other party to share in the appreciation of the Mortgaged Premises (equity sharing).

Secondary financing is not eligible for sale to Freddie Mac.

Note: For special requirements for Affordable Seconds, refer to Section 4204.2.

(b) Additional requirements for new secondary financing

Requirements for new secondary financing (i.e., the First Lien Mortgage and the secondary financing originated on the same day)	
Topic	Requirements
Amortization period	The amortization period for the secondary financing must run for at least five years after the Note Date, unless the secondary financing is fully amortizing or is a Home Equity Line of Credit (HELOC).
Call provision	The secondary financing must not contain a call provision that is exercisable within the first five years after the Note Date, unless the secondary financing is a HELOC.
Maturity date	The maturity date of the secondary financing must be at least five years after the Note Date, unless the secondary financing is fully amortizing or a HELOC.
Scheduled payments	The terms of the secondary financing must provide for regular monthly payments that cover at least the interest that accrues during the previous month.
Documentation requirements	<p>The Seller must include a copy of the following documentation in the Mortgage file:</p> <ul style="list-style-type: none">■ Note or other evidence of secondary financing terms■ Settlement/Closing Disclosure Statement or an alternative form required by law that evidences the fees and costs related to the secondary financing paid by the Borrower at closing■ For HELOCs, the HELOC agreement showing all fees and costs paid by the Borrower at closing, and the maximum permitted credit advance <p>Note: Refer to Section 4302.5 for special requirements for Refi Possible® Mortgages with new secondary financing.</p>
Additional requirements for Employer Assisted Homeownership (EAH) Benefit	<p>If the secondary financing is an EAH Benefit:</p> <ul style="list-style-type: none">■ The terms of the secondary financing must not require repayment in full unless:<ul style="list-style-type: none"><input type="checkbox"/> The Borrower terminates their employment for any reason, or<input type="checkbox"/> The employer terminates the Borrower's employment for any reason other than the Borrower's long-term disability,

	<p>elimination of the Borrower's position or a reduction-in-force</p> <ul style="list-style-type: none"> ■ The amount of the monthly payment may be excluded from the monthly housing expense-to-income ratio and the monthly debt payment-to-income ratio when: <ul style="list-style-type: none"> □ The monthly payments of principal and interest or interest only begin on or after the due date of the 61st monthly payment under the First Lien Mortgage, or □ Repayment of principal is due only upon sale or default
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(c) Additional requirements for existing secondary financing

Freddie Mac will purchase First Lien refinance Mortgages with existing secondary financing (including HELOCs) that is not paid off from the proceeds of the refinance Mortgage if:

- The Seller includes in the Mortgage file evidence of the subordination of all outstanding secondary financing, and
- The secondary financing has scheduled payments sufficient to meet the interest due

(d) Credit Fees and other delivery instructions for Mortgages with secondary financing

Refer to Exhibit 19, Credit Fees, for Credit Fees related to Mortgages with secondary financing. Credit Fees are paid in accordance with the Credit Fee provisions stated in Chapter 6303.

Note: Refer to Section 6302.34 for delivery instructions for Mortgages with secondary financing.

4204.2: Affordable Seconds® (06/04/25)

This section contains information related to:

- [Special requirements for Affordable Seconds®](#)
- [Special requirements for Affordable Seconds secured by properties subject to equity sharing agreements](#)
- [Special delivery instructions](#)

(a) Special requirements for Affordable Seconds®

Affordable Seconds must comply with the requirements of Section 4204.1(a) and the requirements of this section, regardless of whether the Affordable Second is originated simultaneously with the First Lien Mortgage (i.e., the First Lien Mortgage and the Affordable Second are originated on the same day) or is being subordinated to the First Lien Mortgage through a refinance transaction.

Note: A checklist for Affordable Seconds is available as an additional resource at <https://sf.freddiemac.com/docs/pdf/affordable-seconds-checklist.pdf>.

The special requirements in Section 4204.2(b) must be met if:

- The proceeds of an Affordable Second are used to subsidize the sales price of a property and, as a result, the property becomes subject to income-based resale restrictions, or
- An Affordable Second is secured by a property that is subject to an equity sharing agreement

Affordable Seconds secured by Manufactured Homes or CHOICEHomes® must meet the additional requirements in Sections 5703.5(c) and 5703.12(g).

Note: Refer to Section 4504.5 for special requirements for HeritageOne® Mortgages with Affordable Seconds.

(i) Funding source

The Affordable Second must not be funded in any way through the First Lien Mortgage transaction, including differential pricing in rate, discount points or fees for individual loans.

The Seller may not participate in an equity sharing agreement with respect to the Mortgaged Premises, unless the equity sharing agreement meets the requirements of Section 4204.2(b).

The terms and conditions of the Seller's secondary financing or financial assistance program must be made available by the Seller to Freddie Mac upon request.

(A) Non-Seller-funded Affordable Seconds

An Affordable Second must be provided by an Agency, a credit union or a community development financial institution (CDFI) pursuant to an established, ongoing, documented secondary financing or financial assistance program.

With respect to the subject Mortgage, an Agency or credit union must not:

- Be the Seller or have participated in any aspect of the Mortgage origination process, other than to assess the Borrower's ability to meet the requirements of the program and to fund the Affordable Second
- Be affiliated with, under contract to, or financed (directly or indirectly) by the Seller or by any party that participated in the Mortgage origination process such as the property seller, builder, developer or real estate agent

With respect to the subject Mortgage, a CDFI working with an Agency must:

- Be a CDFI that has received CDFI certification from the Treasury's CDFI Fund (a "Certified CDFI")
- Remain a Certified CDFI through the date the Mortgage is sold to Freddie Mac
- Not be the Seller

The Agency with which the CDFI is working may participate in the origination of the subject Mortgage.

The Agency may be affiliated with, under contract to or financed by the Certified CDFI if the Agency is a nonprofit entity and third-party originator that works with the Certified CDFI.

For these purposes, "affiliated with" means that the Agency and the Seller or other party are related to each other as a consequence of one entity directly or indirectly controlling the other party, being controlled by the other party or being under common control with that party.

The Affordable Second must not be funded by the property seller or another interested party to the transaction, except as provided in Section 4204.2(a)(i)(B) below.

The First Lien Mortgage must be:

- A fixed-rate Mortgage or an ARM with an initial fixed-rate period of five years or more,
- A purchase transaction or a "no cash-out" refinance, and
- Secured by a 1-4 unit Primary Residence

(B) Seller-funded Affordable Seconds

A Seller may be the source of an Affordable Second if the following requirements are

met:

- If the Seller is not a CDFI, the Seller must:
 - ☐ Be a depository institution
 - ☐ Have an Affordable Second program that supports its affordable lending and/or mission focused program(s), or a program designed to broadly support its Community Reinvestment Act (CRA) requirements
- If the Seller is a credit union that is not required by law to participate in the CRA, the credit union must have an Affordable Second program that supports its affordable lending and/or mission-focused program
- If the Seller is a CDFI, the Seller may be a non-depository institution if the established Affordable Second program supports affordable lending and the credit needs of prospective homebuyers in the Seller's market(s)
- The First Lien Mortgage must be:
 - ☐ A Home Possible® Mortgage
 - ☐ A fixed-rate Mortgage or an ARM with an initial fixed-rate period of five years or more
 - ☐ An Accept Mortgage
 - ☐ A purchase transaction Mortgage
 - ☐ Secured by a 1-unit Primary Residence, and
 - ☐ A Retail Mortgage

(ii) Maturity date

The terms of the Affordable Second must not require a balloon payment that becomes due before the maturity date or before payment in full of the First Lien Mortgage.

If the Affordable Second is an Employer Assisted Homeownership Benefit, the terms of the secondary financing must not require immediate repayment in full, except when:

- The Borrower terminates their employment for any reason, or
- The employer terminates the Borrower's employment for any reason other than the Borrower's long-term disability, elimination of the Borrower's position or a reduction in force

(iii) Scheduled payments

The Affordable Second may be forgivable or repayable. The interest rate of the Affordable Second must not be more than 2% higher than the interest rate of the First Lien Mortgage. Accrued interest that is added to principal may not at any time during the term of the First Lien Mortgage increase the total loan-to-value (TLTV) ratio beyond the maximum TLTV ratio allowed for the First Lien Mortgage.

If monthly payments on the Affordable Second are required and begin before the due date of the 61st monthly payment under the First Lien Mortgage, such monthly payments must be included in the Borrower's monthly housing expense-to-income ratio and monthly debt payment-to-income ratio.

If monthly payments on the Affordable Second begin on or after the due date of the 61st monthly payment under the First Lien Mortgage, or if repayment of the Affordable Second is due only upon sale or default, the amount of the Affordable Second monthly payment may be excluded from both ratios.

(iv) Financing structure

The Affordable Second must not be a Home Equity Line of Credit (HELOC).

(v) Documentation requirements

The Seller must retain in the Mortgage file the following documentation for the Affordable Second:

- A Note or other evidence of the terms of the Affordable Second
- The Settlement/Closing Disclosure Statement or an alternative form required by law that evidences the fees and costs related to the Affordable Second paid by the Borrower at closing
- For refinance transactions, evidence of the subordination of any existing Affordable Second

(vi) Affordable Seconds proceeds

Proceeds from the Affordable Second may be used toward the Down Payment or Closing Costs.

(b) Special requirements for Affordable Seconds secured by properties subject to equity sharing agreements

For-profit entities may not share in the appreciation of the Mortgaged Premises.

If the terms of an Affordable Second permit the Agency or subsidy provider to share in the appreciation of the Mortgaged Premises, the following requirements must be met:

- At the time of the origination of the Affordable Second, the share of appreciation to which the Agency or subsidy provider is entitled, expressed as a percentage, must not exceed the original principal amount of the Affordable Second divided by value as determined in accordance with Section 4203.1 (“the percentage of the Affordable Second”), except as stated in the next bullet.

Example: If the original principal amount of the Affordable Second is equal to 5% of value, the percentage of the Affordable Second is 5%, and the maximum share of appreciation the Agency or subsidy can receive is 5%.

- The share of appreciation to which the Agency or subsidy provider is entitled may exceed the percentage of the Affordable Second if the following requirements are met:
 - ❑ The Agency or subsidy provider must not charge interest on the Affordable Second
 - ❑ The share of appreciation must not exceed 75%, unless the Affordable Second provider is a subsidy provider or program administrator managing an income-based resale restriction program and the Seller confirms that:
 - The special requirements for Mortgages secured by properties subject to income-based resale restrictions in Chapter 4406 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 a subsequent sale of the property in instances where the resale sales price is higher than the subsidized sales price paid by the Borrower to purchase the property
- The terms of the Affordable Second must allow the Borrower to recover all the following before the Agency or subsidy provider is able to share in the appreciation:
 - ❑ Any portion of the Down Payment paid from Borrower funds
 - ❑ Customary costs incurred by the Borrower in selling the property
 - ❑ Payments of principal made under the First Lien Mortgage
- The right of the Agency or subsidy provider to share in the appreciation must be clearly subordinate to the First Lien Mortgage

(c) Special delivery instructions

Refer to Section 6302.34(b)(iv) for special delivery instructions for Mortgages with Affordable Seconds.

4204.3: Temporary subsidy buydown plans (03/05/25)

This section contains information related to:

- [Eligible buydown plans](#)
- [Ineligible Mortgages](#)
- [Special underwriting requirements for Mortgages with buydown plans](#)
- [Special documentation requirements for Mortgages with buydown plans](#)
- [Other requirements for Mortgages with buydown plans](#)
- [Delivery requirements for Mortgages with buydown plans](#)

(a) Eligible buydown plans

Temporary subsidy buydown plans (“buydown plans”) allow the Borrower to benefit from a temporary subsidy of the monthly payment of principal and interest.

Freddie Mac will purchase Limited Buydown Mortgages and Extended Buydown Mortgages pursuant to the terms of the Purchase Documents and this section.

For a **Limited Buydown Mortgage**, the initial interest rate must be:

- Temporarily reduced to no more than two percentage points below the Note Rate, and
- Increased by no more than one percentage point annually for no more than two years from the first scheduled payment date

For an **Extended Buydown Mortgage**, the initial interest rate must be:

- Temporarily reduced by more than two percentage points, but no more than three percentage points, below the Note Rate, and
- Increased by no more than one percentage point annually for more than two years, but no more than three years, from the first scheduled payment date

Home Possible® Mortgages and HeritageOne® Mortgages with buydown plans must meet the requirements of this section and Sections 4501.5 and 4504.5, respectively.

(b) Ineligible Mortgages

The following Mortgages are not eligible for buydown plans:

- 3/6 Month ARMs
- 5/6-Month ARMs secured by a 3-to 4-unit Primary Residence
- Cash-out refinance Mortgages
- “No cash-out” refinance Mortgages with a buydown plan funded with a lender credit derived from an increase in the interest rate
- Investment Property Mortgages
- Mortgages secured by Manufactured Homes

For any Mortgage with a buydown plan, the initial interest rate may not be more than three percentage points below the Note Rate. The buydown plan may not extend for more than three years after the first scheduled payment date.

(c) Special underwriting requirements for Mortgages with buydown plans

(i) Establishing housing and debt payment-to-income ratios

For **fixed-rate Mortgages**, the Seller must qualify the Borrower using monthly payments calculated at the Note Rate; however, the interest rate used to qualify the Borrower must be equal to or greater than the maximum interest rate that may apply during the first five years after the date on which the first regular periodic payment will be due, based on the loan amount over the term of the Mortgage.

For **ARMs**, the Seller must qualify the Borrower using monthly payments calculated in accordance with Section 4401.8.

(ii) Calculation of reserves

If reserves are required, the reserves must be calculated using the Note Rate.

(d) Special documentation requirements for Mortgages with buydown plans

The Mortgage file must contain:

- A copy of the executed buydown agreement, and
- The Seller's calculations of the total cost of the buydown plan, any interested party contributions and the annual percentage increase in the Borrower's monthly principal and interest payment during the buydown period.

The buydown **agreement** must provide that:

- The funds in the buydown account will be automatically applied each month to reduce the monthly payment of principal and interest;
- If, for any reason, the buydown funds are not available or the buydown funds are not paid, the Borrower will remain obligated to make the full monthly Mortgage payments required under the terms of the Note; and
- The Borrower will not assign, transfer or close the buydown account, or withdraw buydown funds, except as permitted by the terms of the buydown agreement

(e) Other requirements for Mortgages with buydown plans

(i) Custodial Account requirements for buydowns

Each buydown plan must be fully funded at origination. See Sections 8302.1(b) and 8302.4 for Custodial Account requirements for buydown plans.

(ii) Note and Security Instrument

No references to the buydown plan are permitted in the Note and Security Instruments. In no event may the buydown agreement change the terms of the Note or the Security Instrument.

The interest rate and monthly payments shown in the Note must be calculated without reference to the buydown plan.

(iii) Servicing requirements

If the Mortgage is foreclosed, the funds in the buydown account must be used to reduce the Mortgage debt. If the Mortgage is paid in full, the funds must be distributed in accordance with the buydown agreement. If the property is sold and the Mortgage is assumed by the purchaser, the funds may continue to be used to reduce the Mortgage payments in accordance with the original terms of the buydown agreement.

(f) Delivery requirements for Mortgages with buydown plans

Refer to Section 6302.18 for information on the delivery and pooling requirements for Mortgages with a buydown plan.

4204.4: Shared equity plans (05/07/25)

Freddie Mac does not approve individual shared equity plans; Freddie Mac will, however, consider purchasing Mortgages subject to individual shared equity plans if all of the following requirements are met:

- The Seller must obtain a Mortgage application, financial statements and credit reports for both the Owner-Occupant and the owner-investor
- All requirements in the Seller's Purchase Documents must be satisfied
- The shared equity plan must be a written agreement and the Seller must retain a copy in the Mortgage file

The Seller warrants the following:

- The Owner-Occupant made a Down Payment of at least 5% from Borrower personal funds as described in Section 5501.3(k)
- The owner-investor made an additional Down Payment of at least 5%
- Both the Owner-Occupant and the owner-investor signed the Note and Security Instrument
- Both the Owner-Occupant and the owner-investor are individuals (i.e., not corporations, limited partnerships, partnerships or trusts)
- No agreement requiring the sale of the property or the buyout of either owner's interest may be in effect during the first seven years after the Note Date
- Neither the property seller nor any other interested party to the transaction (such as a builder, a real estate broker or a real estate agent) is a party to the shared equity plan
- The Seller/Servicer is able to service the Mortgage according to the requirements of the Guide