

# PFI Notice 2003-6

September 2, 2003

## Effective Date

Immediately for all loan deliveries, except as noted

## Special Attention:

PFI's MPF<sup>®</sup> Program Management, PFI's Origination Management, PFI's Servicing Management, Document Custodian Management

## Subject:

Announcing Enhancements to the Origination Guide:

- Reformatted the Underwriting Guide
- Moved the contents of Chapters 9, 10, and 11 of the Origination Guide
- Paying the Agent Fee to the PFI at funding for Bank Funded Mortgages (MPF 100)
- Revised our underwriting guidelines
- Changed the address for the MPF Program Custodian

Enhancements will affect the following Guide Chapters:

Origination Guide Chapter 7	<b>MPF Mortgage Products</b>
Origination Guide Chapter 9	<b>General Mortgage Eligibility</b>
Origination Guide Chapter 10	<b>Maximum Loan Amounts and LTV/TLTV Ratios</b>
Origination Guide Chapter 11	<b>Refinance of Conventional Mortgages</b>
Origination Guide Chapter 12	<b>Mortgage Insurance, Late Charges, and Prepayment Charges</b>
Origination Guide Chapter 20	<b>Loan Level Credit Enhancement</b>
Origination Guide Chapter 23	<b>Mortgage Funding or Purchase</b>
Origination Guide Chapter 24	<b>Documentation Delivery</b>
Origination Guide Chapter 27	<b>The Mortgage File</b>
Origination Guide Chapter 28	<b>PFI's In-House Quality Control Program</b>
Origination Guide – Forms & Exhibits	<b>Credit Enhancement Request (Form OG3) Instructions</b>
Origination Guide - Underwriting Guide	<b>Underwriting Guide Chapters 1 through 5</b>

## **Description of Change:**

The following revisions have been made to the Origination Guide.

### **Origination Guide Revisions:**

#### New Underwriting Guide Format

We have revised our Underwriting Guide format by adopting a layout style and numbering system that is similar to the rest of our Guides. As a result, we have changed the location of various policies to make it easier to find the information you need. Information in the Underwriting Guide is now organized into five chapters as follows:

- Chapter 1 – Introduction
- Chapter 2 – Mortgage Eligibility
- Chapter 3 – Loan Purpose
- Chapter 4 – Borrower Eligibility
- Chapter 5 – Property Valuation & Eligibility

A conversion chart is included to assist PFIs in managing these revisions. Clarifications in policy are indicated throughout the revised Underwriting Guide with double underlining.

#### New Location for Chapters 9, 10 and 11

Most of the language of Origination Guide Chapters 9, 10 and 11 has been incorporated into the Underwriting Guide. This change helps to eliminate duplication through the Origination Guide by consolidating all underwriting guidelines within the Underwriting Guide. The requirements for security instruments from Chapters 9.9 and 9.10 have been relocated to Chapter 24.5 of the Origination Guide since they pertain to document custody and delivery. A conversion chart is also included for these chapters.

#### Agent Fee payment to the PFI for the MPF 100 Product (OG Chapter 7.4 and 23.2.3)

We have revised the timing of Agent Fee payment so you receive your Agent Fees immediately for MPF Bank Funded Mortgages (MPF 100). Previously the Agent Fee was paid in the month following the closing of the mortgage. Now the PFI will receive the Agent Fee without delay at the time the loan is funded by the MPF Bank.

#### Non-Permanent Resident Alien LTV / TLTV Requirements (UG Chapter 2.2)

We have eliminated the distinct LTV and TLTV requirements for non-permanent resident aliens. All borrowers may now be qualified under the same LTV and TLTV ratios with no difference between U.S. citizens and lawful permanent and non-permanent resident aliens. We have made this change to bring our requirements in line with industry standards.

#### FHLB Affordable Housing Program Loans (UG Chapter 2.2.4)

We have clarified our policies on the sale of loans with subordinate FHLB AHP loans. Contact your MPF Bank Representative for more information on loans with FHLB AHP

grants or loans. Remember that the Credit Enhancement Request (Form OG3) for mortgages with subordinate AHP loans must be faxed to the MPF Provider.

#### Temporary Buydown Requirements (UG Chapter 2.18)

We have modified our temporary buydown requirements *effective for loans delivered as of November 1, 2003*. Temporary buydowns (such as 3-2-1 and 2-1 buydowns of the note rate) are no longer allowed on cash-out refinances. In addition, for loans secured by second homes that use a temporary buydown, borrowers must now be qualified at the note rate rather than at the buydown rate.

#### Construction-Permanent Loans (UG Chapter 3.6)

We have added to the Underwriting Guide our construction-permanent loan requirements, which were previously announced in PFI Marketing Bulletin 2000-1. In addition, we have simplified the policy by requiring the PFI to document the purchase price or the acquisition cost rather than to structure the closing as a purchase transaction. The LTV/TLTV must be calculated on the lesser of the appraised value or the purchase price/acquisition cost. If the lot (without the improvements) was acquired more than one year prior to the application, the current appraised value of the lot may be used to determine the purchase price or acquisition cost.

#### Permanent and Non-Permanent Resident Aliens (UG Chapters 4.1.3 and 4.1.4)

We have enhanced our Borrower requirements by more accurately defining permanent and non-permanent resident aliens as distinct borrower types.

#### Deferred Debt, Lease Payments and Debt Secured by Financial Assets (UG Chapter 4.4.2.1)

*Effective for loans delivered as of November 1, 2003*, all deferred installment debts, such as student loans, are required to be included as monthly debt in the total debt ratio calculation, regardless of their deferment status. We have added the requirement that lease payments, such as auto leases, be included as monthly debt in the total debt ratio calculation, regardless of the term remaining on the lease.

Effective immediately we no longer require monthly payments for debts secured by financial assets (such as 401k loans, margin accounts or CD loans) to be included in the borrower's total monthly debts for mortgage qualification. However, only the balance of the asset above the outstanding secured loan may be considered for reserves or assets available to the borrower.

#### Determination of Primary FICO Score (UG Chapter 4.5.1)

Previously when multiple borrowers existed on the same loan, we required the primary FICO score to be based upon the borrower who earned 50% or more of the total income. Since the Credit Enhancement structure is based upon up to two borrowers' FICO scores, we have eliminated this statement from the Guide. If a minimum FICO score is required by the Guide, then all borrowers on the loan must meet that minimum requirement unless otherwise stated.

#### Age and Number of Tradelines for an Established Credit History (UG Chapter 4.5.3)

We have reduced the age and number of tradelines required on a credit report for an established credit history. If a Borrower's credit history is verified through traditional credit sources on a credit report, a borrower must now have at least 3 credit references open and active for at least 12 months.

#### Late Payment Guidelines (UG Chapters 4.5.3 & 4.5.4)

We have revised our guidelines for the number of acceptable late payments for a borrower with an established credit history. Previously our policy provided suggested guidelines for the level of late payments in the last 3 months, 12 months, and 24 months. We have eliminated the guidelines for the 3-month period. In addition, for borrowers who do not have an established credit history on a traditional credit report as discussed in Chapter 4.5.4, the borrower must have no housing delinquencies and have no more than one 30-day late payment on all other sources. The Originator must use its own best judgment to determine if any level of late payments are acceptable based on the borrower's limited use of credit.

#### Requirements for Payoff of Judgments and Collections (UG Chapter 4.5.5.1)

We have revised our dollar thresholds for the payoff of any outstanding judgment, collection, charge-off, and repossession as of the time of closing *effective for loans delivered as of November 1, 2003*. A single event of past judgment, tax lien, collection, charge-off, or repossession of \$250 or more, or multiple events with more than a total of \$1,000 past due, needs to be paid in full.

#### Re-established Credit Following Adverse Credit Issues (UG Chapter 4.5.5.5)

We have provided additional guidance in determining if a borrower has re-established credit following adverse credit issues, such as bankruptcy, foreclosure, or other seriously delinquent credit. *Effective for loans delivered as of November 1, 2003*, a borrower must have a minimum of 4 credit references with at least one traditional credit reference on the credit report and one housing-related reference, such as a mortgage or rental payment history. Additional guidance on determining acceptable re-established credit is included in the Underwriting Guide.

#### Income Stability Requirements (UG Chapter 4.6.1)

We have clarified our requirements for determining a borrower's satisfactory income stability and history. A borrower must have a history of receiving stable income, however there is generally no minimum time requirement as long as the originator can determine the borrower's income is stable, predictable, and likely to continue (generally for at least 3 years). When a borrower has less predictable sources of income, such as a commissioned or contract employee, a longer history may be required to determine the likelihood that income will continue at the indicated level.

#### Alignment of Income Documentation Requirements (UG Chapters 4.6.2 through 4.6.22)

We have enhanced the documentation requirements and definitions of the most commonly used income types. This was done in an effort to provide clearer direction in documenting income for its eligibility in use for qualification and to bring our guidelines

in line with conventional, conforming industry standards. Changes include new requirements for earned income documentation, the use of tax returns, and the elimination of year-to-date financial statements for self-employed borrowers.

#### Calculation of Net Rental Income or Loss (UG Chapters 4.6.16 & 4.6.17)

We have provided additional guidance for a PFI to calculate a borrower's net rental income or loss. The method and documentation used to calculate the income or loss is dependent upon transaction type (purchase or refinance), the occupancy type, and the length of time the property has been owned. At no time may more than 75% of the gross rental income from the appraisal or a current lease(s) be considered as income unless the borrower's most recent 2 years of tax returns clearly support the use of a higher percentage of rental income.

#### Minimum Downpayment Requirement (UG Chapter 4.7.1)

When the LTV is greater than 90%, we require a borrower to contribute a minimum of 3% of his/her own funds to the downpayment and closing costs of a primary residence transaction. Previously we made exceptions to this requirement when certain FICO score thresholds were met. In order to bring our policy in line with industry standards, we have eliminated these exceptions *effective for loans delivered as of November 1, 2003*. For conventional, conforming loans, a borrower is now always required to contribute a minimum of 3% of his/her own funds to a primary residence transaction when the LTV is greater than 90%. When the LTV is 90% or less, all the funds for down payment and/or Closing costs may be in the form of a gift. A transaction structured as an "80/10/10" (or 80% mortgage, 10% second mortgage, and 10% as either a gift or borrower's own funds) is still permitted to be sold under the MPF Program. PFIs are reminded that when a mortgage is secured by a second home, a borrower must continue to contribute at least 5% of his/her own funds, regardless of the LTV.

#### Gifts of Equity from a Property Seller (UG Chapter 4.7.4)

Borrowers are now allowed to receive gifts of equity in the Mortgaged Property from the property seller when the donor is a relative of the borrower. For LTVs greater than 90%, the borrower must invest 3% of his/her own funds. Any gifts of equity must be disclosed on the HUD-1 settlement statement.

#### Reserve Requirements (UG Chapter 4.7.12)

We no longer specify a minimum number of months of housing expense that a borrower is required to have in reserve at the time of closing. Cash reserves should be sufficient to cover risk factors present in the application, such as LTV, debt ratios, and income stability. If reserves are used as a compensating factor or are input to an automated underwriting system, they must be verified.

#### Electronic and Facsimile Documentation (UG Chapter 4.8.3)

We have supplemented our policy on the use of electronic and facsimile verifications to verify employment, income and assets. An electronic verification is a computer-generated document, accessed and printed from an Intranet or Internet. Facsimile

verification forms are acceptable if it is clear from the document that the information was sent by facsimile transmission directly from the source to the Originator.

#### Appraiser Policy (UG Chapter 5.1.7)

The MPF Provider reserves the right to refuse to accept appraisals from a specific appraiser. In the event that this right is exercised, a PFI will be given adequate notice in order to clear its pipeline of any loans containing an appraisal from such an appraiser. Further information regarding this change is reflected in the Underwriting Guide.

#### Rural Properties (UG Chapter 5.2.3)

We have expanded our guidelines on rural properties to provide additional direction in the handling of properties with outbuildings. Minimal outbuildings (such as a small barn or stable) are generally acceptable if typical to properties in the area. Significant outbuildings, (such as a large barn or facilities for farm animals) are generally considered an indication that the property is agricultural, rather than residential, in nature.

#### Manufactured Housing (UG Chapter 5.2.6)

We have clarified our guidelines on manufactured homes, including the addition to the Guide of the existing requirements previously announced in PFI Notice 2003-4. Additional revisions include changes to the requirements for the Appraisal report with the new FNMA Form 1004C and clarification of title and lien requirements. We have also eliminated our requirements regarding roof structure, steps/stoops, and on-site parking. The appraisal requirements are *effective for loans delivered as of November 1, 2003*. All other changes remain in affect as previously announced.

#### Additional Revisions to the Origination Guide

PFI Notice 2003-6 incorporates changes to the following Origination Guide Chapters:

- **Chapters 12, 20, 24, 27, and 28** – Revised references to chapter numbers for the Underwriting Guide and relocated pertinent information to the Underwriting Guide.
- **Chapter 24.2.5** – Chapter 23.7, regarding MERS, was moved so that all information regarding MERS may be found in the same chapter.
- **Chapter 24.2.8** – *Effective September 15, 2003*, the new address of the MPF Program Custodian is:

Wells Fargo Bank, N. A.  
MPF Program / Private Certifications  
751 Kasota Avenue  
Minneapolis, MN 55414

The MPF Program Custodian will notify affected parties of its new facsimile numbers under separate cover. New facsimile numbers will be published in Chapter 24 of the Origination Guide and Chapter 111 of the Servicing Guide in an upcoming PFI Notice. The telephone number for the MPF Program Custodian will remain the same.

## **REVISIONS TO THE GUIDES:**

Replacement pages for the revised Origination and Underwriting Guide Chapters are attached. The revision includes:

- Table of Contents
- Origination Guide Chapters 7, 9, 10, 11, 12, 20, 23, 24, 27, 28
- Forms & Exhibits
- Origination and Underwriting Guide Chapter Conversion Table
- Underwriting Guide Table of Contents, Chapters 1, 2, 3, 4, 5

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).**