Chapter 5102: Underwriting a Mortgage for Sale to Freddie Mac

5102.1: Underwriting a Mortgage (06/04/25)

(a) Three "Cs" of underwriting

Freddie Mac purchases Mortgages that meet standards and requirements included in the Guide. Freddie Mac requirements establish the information that must be analyzed and documented in the Mortgage file and, when applicable, warranted by the Seller for each Mortgage sold to Freddie Mac. The conclusion that a Mortgage is acceptable must be based on a determination that the Borrower is creditworthy (acceptable credit reputation and capacity) and the Mortgaged Premises (collateral) is adequate for the transaction. Credit reputation, capacity and collateral are often called the "three Cs" of underwriting. If one of these components is not acceptable or if there is excessive layering of risk across components, the Mortgage is not acceptable for sale to Freddie Mac.

Topics 5100 through 5500 include Freddie Mac's requirements for determining that the Borrower has acceptable credit reputation and capacity. These topics also cover layering of risk within the three components and how to determine excessive layering of risk.

In addition, other specific requirements related to Borrower credit reputation and Borrower capacity for special Mortgage products, offerings and special features are provided in the following locations:

Subject	**Location**
Second home Mortgages	Section 4201.12
Investment Property Mortgages	Section 4201.13
Secondary financing	Section 4204.1(b)
Temporary subsidy buydown plans	Section 4204.3(a)
Cash-out refinance Mortgages	Section 4301.5
ARMs	Section 4401.8(b)

Subject	Location
Seller-Owned Converted Mortgages and Seller-Owned Modified Mortgages	Sections 4402.1(b) and 4402.4(c)
Home Possible® Mortgages	Sections 4501.5 and 4501.6
Section 502 GRH Mortgages, Home Possible Mortgages with RHS Leveraged Seconds, Section 184 Native American Mortgages	Sections 4205.1(d), 4205.2(d) and 4205.3(c)
Underwriting Financed Permanent Buydown Mortgages	Section 4601.1(c)
Construction Conversion and Renovation Mortgages	Section 4602.8
Super conforming Mortgages	Chapter 4603
Unsecured loans	Sections 4501.7(c) and 5501.5(b)
Manufactured Homes	Sections 5703.7(a), 5703.7(b) and 5703.7(c)

See Topic 5600 for requirements regarding collateral.

(b) Underwriting information

All information used to evaluate the creditworthiness of the Borrower must be supported by documentation in the Mortgage file and must be obtained before, as applicable, the Note Date, or:

- For Construction Conversion and Renovation Mortgages, the Effective Date of Permanent Financing
- The modification date for Seller-Owned Modified Mortgages
- The Conversion Date for Seller-Owned Converted Mortgages

- The date of the applicable assumption agreement

(c) Number of Borrowers

Freddie Mac does not limit the number of Borrowers on the Mortgage or require that they be related. When multiple Borrowers are involved, the overall creditworthiness of each Borrower and all Borrowers collectively must be evaluated. The presence of more than one Borrower on the Mortgage helps to reduce risk.

5102.2: Methods of underwriting (05/11/25)

Borrower creditworthiness is established and excessive layering of risk is identified by one of the following methods:

(a) Submitting the Mortgage to Loan Product Advisor®

In many cases, the most effective way to assess Borrower creditworthiness and identify excessive layering of risk is to submit the Mortgage to Loan Product Advisor. Loan Product Advisor performs an overall assessment of the credit risks in the Mortgage file based on the information provided by the Seller and credit repositories and returns a Risk Class of either Accept or Caution on the Feedback Certificate.

See Chapter 5101 for additional details regarding Loan Product Advisor Mortgages.

(i) Borrower creditworthiness

A Seller is relieved of the requirements to represent and warrant that the Borrower is creditworthy if the requirements in Section 5101.8 are met.

(ii) Layering of risk

For all Accept Mortgages, Loan Product Advisor has determined that the layering of risk is acceptable. The Seller does not have to make this determination.

For all Caution Mortgages, the Seller must manually underwrite the Mortgages in accordance with Section 5102.2(b). For such Mortgages, there is a strong indication that the layering of risk is excessive and that acceptability and compliance with Freddie Mac requirements is unlikely.

(b) Manually underwriting the Mortgage

Mortgages for which the Seller evaluates the Mortgage data and makes the final determination regarding Borrower creditworthiness and excessive layering of risk are referred to as “Manually Underwritten Mortgages.” Manual underwriting is required for Loan Product Advisor Mortgages that received a Risk Class of Caution and the following Non-Loan Product Advisor Mortgages:

- Mortgages that were never submitted to Loan Product Advisor
- Mortgages that were submitted to Loan Product Advisor and received an assessment status of invalid, ineligible or incomplete

For Manually Underwritten Mortgages, the Seller's conclusion that Borrower credit reputation and capacity are acceptable must be based on the documentation included in the Mortgage file and described on Form 1077, Uniform Underwriting and Transmittal Summary, or another document in the Mortgage file.

(i) Borrower creditworthiness

For Manually Underwritten Mortgages, the Seller must manually underwrite Borrower creditworthiness as required in Topics 5100 through 5500, in order to determine that the Borrower is creditworthy. The Seller must confirm that the Borrower has the minimum Indicator Score, if applicable, as indicated in Exhibit 25, Mortgages with Risk Class and/or Minimum Indicator Score Requirements.

Another part of determining the Borrower's creditworthiness is evaluating the Borrower's capacity to repay the Mortgage and other monthly obligations.

The Seller must determine capacity by analyzing file documentation of the following factors:

- Stable monthly income
  - The Freddie Mac Income Calculator can be used in the assessment of a Borrower's stable monthly income and may indicate eligibility for relief from enforcement of certain representations and warranties related to the Borrower's income. When eligible, the income representation and warranty relief is for the calculated amount reflected on the Freddie Mac Income Calculator Certificate
  - For employed income using paystub(s) and W-2 form(s), see Section 5303.4, and for self-employed income, see Section 5304.2
- Monthly housing expense-to-income and monthly debt payment-to-income ratios
- Reserves and other liquid assets
- Information about how the Borrower has paid obligations in the past

The following characteristics specific to the Mortgage request may introduce an additional layer of risk that must be considered in evaluating capacity:

- The payoff of a junior lien from the proceeds of a refinance Mortgage
- A cash-out refinance Mortgage
- A Borrower with low reserves or no reserves

Based on its analysis, the Seller must provide a written, well-reasoned conclusion that the Borrower has the ability to meet current obligations, including the new Mortgage.

When multiple risk factors are present, more conservative underwriting must be undertaken to assess whether the Mortgage is acceptable. The Seller must document in the Mortgage file all offsetting factors and an overall conclusion that the Borrower has the ability to meet current obligations, including the new Mortgage.

For Non-Loan Product Advisor Mortgages, the Seller must presume the Borrower's capacity to repay is not acceptable when the following conditions exist:

- The transaction is a cash-out refinance, and
- The monthly debt payment-to-income ratio exceeds 42%, and
- Any Borrower has an Underwriting Score less than 700, and
- The total loan-to-value (TLTV) ratio is greater than 75%

A Borrower who increases debt and then periodically uses refinance or debt consolidation to reduce payments to a manageable level presents a higher degree of risk. The Seller should consider the Borrower's short- term and long- term ability to repay the Mortgage.

Freddie Mac requires that the Seller use objective criteria to evaluate the Borrower's creditworthiness and apply underwriting requirements and guidelines consistently to each Borrower, regardless of race, color, religion, national origin, age, sex, marital status, familial status or handicap. (See also Section 1301.2 for equal opportunity compliance requirements.)

When properly applied, Freddie Mac's underwriting requirements and guidelines will result in an evaluation of the Borrower's overall creditworthiness rather than an evaluation that focuses on minor exceptions to specific policies.

(ii) Layering of risk

For all Manually Underwritten Mortgages, the Seller is responsible for determining that the Mortgage is acceptable for sale to Freddie Mac by performing a detailed risk assessment. Multiple characteristics that increase risk without sufficient offsetting factors are likely to result in excessive risk layering. An offsetting factor does not need to be established for each risk factor if the overall risk is balanced.

The Seller's conclusion that a Mortgage has acceptable layering of risk must be documented in the file and at a minimum include:

- The identified risk factors
- The identified offsetting factors

- Documentation of the offsetting factors
- A written conclusion that the Mortgage does not exhibit excessive layering of risks

The Seller must determine that each component (credit reputation, capacity and collateral) is acceptable and that the overall layering of risk is acceptable. A conclusion that the Mortgage is acceptable cannot be reached by looking only at a single underwriting component or by placing the most weight on a single component, but may result from balancing the weakness of one component against the strength of the other two components. For example, a Borrower with weak capacity may be found to be acceptable because of strong collateral and credit reputation, but a Borrower with weak capacity and weak credit reputation is not acceptable because only collateral is strong.

Even when each of the three components is acceptable, layered risk may make a Mortgage unacceptable. Characteristics specific to the Mortgage request, such as the type of Mortgage product, the purpose of the Mortgage and the property type securing the Mortgage, add layers of risk that must be considered. For instance:

- An ARM adds an additional layer of capacity risk to a Mortgage request that would not be present in a fixed-rate Mortgage
- A cash-out refinance Mortgage adds an additional layer of capacity risk to a Mortgage request that would not be present in a "no cash-out" refinance Mortgage
- A Mortgage secured by a 2- to 4-unit property or a Condominium Unit adds a layer of collateral risk that would not be present in a Mortgage secured by a 1-unit detached dwelling

Whenever there is evidence of layered risk, more conservative underwriting must be undertaken to assess whether the Mortgage is acceptable for sale to Freddie Mac.

The following chart gives examples of loan characteristics that increase risk in a Mortgage. This list does not identify all possible risk factors or combinations of risks in a Mortgage file; nor is it intended to imply that an individual characteristic is unacceptable. But the chart does illustrate how layering of risk can be assessed. Read vertically, the chart shows how risk may be layered within a component; read horizontally, it shows how risk may be layered across components.

Credit Reputation	**Capacity**	**Collateral**
Adverse or derogatory credit information	A housing payment-to-income ratio in excess of guidelines	Low equity/Down Payment
High balances-to-limits	A debt payment-to-income ratio in excess of guidelines	Maximum financing

Credit Reputation	Capacity	Collateral
High overall utilization of revolving credit	A debt payment-to-income ratio in excess of guidelines	Cooperative Interest
Credit history of short duration	Cash-out refinance	2- to 4-unit property
A significant change in the Borrower's credit history	No reserves	Manufactured Home
Several inquiries	ARM	Condominium Unit

The Seller must determine that each component and the layering of risk across components are acceptable and document that conclusion in the Mortgage file.

(iii) Additional requirements for Caution Mortgages

For all Caution Mortgages, the Seller must manually underwrite the Mortgages and assess the Borrower's capacity to repay in accordance with Topics 5100 through 5500. For such Mortgages, there is a strong indication that the layering of risk is excessive and that acceptability and compliance with Freddie Mac requirements is unlikely.

When the Borrower has derogatory credit information on the credit report and at least two Feedback Messages are related to nonpayment of obligations, the Seller must presume the derogatory information is significant. The Seller must document the extenuating circumstances or conclude that the difficulties were due to financial mismanagement. See Section 5202.5 for more information about adverse or derogatory credit information.

What constitutes an acceptable credit reputation for Freddie Mac may vary according to the Mortgage product or type. The Seller may also be able to conclude that a Mortgage receiving a Caution Risk Class from Loan Product Advisor due to significant derogatory information has an acceptable credit reputation by documenting that the derogatory credit was attributable to extenuating circumstances. The requirements for establishing and documenting extenuating circumstances are set forth in Section 5202.5(a).

The Seller must analyze all risk factors present in the Mortgage file, including those identified in the Feedback Certificate, and document in the Mortgage file offsetting factors satisfactory to ensure that the Mortgage is acceptable. The offsets used must provide information not considered by Loan Product Advisor.

The Seller may not use information already considered by Loan Product Advisor to determine that the capacity is acceptable when the Feedback Certificate contains credit risk comments related to capacity. Factors not considered by Loan Product Advisor, such as the existence of verified income that is not included in the submission or energy savings from an energy-efficient property (see Section 5401.1), may be used by the Seller in making a case that capacity is acceptable.

The Seller cannot use the following factors as a basis for concluding that excessive layering of risk is not present because Loan Product Advisor has already considered them:

- TLTV or LTV ratio below the maximum allowable financing
- Qualifying monthly housing expense-to-income ratio or monthly debt payment-to-income ratio below Freddie Mac's guidelines
- The level of reserves
- The type of Mortgage product
- The type of property securing the Mortgage
- FICO® score, or
- Any combination of these factors

The Seller must presume the Borrower's capacity to repay is not acceptable when the Caution Mortgage is a cash-out refinance transaction and at least one credit risk comment related to the monthly debt payment-to-income ratio is returned on the Feedback Certificate.

5102.3: General requirements for verifying documents (05/07/25)

This section and Sections 5102.4, 5202.2(b), 5501.1, 5501.3, 5501.4 and Chapters 5302 through 5307 describe the requirements for verifications.

(a) Written verifications

Written verifications must meet all of the following requirements:

- Standard verification forms, such as the original verification of employment (VOE), verification of deposit (VOD), direct verification of Tradelines and Noncredit Payment References, including Mortgage payment history and verification of rental payments must be sent directly from the originator to the Borrower's employer, depository, creditor or landlord and, upon completion, returned directly from that entity to the originator

- Facsimile verification forms are acceptable if it is clear from the document that the information was sent by facsimile transmission directly from the source to the originator and are considered to be originals

- The original documents must not contain any alterations, erasures, correction fluid or correction tape

- The Seller's Mortgage file contains legible copies of the originals

- The copies must have been made by the originator or the applicant directly from the originals. Copies provided by any other source, such as the agent or builder, are not acceptable.

An electronic verification is a computer-generated document, accessed and printed from an Intranet or internet, that may be used to verify information such as the Borrower's employment, income or funds on deposit. This includes on-line bank statements, investment account statements, employment and/or income statements. The Borrower may provide the verification directly, or the originator may obtain it directly from the employer, depository or other institution.

The Borrower may provide verification of income, employment and assets in the form of a photocopy (including a picture of a document), facsimile or electronic verification. If the Borrower has provided electronic verifications, photocopies or facsimiles of other verifications, where the originator did not view and copy the original documents directly, the Seller is strongly encouraged to reverify the information through the quality control process.

(b) Documents of foreign origin and documents in a foreign language

All documents in the Mortgage file must be in English or translated into English in accordance with the requirements in Section 1201.9.

All foreign currency amounts must be converted to U.S. dollars. See Section 5501.3 for requirements when the source of funds needed for Closing Costs is, or otherwise originates from, asset(s) located outside the United States and its territories.

(c) Quality control reverification

As part of quality control review, Freddie Mac may require, in its discretion, that the Seller reverify the information contained in any Mortgage file submitted to Freddie Mac. Freddie

Mac reserves the right to independently reverify the information contained in any Mortgage file.

5102.4: Age of documentation (05/11/25)

(a) Age of verifications

Verifications of information used to evaluate the Borrower's creditworthiness must be dated no more than 120 calendar days before the Note Date[1]. Verifications subject to this requirement include verification of:

- Employment
- Income, including current receipt of income
- Source of funds
- Payment history

For an employed Borrower, the Seller must also confirm the Borrower's employment by obtaining a 10-day pre-closing verification in accordance with the requirements of Section 5302.2(d).

For a self-employed Borrower, the Seller must also obtain a verification of the current existence of the Borrower's business in accordance with the requirements of Section 5304.1(m).

[1]For the purposes of this section, all references to the Note Date refer, as applicable, to the:

- Effective Date of Permanent Financing for Construction Conversion and Renovation Mortgages
- Modification date for Seller-Owned Modified Mortgages
- Conversion Date for Seller-Owned Converted Mortgages
- Assumption agreement date for Mortgages that have been assumed

(b) Additional Guide sections related to verifications

For additional Guide sections related to verifications, refer to:

- Section 4402.1(c) for special documentation requirements for Seller-Owned Converted Mortgages and Seller-Owned Modified Mortgages
- Section 5302.2(a) for additional requirements for year-to-date paystubs
- Section 5302.4(b) for age of tax return requirements

(c) Age of documentation when data used for Loan Product Advisor® assessments

For Mortgages when data is used for the Loan Product Advisor assessment and a verification report is obtained, the expiration of the verification report reflected in feedback messaging on the Last Feedback Certificate complies with the requirement of Section 5102.4(a) above. Refer to the following table for the locations of the verification report requirements for Mortgages using automated assessment:

Verification report requirements	**Guide location**
Mortgages using automated income assessment using employed income data	Section 5303.4
Mortgages using automated asset assessment with Loan Product Advisor using account data	Section 5501.8
Mortgages using automated income assessment with Loan Product Advisor using account data for employed income	Section 5303.5
Mortgages using automated income assessment with Loan Product Advisor using account data for other income	Section 5305.2
Mortgages using automated employment assessment with Loan Product Advisor	Section 5302.6
Mortgages when rent payment history and Borrower’s cash flow are included in Loan Product Advisor’s assessment	Section 5201.1