PFI Notice 2001-7

December 14, 2001

Effective Date

Immediately, except as noted

Special Attention:

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

Subject:

<u>Announcing Enhancements to the Origination Guide:</u>

Origination Guide 10.1	**Value**
Origination Guide 10.2	**Determining LTV and TLTV Ratios**
Origination Guide 10.3	**Maximum Original Loan Amounts for Home Mortgage Origination**
Origination Guide 10.4	**Maximum LTV and TLTV Ratios**
Origination Guide 10.7	**Loans Underwritten Utilizing Desktop Underwriter® or Loan Prospector®**
Origination Guide 24.2	**Delivery Process**
Origination Guide 24.3	**Document Review**
Origination Guide 24.6	**Timeliness**
Origination Guide 24.7	**Custody Fees and Service Charges**

Description of Change:

The following revisions have been made to the Origination Guide.

Origination Guide Revisions:

Special Value Requirement for New York Properties (Chapter 10.1)

Under a New York statute, lenders may not require mortgage insurance if the mortgage amount is less than 80% of the original "fair market value" of the security property. For the purpose of determining if mortgage insurance is required or may be cancelled for mortgages secured by properties located in the state of New York, the PFI may base its LTV determination solely on the appraised value of the property. For mortgage loan eligibility based upon LTV Ratio requirements (including the percentage level of any required mortgage insurance coverage), use our definition of value as stated in Chapter 10.1. The following examples will help to illustrate the proper method for determining when mortgage insurance is required for properties located in New York state:

Example 1:

Loan Amount	=	$80,000	
Purchase Price	=	$99,000	LTV based on Purchase Price = 81%
Appraised Value	=	$100,000	LTV based on Appraised Value = 80%

If the property is located in the state of New York, the need for mortgage insurance is based on the appraised value and the LTV of 80%. Therefore, mortgage insurance is not required for this property.

Example 2*:

Loan Amount	=	$85,000	
Purchase Price	=	$99,000	LTV based on Purchase Price = 86%
Appraised Value	=	$100,000	LTV based on Appraised Value = 85%

If the property is located in the state of New York, the need for mortgage insurance is based on the appraised value and the LTV of 85%. Therefore, mortgage insurance is required for this property. However the LTV calculation to determine the coverage level of mortgage insurance is still based on the lesser of the appraised value or the purchase price. In this example, the mortgage insurance coverage level would be 25%* based on an LTV of 86%.

*assumes a 30 year fixed rate loan

New Rule for Calculating TLTV on Mortgages with HELOCs (Chapter 10.2 and 10.4)

PFIs may now use the disbursed portion of the Home Equity Line of Credit (HELOC) to calculate the Total Loan-to-Value (TLTV) on Conventional Loans for qualifying purposes. The LTV/TLTV percentages remain the same; only the method for calculating the TLTV with a HELOC has changed. In addition, the PFI must calculate the TLTV using the entire credit line, and this ratio may not exceed 100%. The following example will help to illustrate the proper method for determining the LTV and TLTV Ratios:

Example:

1st Mortgage Amount	= $90,000	LTV with 1st Mortgage	= 90%
Current HELOC Balance	= $5,000	TLTV with 1st & HELOC Balance	= 95%
Total HELOC Limit	= $10,000	TLTV with 1st & Total HELOC	= 100%
Appraisal/Purchase Price	=$100,000		

Assuming a 1-unit primary residence fixed rate loan, the LTV Ratio, TLTV Ratio with the current HELOC balance, and the TLTV Ratio with the HELOC total credit line meet the maximum allowable ratios listed in Chapter 10.4 of the Origination Guide.

New Conventional Loan Limits for 2002 (Chapter 10.3)

We are increasing our maximum mortgage amounts to reflect the increase in the national average price for single-family homes, as reported by the Federal Housing Finance Board. The maximum conventional loan amounts have been increased by 9.3%, making low-cost mortgages available to more homebuyers. These new loan amounts become **effective for loans funded or purchased under the MPF Program after January 1, 2002**, which may include mortgages originated prior to this date.

The following original loan amounts apply to Conventional Loan originations funded after January 1, 2002:

Number of Units	Maximum Original Loan Amount	Properties in Alaska, Guam, Hawaii or Virgin Islands
1	$300,700	$451,050
2	$384,900	$577,350
3	$465,200	$697,800
4	$578,150	$867,225

Clarifying our Policy for Automated Underwritten Loans (Chapter 10.7)

We have clarified our policy for mortgages delivered under the MPF Program that have been underwritten utilizing Fannie Mae's Desktop Underwriter (DU) or Freddie Mac's Loan Prospector (LP). Debt ratios above the guidelines stated in Chapter 4.04 of the Underwriting Guide are considered acceptable under the MPF Program if the mortgages are submitted to DU or LP and receive a rating of "Approve/Eligible" by DU or "Accept" by LP. In addition, income and asset documentation, as stated on the output from either automated underwriting system, is acceptable under the MPF Program guidelines.

Additional Fees will be Assessed for Late Custodial Certification (Chapter 24)

Effective March 1, 2002 an **uncertified loan fee** will be assessed on all loans that do not meet the required delivery and certification time frames as stated in Chapter 24 of the Origination Guide. When using the MPF Program Custodian, all Collateral Files are required to be submitted to and certified by the MPF Program Custodian within 7 calendar days of purchase by the MPF Bank, or within 21 calendar days of funding for Bank Funded Loans. When using an alternative Custodian, all loans must receive Initial Certification by the Custodian prior to funding under the MPF Program and, therefore, are not subject to this uncertified loan fee. For all Government Loans, final documents must be submitted to and certified by the Custodian within 12 months from the date of purchase by the MPF Bank.

For each Collateral File not certified within the established time frames, the PFI will be assessed an uncertified loan fee of $0.50 each calendar day, beginning with the day following the due date, through the date the Collateral File is certified by the Custodian. At Initial Certification, a grace period will be given to the PFI from the date of receipt to the date of the audit by the MPF Program Custodian. The MPF Provider will notify the PFI daily of the certification status, and all outstanding fees as of the end of the previous month will be debited to the PFI's DDA on the 18th of the month.

This fee will become effective on March 1, 2002, for all loans which are not certified and which are beyond the certification deadline.

Additional Revision to the Origination Guide

PFI Notice 2001-7 incorporates the following change to the Origination Guide:

- **Origination Guide Chapter 24.2 –** Clarification on MERS Membership protocol.

REVISIONS TO THE ORIGINATION GUIDE:

Descriptions of all new or revised Guide chapters are attached. The revisions include:

- Origination Guide Chapters 10 and 24.

We have highlighted the changes on these replacement pages by double underlining the revised text.

If you have any questions about these changes, please contact your MPF Bank Representative or call the MPF Help Desk at 877-463-6673.