Processing Balloon/Reset Mortgages

Chapter 6

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Introduction

A Balloon/Reset Mortgage is a fixed-rate, level payment Mortgage with principal and interest payments based on an amortization schedule that would pay off the principal balance in 360 months. The unpaid principal balance (UPB) of the Balloon Note on the Balloon Maturity Date is due as a lump sum after either five or seven years, unless the Borrower exercises the Reset Option pursuant to the Balloon Note Addendum and the Balloon Option of Modification. This chapter describes the Document Custodian's responsibilities if the Borrower elects to reset their Balloon/Reset Mortgage. Guide Chapter A83 provides detailed information on the reset process. Guide Sections 18.9 and A83.60 provide detailed information and requirements regarding delivery of Reset Mortgage documents to the Document Custodian.

Processing Balloon/Reset Mortgages

Servicers must deliver the following documentation for the Reset Mortgage to the Document Custodian that holds the original Note in time for the documents to be certified:

- Exhibit 80, Multistate Balloon Loan Modification (Form 3293). See Guide Exhibit 4, Single-Family Uniform Instruments
- Custodial Certification Schedule Balloon Loan Modification (Form 1034B)

Certifying Balloon Loan Modifications

The Form 1034B must be delivered to Freddie Mac no later than 10 calendar days after the Balloon Maturity Date. For any Form 1034B received after the 10th calendar day, the Servicer will be assessed a one-time late charge of $100.

The Document Custodian must verify that the information on the executed Exhibit 80, Multistate Balloon Loan Modification (Form 3293) is complete and matches the information on Form 1034B as detailed in the following chart.

Data Element	Is there a discrepancy?
Freddie Mac loan number	**No:** • Certify the Balloon Loan Modification. **Yes:** • Notify the Servicer immediately. • Return the documentation to the Servicer for correction. • Wait for replacement documentation from the Servicer. • Execute Form 1034B when the correction is completed or you receive new documentation.
Borrower Name	
Mortgaged Premises address • Property street address • Property city • Property state • Property Zip Code	
Principal amount	
Reset Note Rate	
Principal & Interest (P&I) amount	
Balloon Maturity Date	
Seller/Servicer Loan Number, if applicable	

Interest Start Date, First P&I Payment Due Date, and Payment start date are not data elements on the Form 1034B, but must be verified as completed.

Loan Modification Custody

The Servicer and Document Custodian must both sign and date Form 1034B to acknowledge the delivery is complete and accurate, and that it satisfies the requirements for Balloon Loan Modification certification.

The Document Custodian must also:

1. Make two copies of Form 1034B.
2. Retain one copy of the Form 1034B, either as an image or in paper format, for at least three months after the date of certification.
3. Send the second copy and the original of the Form 1034B to the Servicer.
4. Attach the executed Balloon Loan Modification to the Balloon Note, and retain it in the Note file.

Processing Balloon/Reset Mortgages

The Document Custodian may deliver the certified Form 1034B directly to Freddie Mac with the Servicer's permission. The Servicer is ultimately responsible for ensuring that Freddie Mac receives Form 1034B no later than 10 calendar days after the Balloon Maturity Date.

A Document Custodian that is unable to locate the original Balloon Note must notify the Servicer, which must contact Freddie Mac for instructions.

A Document Custodian's delay in submitting the Form 1034B to Freddie Mac by the deadline may result in a penalty to the Servicer. See Guide Section A83.60.