



**Announcement:** CWL2021-09

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**Effective Date:** Varies – Refer to Announcement

**Attachment:** none

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**LPA Updates – Updated Requirements for Refinance Transactions, Prorated Real Estate Tax Credits, Future Long-Term Disability Income, and Pay Off of PACE Obligations**

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Several changes to LPA have been made as follows:

**No Cash-Out Refinance**

Freddie Mac is adding a 30-day seasoning requirement for refinance mortgages to be paid off using the proceeds of a ‘no cash-out’ refinance mortgage. The refinance mortgage being paid off must have a Note date no less than thirty (30) days prior to the Note of the new refinanced mortgage, as documented in the mortgage file (i.e., on the credit report or the title commitment).

**This change is effective with loans originated on or after July 5, 2021.**

**Cash-Out Refinance**

Requirements for cash-out refinance mortgages when the property title has been held by a limited liability company (LLC) or limited partnership (LP) have been updated. In these instances, the requirement that at least one borrower must have been on the title to the subject property for a minimum of six months prior to the Note date may be satisfied by the time the property was titled in the name of the LLC or LP, provided that:

- The borrower is a majority owner or had control of the LLC or LP since the date the property was acquired by the LLC or LP, and
- Title is transferred into the borrower’s name prior to the Note date.

**This change is effective immediately.**

**Future Long-Term Disability Income**

Requirements have been updated to permit the use of future long-term disability income that will commence after the first mortgage payment due date provided that:

- The borrower is currently receiving short-term disability benefits that will subsequently convert to long-term benefits,
- The borrower is qualified on the lesser amount of either the long-term or short-term disability payments, and
- The documentation requirements are met.

**This change is effective immediately. The Income Job Aid will be updated shortly with this change.**

**Prorated Real Estate Tax Credits**

Freddie Mac is updating their requirements related to the treatment of prorated real estate tax credits contributed by the property seller in areas where real estate taxes are paid in arrears:

- Prorated tax credits are not considered interested party contributions and therefore are not subject to financing concession limits, and
- Prorated tax credits cannot be considered when determining if the borrower has sufficient funds for the mortgage transaction.

**This change is effective with loans originated on or after July 5, 2021.**

**PACE or PACE-like Obligations**

Added guidance for LPA ‘no-cash out’ refinance of mortgages secured by properties subject to PACE obligations that result in or provide for first lien priority and where the PACE obligations are paid off with the mortgage proceeds. For ‘no-cash out’ refinance, the following requirements will apply:

- The new refinance mortgage must be originated in accordance with all standard requirements for limited cash-out refinances,
- The mortgage being refinanced must be owned in whole or in part or securitized by Freddie Mac,
- The PACE obligation must be paid in full,
- The mortgage file must include evidence that the obligation being paid off is a PACE obligation that results in or provides for first lien priority.

Refer to Conventional Guidelines and Income Job Aid for specific details/requirements.

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