

# Industry Letter

Freddie  
Mac

March 31, 2003

**SUBJECT:** Revisions to Freddie Mac's Mortgage purchase requirements based on the enactment of Section 6-L of the New York State Banking Law and amendments to the Georgia Fair Lending Act

**TO:** All Freddie Mac Sellers and Servicers

Freddie Mac is a leader in the fight to eliminate predatory lending. We continue to work with our Seller/Servicers, consumer groups and other industry participants to raise awareness of, and to eliminate, predatory lending practices. Freddie Mac supports legislation that protects Borrowers from abusive lending practices, and we are reminding Sellers that, in accordance with provisions of Section 6.2(a) of the *Single-Family Seller/Servicer Guide* (Guide), they must ensure that they comply with all applicable State and federal laws, regulations and orders.

Based on the recent enactment of Section 6-L of the New York State Banking Law defining high-cost home loans, and the amendment of the Georgia Fair Lending Act (GAFLA), we are revising our requirements for the purchase of Mortgages in these States.

Although this Industry Letter specifically addresses the changes in New York and Georgia, we strongly encourage all Sellers to become familiar with the requirements of anti-predatory legislation, including the penalties of noncompliance. Sellers should review their loan origination processes as well as their processes with third-party originators and make any changes necessary to comply with the provisions of the law.

Freddie Mac will conduct post-purchase reviews of Mortgages secured by Mortgaged Premises located in New York and Georgia. Mortgages that are not in compliance with the Guide will be subject to repurchase.

## **Section 6-L of the New York State Banking Law**

Section 6-L of the New York State Banking Law, which is intended to curb abusive lending practices, goes into effect on April 1, 2003. As a result, we are revising our requirements for the purchase of Mortgages secured by Mortgaged Premises located in the State of New York, **effective for Mortgages for which the initial loan application is completed on or after April 1, 2003**, as follows:

- Mortgages secured by 1- to 4-unit Primary Residences located in the State of New York, with original principal balances of \$300,000 or less, are **ineligible** for purchase by Freddie Mac if the initial loan application is completed on or after April 1, 2003, and the terms of the Mortgage equal or exceed either the APR or the points and fees threshold for **high-cost home loans**, as defined in Section 6-L of the New York State Banking Law.
- For each New York Mortgage, the Seller must include a copy of the initial and final Truth-in-Lending Statement, the Good Faith Estimate and the initial signed and dated application.

- For each New York Mortgage that is delivered to Freddie Mac that was originated with a concurrent subordinate Mortgage, regardless of the outstanding balance, the Seller must also include in the Mortgage file a copy of the following documentation on the subordinate lien:
  - The initial and final Mortgage application signed and dated by the Borrower
  - Note
  - Mortgage
  - The initial and final Truth-in-Lending Statement
  - The Good Faith Estimate
  - Closing statement

Our requirements for eligibility will be added in a new Section of the Guide, Section 22.18.2 (“Mortgaged Premises located in New York”). The provisions of Section 22.18.2 will be Discretionary Provisions under Section 12.13 and Exhibit 26. Without limitation of any other remedies set forth in the Purchase Documents, Freddie Mac reserves the right to notify a Seller in writing, at any time, that the Seller is ineligible to deliver, or is subject to a maximum purchase amount for, Mortgages secured by Mortgaged Premises located in the State of New York. Our May 7 Guide Bulletin will update Guide Chapter 22 and Exhibit 26 to reflect these changes. Until that time, you must retain this Industry Letter for Freddie Mac’s selling requirements.

At this time, there is no change to our delivery requirements for Mortgages secured by Mortgaged Premises located in the State of New York.

### **Georgia Fair Lending Act**

As a result of the enactment of the Georgia Fair Lending Act (GAFLA) by the State of Georgia, Freddie Mac issued an Industry Letter on October 1, 2002, which announced revisions to our requirements for the purchase of Mortgages secured by Mortgaged Premises located in the State of Georgia. Due to amendments to the GAFLA that were signed into law on March 7, 2003, we are revising our requirements as follows:

- **Effective immediately**, the following Mortgages secured by 1- to 4-unit Primary Residences located in the State of Georgia are **eligible** for purchase by Freddie Mac:
  - Mortgages with Note Dates before October 1, 2002
  - Mortgages with Note Dates on or after October 1, 2002, and before March 7, 2003, that are:
    - Not subject to the GAFLA, such as second home Mortgages and Investment Property Mortgages
    - Home loans as defined under the GAFLA and that comply with the terms of the GAFLA
    - Covered home loans, but not high-cost home loans, as defined under the GAFLA and that comply with the terms of the GAFLA
  - Mortgages with Note Dates on or after March 7, 2003, that are:
    - Not subject to the GAFLA, such as second home Mortgages and Investment Property Mortgages
    - Home loans, but not high-cost home loans, as defined under the GAFLA and that comply with the terms of the GAFLA

- **After June 30, 2003**, the following Mortgages will be **ineligible** for purchase by Freddie Mac:
  - Mortgages with Note Dates on or after October 1, 2002, and before March 7, 2003, that are home loans or covered home loans as defined under the GAFLA and subject to the terms of the GAFLA
- Mortgages that are high-cost home loans under the GAFLA remain ineligible for delivery.

There are no special underwriting requirements for Mortgages with Note Dates on or after March 7, 2003. For each Mortgage that is secured by a 1- to 4-unit Primary Residence, the Seller must include a copy of the final Truth-in-Lending Statement in the Mortgage file.

Effective immediately, the provisions of Guide Section 22.18.1 (“Mortgaged Premises located in Georgia”) are Discretionary Provisions under Section 12.13 and Exhibit 26. Without limitation of any other remedies set forth in the Purchase Documents, Freddie Mac reserves the right to notify a Seller in writing, at any time, that the Seller is ineligible to deliver, or is subject to a maximum purchase amount for, Mortgages secured by Mortgaged Premises located in the State of Georgia. Our May 7 Guide Bulletin will update Guide Chapter 22 and Exhibit 26 to reflect these changes. Until that time, you must retain this Industry Letter for Freddie Mac’s selling requirements.

Freddie Mac remains committed to working with our Seller/Service providers, consumer groups, policymakers and others to develop solutions that would combat predatory lending nationally, while continuing to provide low-cost, easily accessible mortgage financing. For additional information about these changes to Freddie Mac’s purchase requirements, please call (800) FREDDIE.

Sincerely,



Paul T. Peterson  
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Single-Family Group