

## PFI Advisory

October 7, 2005

### Special Attention:

PFI's MPF Program Management, PFI's Origination Management, PFI's Servicing Management

### Subject:

#### Guidance on New MPF Data Elements

In PFI Notice 2005-3 dated April 15, 2005, we announced that PFIs would be required to deliver new data elements enumerated in Origination Guide Chapter 23 and the Instructions for Completing the Credit Enhancement Request (Form OG3). In the PFI Advisory dated July 11, 2005, we informed the PFIs that the effective date for these new and modified data elements would be Monday, August 29, 2005.

Based upon questions from PFIs since August 29<sup>th</sup>, the MPF Program offers the guidance below to assist PFIs in the delivery of some of the new data elements. The valid data for each data element is also listed. For details on each data element, see the Credit Enhancement Request (Form OG3).

#### Anti-Predatory Lending (APL) Category

The MPF Program has adopted Standard & Poor's (S&P) Anti-Predatory Lending (APL) Categories for determination of loan eligibility and credit enhancement under the MPF Program.

S&P has categorized loans governed by predatory lending laws in the jurisdictions listed in Origination Guide Exhibit A into three categories based upon a combination of factors that include (a) the risk exposure associated with the assignee liability and (b) the tests and thresholds set forth in those laws. The three categories are High Cost, Covered Loan or Home Loan (refer to PFI Notice 2004-2 for more information). In addition, we recommend that PFIs consult with their legal counsel for interpretation of the laws in the states and jurisdictions where they originate mortgage loans. Loans that are classified as high cost, high rate, high risk or HOEPA loans or loans in similar categories as defined by applicable predatory or abusive lending laws are ineligible for delivery under the MPF Program (see Origination Guide Chapter 2.6.4). In addition, loans categorized as Covered Loan (CV) under Exhibit A are also currently ineligible. As such, High Cost Loans and Covered Loans are not current options for delivery.

The following codes should be used under the Anti-Predatory Lending Category:

- HL = Home Loan (per Exhibit A)
- NO = None of the above

Since most PFIs do not originate and sell loans that are covered under the Home Loan category, as defined by S&P and used under the MPF Program, we expect most deliveries of loans to be coded as “NO = None of the Above”. For loans that do meet the Home Loan definition, please code those loans as “HL = Home Loan” (per Origination Guide Exhibit A). In addition, if the “CV” code (CV = Covered Loans) is used, the loan will be rejected as currently ineligible.

Also, please note that S&P’s APL classifications are not consistent with state or jurisdictional law classifications in all cases. S&P has categorized some loans as High Cost Loans, whereas the state or jurisdiction has classified the loan under another name. For example, the states of Colorado and Ohio have labeled a loan in their jurisdictions as a Covered Loan, while S&P has categorized the loan as a High Cost Loan. In all cases, S&P’s categorization of the loan should take precedence when providing data under the MPF Program.

Therefore, in order to complete the APL Category data field the PFI must take two steps:

1. Determine if the loan meets the definition of a High Cost, Covered Loan or Home Loan under the APL law(s) where the property is located; and
2. Review Origination Guide Exhibit A to determine S&P’s categorization of the loan to determine the loan’s eligibility and its code.

Currently, S&P’s classification of “Home Loan” is applicable only to loans in the states of New Jersey, New Mexico, North Carolina and South Carolina. The code of “HL” (Home Loan) will only apply to a mortgaged property located in these states where the mortgage transaction meets the “Home Loan” definition of that state’s APL law. For example, a “Consumer Home Loan” under North Carolina law is defined by S&P as a “Home Loan” in Exhibit A. PFIs should consult with their legal counsel for interpretation of the definition of a North Carolina Consumer Home Loan in order to determine if it is appropriate to code a loan as a Home Loan (“HL”) if it is secured by property in the North Carolina and delivered under the MPF Program.

Please note that “Home Loan” is an S&P classification, not a name for an ordinary residential mortgage loan. Simply because a mortgaged property is in one of the four states listed above, it does not necessarily make the loan a Home Loan. For example, if the mortgaged property is located in North Carolina, and the mortgage transaction does not meet the “Consumer Home Loan” definition of that state’s APL law, then the loan should be coded as “NO = None of the Above”.

### **HOEPA Status**

The HOEPA status data field is used to indicate whether a Mortgage contains loan characteristics covered by the Home Ownership and Equity Protection Act. This same data is required to be reported under the requirements of the Home Mortgage Disclosure Act (HMDA). For more information on the HOEPA status of a loan, refer to the website located at [www.ffiec.gov/ratespread](http://www.ffiec.gov/ratespread)\* (under the “Help” section). The following options should be used for the HOEPA Status:

- Y = Yes, the loan is subject to HOEPA (because the APR or points and fees exceed the HOEPA triggers)
- N = No, the loan is not subject to HOEPA (because the loan is not subject to the requirements of HOEPA for any reason)

### **Rate/APR Spread**

The Rate/APR Spread is manually calculated and is the *difference* between the Annual Percentage Rate (APR) on the loan and the rate on Treasury Securities with comparable maturity periods. The Rate/APR Spread is only required to be delivered if the spread is greater than or equal to 3.00%. For example, if the APR for a mortgage is 6.25 and the Treasury Security rate is 4.53, the difference would be 1.72, therefore, the field should be left blank. Note that reporting 0.00 in this field would mean that the APR is 6.25 and the Treasury Rate is 6.25. Conversely, if the APR for a mortgage is 8.25 and the Treasury Security rate is 4.53, the difference amount would be 3.72; therefore the value of 3.72 should be reported in this data field. This same data is required to be reported under the requirements of the Home Mortgage Disclosure Act (HMDA). For more information on the Rate/APR Spread, refer to the website located at [www.ffiec.gov/ratespread\\*](http://www.ffiec.gov/ratespread*).

### **Loan Origination Source**

The Loan Origination Source is defined as follows:

- **Retail** - The PFI or its affiliate. The Mortgage is originated, processed and closed entirely by staff employed by the PFI or its affiliate.
- **Broker** - A business source that takes the Application, collects initial credit documentation and delivers the application package to the PFI for a fee. The PFI, or its Affiliates, closes and funds the loan.
- **Correspondent** - A business source that processes, closes and funds a loan in its own name and then sells the Closed Mortgage to the PFI or its affiliate.

The Loan Origination Source indicates how and from what source the PFI acquired the loan, rather than the status of the PFI as a source of business for investors other than the MPF Program. PFIs that originate mortgages through a Retail source (as defined above) would not be considered “Correspondent” lenders under the MPF Program.

All PFIs are reminded that by delivering a mortgage under the MPF Program, each PFI represents and warrants that all associated information, including data provided for the Credit Enhancement process, is true, complete and accurate. We appreciate your commitment to accurate data reporting, and look forward to working in conjunction with you to ensure reliable data. Please consult your MPF Bank representative for further training and guidance, if needed.

- \* Any reference to the website in this PFI Advisory is included only to help the PFI better understand the data elements referenced. It is not an endorsement of the website or its contents. The MPF Program is not responsible for the contents of the websites or a PFI’s reliance on the information contained therein.

**If you have any general questions about the information above or changes announced in PFI Notice 2005-3, please contact your MPF Bank Representative or call the MPF Customer Support Desk at 877-INFO-MPF (877-463-6673).**

**If you need technical assistance with the system implementation of these changes, please call the MPF Service Center at 877-FHLB-MPF (877-345-2673) or by e-mail at [eMPF@FHLBC.com](mailto:eMPF@FHLBC.com).**