Chapter 4701: Mortgage Insurance and Late Charges

4701.1: Mortgage insurance (06/04/25)

Mortgage insurance is required for each conventional Mortgage Freddie Mac purchases that has a loan-to-value (LTV) ratio of more than 80%. The LTV ratio is obtained by dividing the original loan amount by the value, as defined in Section 4203.1(a).

(a) Freddie Mac's mortgage insurance coverage options

Freddie Mac offers two mortgage insurance coverage options:

- Standard mortgage insurance
- Custom mortgage insurance

The standard and custom coverage levels apply as stated in the table below:

Transaction type	**Mortgage insurance coverage**	**LTV ratio**			
		> 80% & ≤85%	**> 85% & ≤90%**	**> 90% & ≤95%**	**>95% & ≤97%**
Fixed rate, term ≤ 20 years	**Standard**	6%	12%	25%	35%
	Custom*	N/A	N/A	16%	18%
■ **Fixed rate, term > 20 years** ■ **ARMs[1]; and** ■ **Manufactured Homes[1]**	**Standard**	12%	25%	30%	35%
	Custom*	6%	12%	16%	18%
Home Possible® Mortgages, fixed rate, term ≤ 20 years	**Standard**	6%	12%	25%	25%
	Custom*	N/A	N/A	16%	18%
	Standard	12%	25%	25%	25%

Transaction type	Mortgage insurance coverage	LTV ratio			
		> 80% & ≤85%	> 85% & ≤90%	> 90% & ≤95%	>95% & ≤97%
Home Possible Mortgages: ■ **Fixed rate, term > 20 years** ■ **ARMs[1]; and** ■ **Manufactured Homes[1]**	**Custom***	6%	12%	16%	18%

1 Except for Mortgages secured by a CHOICEHome® as described in Section 5703.12, Manufactured Homes and ARMs are limited to a maximum LTV ratio of 95%.

* If custom mortgage insurance is chosen, in addition to all other applicable Credit Fees, the custom mortgage insurance Credit Fee in Price in Exhibit 19 applies, including on Home Possible Mortgages.

(b) Custom mortgage insurance options

The custom mortgage insurance option provides an alternative to standard mortgage insurance coverage.

- Custom mortgage insurance is available only for Accept Mortgages
- Custom mortgage insurance may not be financed as part of the principal amount of the Mortgage

(c) Mortgaged Premises located in the State of New York

For Mortgaged Premises located in the State of New York, the “value” is the appraised value of the Mortgaged Premises on the Note Date of the Mortgage and is used solely for the purpose of determining whether mortgage insurance is required or should be canceled. (This definition of the “value” of Mortgaged Premises located in the State of New York applies only to the above-stated mortgage insurance requirements and is not applicable for any other purposes under the terms of the Purchase Documents. In particular, this definition of “value” is not applicable in determining the LTV ratios for the required percentage of mortgage insurance coverage.) For special requirements related to Cooperative Share Loans when the Cooperative Unit is located in the state of New York, see Section 4701.5.

(d) MI master policy

A Freddie Mac-approved mortgage insurance policy must be issued by a Freddie Mac-approved MI as of the Delivery Date of the Mortgage (see Exhibit 10, Freddie Mac-

Approved Mortgage Insurers). Mortgage insurance coverage must continue to be carried with the MI that insured the Mortgage, except as provided for in Section 8203.10.

The required mortgage insurance must be in full force and effect as of the Delivery Date and remain in force until canceled in accordance with the requirements of Sections 8203.2 through 8203.7 or pursuant to applicable law. Mortgage insurance coverage must not be subject to any exclusion besides those exclusions stated in the MI's master policy. Coverage must run to the benefit of Freddie Mac for a whole loan or a participation loan insured under a participation policy, or to the Seller for any other insured participation loan. No action may have been taken, or no action may have failed to be taken, that would impair the rights of Freddie Mac or the Seller. Participation policies with provisions inconsistent with this section or that impose premium payment or reporting requirements on Freddie Mac are not acceptable.

The Seller warrants that the Borrower has been given all disclosures required by law, including, but not limited to, the Homeowners Protection Act of 1998 (HPA), as amended, relating to the terms on which Borrower-paid mortgage insurance may be canceled. This includes all disclosures required by the HPA at loan origination to describe the Borrower's mortgage insurance cancelation rights under the HPA.

(e) Credit Fees

Mortgages sold to Freddie Mac with mortgage insurance other than the standard levels shown in Section 4701.1(b) will be assessed the Custom Mortgage Insurance Option Credit Fee in Price, as described in Exhibit 19, Credit Fees.

4701.2: Mortgage insurance premiums (02/05/25)

Eligible Mortgage insurance premiums include the following:

- **Monthly premium**: Premiums paid monthly from accumulated escrow deposits (with no initial payment at closing)
- **Annual premium**: An initial premium paid at closing to cover the first year's premium and annual renewal premium payments thereafter paid from accumulated escrow deposits
- **Single-premium**: A lump-sum premium paid at closing to purchase life of Mortgage coverage
- **Split-premium**: An initial up-front payment premium paid at closing and an ongoing monthly premium paid from accumulated escrow deposits

For Borrower-paid mortgage insurance premiums, the Borrower must pay the mortgage insurance premium by a single payment at closing, through monthly Escrow payments or as a combination of the two. A Mortgage that includes a Borrower-paid mortgage insurance premium in the Note Rate is not eligible for sale to Freddie Mac.

Lender-paid mortgage insurance premiums for annual and monthly premium programs must be included in the Servicing Spread included in the Note Rate on the Mortgage (see Section 4701.2(b)). Mortgages with single-premium lender-paid mortgage insurance do not require an adjustment to the Minimum Servicing Spread.

(a) Borrower-paid financed premiums

For purposes of this section, the following definitions apply:

- **Base LTV ratio:** The loan-to-value (LTV) ratio calculated using the Mortgage amount without the financed mortgage insurance premium
- **Gross LTV ratio:** The LTV ratio calculated using the Mortgage amount which includes the financed mortgage insurance premium

Mortgages for which the Borrower-paid mortgage insurance premium is included as part of the principal amount of the Mortgage (that is, a financed premium) are eligible for purchase provided the Mortgage complies with the requirements below:

- The Base LTV ratio must not exceed the maximum LTV ratio permitted for the Mortgage Product or offering
- The Gross LTV ratio must not exceed 95%, except for Home Possible® Mortgages, HomeOne® Mortgages and HeritageOne® Mortgages, for which the Gross LTV ratio must not exceed 97%
- The Mortgaged Premises must be a 1- to 4-unit Primary Residence or a 1-unit second home
- The Mortgage is a fixed-rate, fully amortizing Mortgage or an ARM
- The amount of coverage meets the standard coverage level requirements in Section 4701.1 using the Base LTV ratio
- The mortgage insurance premium must be paid with a Borrower-paid single-premium or split-premium payment.

Financed mortgage insurance premium endorsement

The mortgage insurance policy must include an endorsement, generally referred to as the "financed mortgage insurance premium endorsement." This endorsement states that adjustments will be made to the claim calculation to meet the required exposure level for the Base LTV ratio.

Maximum original loan amount

The maximum original loan amounts provided in Section 4203.1(c) apply to Mortgages with financed mortgage insurance premiums. The original loan amount of the Mortgage inclusive of the amount of any financed mortgage insurance premium may not exceed the maximum original loan limits provided in Section 4203.1(c).

Delivery requirements for Mortgages with financed mortgage insurance premium

See Section 6302.21 for delivery requirements. Any applicable Credit Fees will be assessed based on the Mortgage's Gross LTV ratio and the UPB, which includes the financed mortgage insurance premium.

(b) Lender-paid mortgage insurance

Freddie Mac will purchase Mortgages with single, annual or monthly premium lender-paid mortgage insurance as follows:

(i) For annual and monthly premiums:

- The Mortgage is a fixed-rate, fully amortizing Mortgage or a non-convertible ARM

- For monthly and annual premium programs, premium payments are made from the Servicing Spread compensation.

  To ensure that the Servicer receives sufficient Servicing compensation after premium payments are made:

  - For fixed-rate Mortgages, the Minimum Contract Servicing Spread must be at least 0.250% and the maximum Servicing Spread may not exceed 0.500%. The Minimum Contract Servicing Spread must be equal to or greater than the Minimum Servicing Spread. The Minimum Contract Servicing Spread must be no less than the sum of the Minimum Servicing Spread plus the amount necessary to pay the mortgage insurance premium when due and must not exceed 0.500%.

  - For non-convertible ARMs, see the Minimum Contract Servicing Spread requirements in Sections 6102.8 and 6201.3(c)

  - For Mortgages that are modified in accordance with Chapter 9206, the Servicing Spread will be reduced to 0.250% in accordance with Section 9206.13(c). This potential change in the Servicing Spread does not change a Servicer's responsibility to continue making premium payments.

- Coverage will be maintained for the life of the Mortgage. A change in MI may be allowed if approved by Freddie Mac (see Chapter 8203).

- The Mortgage is sold under the Guarantor or MultiLender Swap program

(ii) For single premiums:

- The Mortgage is a Mortgage eligible for purchase under the Purchase Documents
- Coverage will be maintained for the life of the Mortgage. A change in MI may be allowed if approved by Freddie Mac (see Chapter 8203).

- The Seller must ensure that the required mortgage insurance for the Mortgage is in full force and effective on the Delivery Date of the Mortgage regardless of whether the entire mortgage insurance premium is paid by the Seller prior to the Delivery Date. The Seller must obtain and be able to produce evidence of any required mortgage insurance (including, but not limited to, a certificate of insurance).

See Section 6302.21 for delivery requirements for Mortgages with lender-paid mortgage insurance.

4701.3: Commissions, fees or other compensation on insurance (03/02/16)

The Seller warrants that in connection with the placement or renewal of any mortgage insurance, including insurance on any other Mortgages it owns, to the Seller's knowledge, the insurer (including its parent company or any affiliate thereof) has not caused or permitted any consideration or thing of value (other than the protection provided by its mortgage insurance) to be paid to or received by any of the following:

- The Mortgage lender
- Any officer, director or employee of the lender or any member of their immediate families
- Any insurance agency, corporation (other than the insurer), partnership, trust or other business entity (including any service corporation, whether organized for profit or otherwise) in which the lender or any of its officers, directors, employees or their immediate family members have financial interest, or
- Any designee, trustee, nominee or other agent or representative of any of the foregoing

This requirement applies to any commission, fee or other compensation on all mortgage insurance presently in force or to be placed in the future.

4701.4: Late charges (03/02/16)

The Uniform Single Family Note provides blanks for inserting the amounts of late charges and the grace period after which such charges are assessable. Any amount and period stated must be permissible under applicable law.

For Mortgages purchased by Freddie Mac, the Seller agrees to collect late charges only on monthly installments more than 15 days late. If the 15-day period ends on a weekend or holiday, it is extended to the next Business Day. The Seller also agrees not to collect late charges of more than 5% of the late principal and interest payment. The Seller may retain any late charge collected as additional Servicing compensation.

If the late charge stated in the Note is more than 5% of the principal and interest payment and/or is to be assessed on a monthly installment late 15 days or less, the Seller agrees to notify the Borrower in writing of Freddie Mac's late charge and grace period requirements and to retain a copy of the written notification in the Mortgage file for each Mortgage purchased by Freddie Mac.

4701.5: Mortgage insurance for Cooperative Share Loans (05/04/20)

Notwithstanding the requirements of Section 4701.1, for New York properties, the sales price of the Cooperative Interest may be used solely for the purpose of determining whether mortgage insurance is required for purchase transaction Cooperative Share Loans. If mortgage insurance is required, the requirements of Section 4701.1 apply for determining the loan-to-value ratio for the required percentage of mortgage insurance coverage and for purposes of determining whether mortgage insurance should be canceled.