

PFI Notice 2003-3

June 20, 2003

Effective Date

- For refinance changes, loans funded or purchased on or after August 20, 2003
- All other changes effective immediately

Special Attention

PFI's MPF[®] Program Management, PFI's Origination Management, Other MPF Guide Recipients

Subject:

- Changing definitions of cash-out refinance and no cash-out refinance
- Adding language regarding predatory lending

Description of Change

The following revisions have been made to the Origination Guide.

New Definitions for Cash-Out and No Cash-Out Refinances

To align our designations with current industry standards, we are revising the definitions of cash-out and no cash-out refinance mortgages.

A **no cash-out refinance**, as of the effective date, will be a mortgage for which the use of the loan proceeds is limited to the following:

- The payoff of the existing first mortgage, regardless of its age;
- The payoff of any subordinate liens secured by the property that were used solely to acquire such property (documentation demonstrating that the full amount of the lien was used for the purchase must be maintained in the mortgage file);
- The payment of related closing costs, financing costs, and prepaid items; and/or
- Disburse cash-out to the borrower, or any other payee, not to exceed the lesser of 2% of the principal amount of the new refinance mortgage or \$2,000.

A **cash-out refinance**, as of the effective date, will be a refinance that does not meet the criteria for either a no cash-out or an expedited (streamlined) refinance. In addition, a cash-out refinance cannot be made to a borrower who has had a bankruptcy discharged, a

deed-in-lieu of foreclosure, a short sale, or a foreclosure within the 4 years immediately preceding the application date.

A **limited cash-out refinance**, as of the effective date, will no longer be a valid loan purpose type due to the changes in the cash-out and no cash-out refinance definitions.

Additional Revisions to the Origination Guide

PFI Notice 2003-3 incorporates changes to the following Origination Guide Chapter:

- **Chapter 2.6 – Predatory Lending:** PFIs are reminded to review the requirements to avoid predatory lending for loans delivered under the MPF Program. We have added language clarifying mortgages which are ineligible for funding or purchase by the MPF Bank based on a rating agency’s action.
- **Chapter 2.13 – Use of Word and Design Trademarks:** We are adding “eMPF[®]” to our list of registered trademarks.
- **Chapter 11.3 – Rate/Term Refinances of MPF Bank Owned Mortgages:** This section was eliminated as we no longer distinguish between the refinance of loans owned by an MPF Bank versus other investors.

REVISIONS TO THE ORIGINATION GUIDE:

Replacement pages for the revised Origination Guide Chapters are attached. The revisions include:

- **Origination Guide Chapter 2 – General MPF Policies**
 - Chapter 2.6.8 – Predatory Lending Summary
 - Chapter 2.13 – Use of Word and Design Trademarks
- **Origination Guide Chapter 11 – Refinance of Conventional Mortgages**
 - Chapter 11.1.1 – No Cash-Out Refinance
 - Chapter 11.1.2 – Cash-Out Refinance
- **Underwriting Guide Chapter 3 – Eligible Loans**
 - Chapter 3.08c – Rate and Term (No Cash-Out) Refinances
 - Chapter 3.08e – Cash-Out Refinances

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 Customer Support Desk at 877-INFO-MPF (877-463-6673).