



# Product Guide:

## Advanced Second Lien

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## Change Comments

Updated to add reference to Credit Policy Announcement 26-02, Buy Now Pay Later Requirements and Companies.

This document is not all encompassing. It is a summary reference tool to be utilized in conjunction with agency guidelines and applicable Freedom Mortgage credit and compliance policies. Where this document is silent, refer to Freedom Mortgage and Freddie Mac guidelines.

All bolded and highlighted items are Freedom Mortgage overlays.

## FRM Products

- Advanced Second

## Amortization

- 20 Year Fixed Rate only

## General Terms and Objectives

- The Advanced Second lien program is designed to provide borrowers with a more economical means to utilize the equity from their primary residences without disrupting their first lien mortgage.
- First lien mortgage must be a conventional, owned by Freddie Mac and seasoned for a minimum of 24 months with a specific payment history.
- **Permitted for origination by Table Funded Clients only; warehouse purchase (Mini-C) clients are ineligible for origination at this time.**

## Loan Amounts and LTVs

- Maximum loan amount may not exceed the lesser of:
  - \$78,277, or
  - The unpaid principal balance (UPB) of the first lien as of the Note Date of the second lien mortgage.
- Additionally, the total original principal balance of the first lien and the original principal balance of the second lien may not exceed current conforming loan limit (based on geographic location, including Super Conforming loan limits, and number of units) as of the settlement date of the second lien.

- TLTV calculation used for purposes of the second lien mortgage is the original principal balance (loan amount) of the second lien mortgage plus the unpaid principal balance of the first lien mortgage\* as of the Note Date of the second lien mortgage, divided by the appraised value provided on the full appraisal obtained for this transaction.
  - \*The UPB of the first lien mortgage will be determined by the most recent data available from the credit report or first lien mortgage payment statement, whichever is the most recent.

Property Type	Number of Units	Minimum Credit Score	Maximum TLTV
<b>Cash Out Refinance - Primary Residence</b>			
SFR, 2-4 Units, PUD, Condo	1	720	80%
		620	70%
	2 - 4	720	75%
		680	70%
Manufactured Home	1	680	65%

## Secondary Financing

- No more than two (2) mortgage liens on a single property permitted; the Freddie Mac first lien and the Advanced Second Lien. Additional liens, such as third liens or second liens held by other parties, are not permitted to remain on title.

## Sales Concession

- Not applicable

## Temporary Buydowns

- Not permitted

## Geographic Restrictions

- Not permitted in the state of Alaska, Massachusetts, New Mexico, New York, Oklahoma, Texas and Vermont.

## Regulatory Requirements

- QM-Rebuttable Presumption/HPML classifications are permitted.
  - HPML requires a full interior/exterior appraisal on Form 1004/1073.
  - Rebuttable presumption permitted if all federal and state HPML loan requirements are met.
- For 2025 per CFPB, the spread between APR and APOR is 6.5% for a subordinate lien with a loan amount less than \$80,905. Note, the maximum loan amount continues to be \$78,277.
- Non-QM classifications are not permitted
- Federal or State High-Cost mortgages are not permitted.

## Eligible Properties

- 1-4 Units, attached and detached.
- PUD, attached and detached.
- Warrantable Condo, as defined by Freddie Mac.
  - Permitted in accordance with the requirements for Exempt From Review in Freddie Mac Section 5701.7
    - Condo Certificate is not required.
  - The Freddie Mac CPA Condo Project Adviser must be reviewed to confirm the subject property is not listed as ineligible.
- Manufactured Homes, Double-wide only.
- Must meet all property standards required by Freddie Mac.

## Ineligible Properties

- Properties with an Accessory Dwelling Unit (ADU)
- Second Homes
- Investment Properties
- Non-warrantable Condos
- Timeshare
- Manufactured Homes, Single-wide.
- Manufactured Homes in a condo project
- Mobile Home
- Cooperative
- Condo/PUD Hotel
- Commercial Property
- Working Farms

- Life Estates
- Leaseholds
- Properties located in lava zones 1 & 2
- Properties with resale deed restrictions (other than Age Restricted)
- Land Trusts/Community Land Trust
- Freddie Mac CHOICEHome (factory-built homes)

## Occupancy and Borrower Eligibility

- Primary Residence only
- All Borrowers on the second lien must be the same Borrowers as on the first lien, except in the case of:
  - The mortgage file contains evidence of divorce, separation, dissolution of a domestic partnership or death, and
  - At least one Borrower on the first lien mortgage is a Borrower on the second lien mortgage.
- New Borrower(s) may be added to the second lien mortgage.
- In all cases, Non-occupant co-borrowers are not permitted.
- Borrower must be a natural person or an acceptable Living Trust.
  - Living Trust must adhere to Freddie Mac Section 5103.5
  - LLCs are not eligible.

## Condos

- Refer to the Eligible Properties section.
- Refer to Credit Policy Announcement 23-14 for insurance requirements.

## Purchase

Not permitted.

## Rate Term Refinance

Not permitted.

## Cash Out Refinance

- Permitted
  - The proceeds of the second lien mortgage may be used for any purpose, including the refinance of an existing closed end second mortgage.
  - If the first lien mortgage is subject to a Property Assessed Clean Energy (PACE) obligation that results in or provides superior lien priority to the first lien mortgage, the PACE obligation must be paid in full with the proceeds of the second lien mortgage.
  - Closing costs may be paid from proceeds.

## Underwriting Section

Eligible First Mortgages must be all of the following:

- A conventional fixed rate mortgage
- Seasoned for at least 24 months (counting between the Note Date of the first lien mortgage and the Note Date of the second lien mortgage)
- Owned by Freddie Mac as of the settlement date of the second lien mortgage

## Underwriting Requirements

Underwriting Requirements

- Determine first lien eligibility utilizing the Loan PreCheck Tool via LPA on the web
  - Underwriter to complete at Initial UW Review and again at Final Approval.
  - Access Gateway on the web using your individual username and password. Click on "Freddie Mac Applications Login", "Freddie Mac Gateway", then click "Open" next to "Loan PreCheck Tool".
  - The Loan PreCheck tool will validate:
    - First lien is conventional, owned by Freddie Mac and be seasoned at least 24 months with specified payment history.
    - Maximum loan amount of \$78,277
  - Assessment Summary results must reflect "Green"
    - Assessment Summaries with "Orange" results will provide detailed conditions within the "Eligibility Messages" on parameters that do not meet guidelines.
  - The First Lien Loan Number as indicated within the Freddie Mac Loan PreCheck Results must be manually entered into Lakewood within the Schedule of Real Estate Owned in the Account # field.
  - Copy of the PreCheck Tool results must be uploaded into EDMS under Document Category "Submission" and Document Name "Risk Assessment Worksheet"
  - NOTE: This result is not all inclusive. The Underwriter must review the loan file to confirm all eligibility requirements, as stated herein, have been satisfied.
- Second lien mortgages must be manually underwritten.

- The Underwriter’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.
- Each Borrower must have a usable credit score; non-traditional tradelines are not permitted.
- For Borrower(s) with a representative credit score lower than 700:
  - The second lien mortgage must meet the guidelines and requirements of a Manually Underwritten mortgage as detailed within Freddie Mac Sections 5100, 5200, 5300, 5400 and 5500, including guidelines and requirements specific to cash out refinance transactions.
- For Borrower(s) with a representative credit score of 700 or higher:
  - An assessment of the Borrowers’ creditworthiness (in accordance to Freddie Mac Section 5102.2(b)(i), 5102.2(b)(ii) or Chapter 5202) is not required provided the following requirements are met:
    - If the credit report indicates a creditor inquiry within the most recent 90-days, it must be determined whether additional credit was obtained. If so, verification of the debt must be obtained and considered when qualifying the Borrower; and
    - Evidence length of time since completion of the below recovery periods:

Credit Event	Requirements
Foreclosure, deed-in-lieu of foreclosure, short sale	None in the most recent seven (7) years
Bankruptcy	If less than seven (7) years since discharge or dismissal of bankruptcy, comply with Guide recover time periods and all other requirements in Freddie Mac Section 5202.2, including but not limited to documenting and supporting the determination that the Borrower has reestablished and maintained an acceptable credit reputation.
Open/unpaid collections, charge-offs, judgments and tax liens	None in the most recent two (2) years (must have been closed/paid off for at least two (2) years). The requirement does not apply to medical collections and charge offs.

- Regardless of credit score, the mortgage payment history must be documented in the file and be no older than 60 days as of the Note Date of the second lien mortgage. The mortgage payment history must indicate the following:
  - 0x30 during the most recent 12 months;
  - 1x30 and 0x60 in the most recent 13–24 months; and
  - No history of forbearance or any other loss mitigation solutions, including repayment plans, payment deferrals or their equivalent, loan modifications, etc., during the most recent 24 months.
    - Exceptions permitted for disaster-related forbearance plans resulting from an Eligible Disaster as described in Freddie Mac Section 8404.

## Income and Assets

- The following income and asset types may not be used to qualify the Borrower:
  - Rental Income generated from an ADU on a 1-unit subject property; and
  - Assets used by the Borrower as a basis for the repayment of their monthly obligations, as described in Freddie Mac Section 5307.1.
- Income expected to commence after the Note Date of the second lien mortgage may be used to qualify the Borrower only when the requirements for “Option Two” in the table in Freddie Mac Section 5303.2(e) are met.
- All other income and asset requirements to adhere to Freddie Mac guidelines unless otherwise stated below and Freedom Mortgage overlay and compliance requirements.
- For Borrower(s) with a representative credit score lower than 700:
  - The second lien mortgage must meet the guidelines and requirements of a Manually Underwritten mortgage as detailed within Freddie Mac Sections 5100, 5200, 5300, 5400 and 5500, including guidelines and requirements specific to cash out refinance transactions.
- For Borrower(s) with a representative credit score of 700 or higher:
  - The minimum documentation requirements in the table below apply to the referenced income types in lieu of the Streamlined Accept and Standard Documentation Level requirements stated for these income types in Freddie Mac Guide 5300:

Income Type	Minimum Documentation Requirements
Base non-fluctuating employment (primary only)	<ul style="list-style-type: none"> <li>• Year-to-date (YTD) paystub documenting the YTD earnings, or</li> <li>• Written verification of employment (VOE) documenting the YTD earnings,</li> </ul> <p style="margin-left: 20px;">And</p> <ul style="list-style-type: none"> <li>• 10-day pre-closing verification of employment.</li> </ul>

<p>Fluctuating hourly employment (primary only)</p> <p>Tip, bonus, overtime and commission income.</p>	<ul style="list-style-type: none"> <li>• YTD paystub documenting the YTD earnings and W-2 for the most recent calendar year, or</li> <li>• Written VOE documenting the YTD earnings and the earnings for the most recent calendar year,</li> </ul> <p>And</p> <ul style="list-style-type: none"> <li>• 10-day pre-closing verification of employment.</li> </ul>
<p>Military income (basic pay, entitlements, Reserve and National Guard income)</p>	<p>YTD Military Leave and Earnings Statement</p>
<p>Self-employment</p>	<ul style="list-style-type: none"> <li>• Complete federal individual and business income tax returns for the most recent one-year period, and</li> <li>• Verification of the current existence of the business through a third-party source obtained either no more than 120 calendar days before the Note Date or after the Note Date but before the Delivery Date.</li> </ul>
<p>Alimony, child support or separate maintenance</p>	<ul style="list-style-type: none"> <li>• Copy of legally binding documentation verifying the payor's obligation (i.e., signed court order, final divorce decree, legally binding separation agreement, legally binding child support agreement or other legally binding documentation) for the previous one month, including the amount and the duration of the obligation.</li> <li>• Documentation to evidence receipt of the alimony, child support and/or separate maintenance payment for the most recent one month: <ul style="list-style-type: none"> <li>○ Evidence that the payment was cashed or deposited into the Borrower's depository account at a financial institution, or</li> <li>○ Evidence that the payment was transferred into a third-party money</li> </ul> </li> </ul>

	<p>transfer application account owned by the Borrower, or</p> <ul style="list-style-type: none"> <li>○ Statement from a government agency (i.e. child support agency) reflecting the Borrower's name and the amounts paid.</li> </ul>
All other income types	Document in accordance with the Streamlined Accept and Standard Documentation Level requirements in Freddie Mac Section 5300.

## Assets and Reserves

- For Borrower(s) with a representative credit score lower than 700:
  - The second lien mortgage must meet the guidelines and requirements of a Manually Underwritten mortgage as detailed within Freddie Mac Sections 5100, 5200, 5300, 5400 and 5500, including guidelines and requirements specific to cash out refinance transactions.
- For Borrower(s) with a representative credit score of 700 or higher:
  - Any funds needed for closing must be verified in accordance with Freddie Mac guideline requirements.
  - The Borrower is not required to have verified reserves

## Ratios

- For Borrower(s) with a representative credit score lower than 700:
  - The second lien mortgage must meet the guidelines and requirements of a Manually Underwritten mortgage as detailed within Freddie Mac Sections 5100, 5200, 5300, 5400 and 5500, including guidelines and requirements specific to cash out refinance transactions.
  - As a guideline, the monthly housing and debt expense-to-income ratio should not be greater than 28% / 36%, respectively.
    - Except in rare circumstances, the Borrower's DTI should not exceed 36.00% for this cash out refinance.
    - In no circumstance may the debt expense-to-income ratio exceed 42.00% per Freddie Mac Section 5102.2.
- For Borrower(s) with a representative credit score of 700 or higher:
  - Maximum DTI: 45.00%
  - The second lien mortgage is not required to comply with the maximum monthly housing expense-to-income ratio limit in Freddie Mac Section 5401.1(e);
  - Documented justification for the qualifying ratio exceeding 36% is not required; and
  - The first lien monthly payment of principal, interest, taxes and insurance (PITI) used to calculate the DTI ratio must be the amount in effect as of the Note Date of the second lien mortgage and be documented within the loan file.

- If an installment loan is being paid off as part of the transaction to qualify, refer to Credit Policy Announcement 25-14 for requirements.
- BNPL (Buy Now Pay Later) debts identified on the borrower's asset statements, but not reported on the credit report, must be treated as undisclosed debt, and fully documented. Whether or not the payment is to be included in the DTI will be determined by the financing arrangement and the number of payments left. The financing agreement and/or a current statement reflecting the payment, balance and terms are required.
  - Refer to Credit Policy Announcement 26-02 for requirements and list of BNPL companies.

## Documentation Requirements

- **Personal tax transcripts** are required when qualifying income must be determined using tax returns, or when tax returns are obtained for any other reason, except in certain cases when used to document non-taxable income for grossing-up.
  - NOTE: Neither W2 transcripts nor tax transcripts are required for W2 wage-earner only, fixed/retirement income only, service-related disability income only, or any combination thereof, except in certain cases when non-taxable income is being grossed-up for qualification.
  - If business income is not validated on personal returns, business transcripts must also be obtained if using business income.
  - Refer to Freddie Mac Income Requirements Section 5302.4 and Credit Policy Announcement [25-05](#).
- A verbal VOE 10 Business days prior to note date, (for non-self-employed borrowers) and **60 Calendar days (for self-employed) prior to note date.**
  - **Alternative forms of verification, such as bank statements or YTD Paystubs, are not permitted.**
- Refer to Credit Policy Announcement [24-04](#) for full Verbal Verification of Employment requirements.
- FEMA Declared Disaster Areas:
  - Follow requirements in Credit Policy Announcement [23-03](#) for properties located in counties that are declared eligible for individual assistance by FEMA
- For all scenarios, title insurance or an alternative that meets the requirements of Freddie Mac Section 4702 is required. For the purposes of meeting this requirement, a 2021 ALTA Residential Limited Coverage Junior Loan Policy (long or short form) or similar policy that provides at least the amount and scope of coverage given by that policy are acceptable.
- Survey is not required

## Appraisal Requirements

- One of the following interior and exterior property inspection are required, as applicable:
  - Uniform Residential Appraisal, Form 70
  - Small Residential Income Property Appraisal Report, Form 72
  - Manufactured Home Appraisal Report, Form 70B
  - Individual Condominium Unit Appraisal Report, Form 465
- The Assignment Type on page 1 of the appraisal report must indicate “Refinance Transaction”.

## Mortgage Insurance

- Not applicable

## Property Insurance

- Hazard insurance is required in an amount at least equal to the higher of:
  - Sufficient to cover the UPB of both the first and second lien mortgages
  - 80% of the full replacement cost value (RCV) of the insurable improvements as of the current insurance policy effective date.
  - Refer to Freddie Mac Section 4703.2 for additional requirements.
- Flood insurance required if any portion of the property is located in a flood zone. The UPB of the first lien mortgage and the UPB of the closed-end second mortgage to determine the amount of flood insurance required per Freddie Mac Section 4703.3.
- A new Flood Zone Determination must be obtained in connection with the origination of the second lien mortgage and must reflect a Date of Determination no more than 120 days before the Note Date of the second lien mortgage.

## Escrow Waivers

- Not applicable

## Acceptable Fees

Permissible second lien fees charged to the Borrower:

- Credit Report Fee
- Actual Recording Fees
- Actual Per Diem
- Appraisal Fee
- Title Fees
- Doc Preparation
- Flood Determination

- Tax Certificate
- Freedom Origination Fee (\$399)
- Pest Inspection, if applicable.

## Second Lien Requirements

- Second Liens must adhere to TRID requirements (Loan Estimate (LE) / Closing Disclosure (CD))
- Freedom Mortgage to provide the second lien, state specific, Note and Mortgage.
- Freedom Mortgage must be reflected as the Lender.
- MERS documents to be utilized.
- Freedom Mortgage to be reflected as the servicer.
- Not Assumable
- **Resubordinations will not be considered unless otherwise required by applicable law.**
- eMortgages are not permitted.

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