

PFI Notice 2004-2

July 9, 2004

Effective Date

Immediately for all loan deliveries, except as noted.

Special Attention:

PFI's MPF[®] Program Management, PFI's Origination Management

Subject:

Announcing enhancements to the Origination and Servicing Guides:

- Certain high cost, covered and home loans not permitted under the MPF Program
- New data field for predatory lending
- Mandatory arbitration clauses not permitted under the MPF Program

Enhancements will affect the following Guide Chapters:

Origination Guide Chapter 2	General MPF Policies
Origination Guide Chapter 23	Mortgage Funding or Purchase
Origination Guide – Forms & Exhibits	Credit Enhancement Request (Form OG3)
	Instructions
	Predatory Lending Category (Exhibit A)
Origination Guide – Glossary	
Servicing Guide – Glossary	

Description of Change:

The following revisions have been made to the Origination Guide

Origination Guide Revisions:

Predatory Lending (OG Chapter 2.6, Exhibit A and Glossary)

In response to recent announcements by rating agencies and regulators, we are providing clarification that loans in any of the following categories are not eligible for delivery under the MPF Program:

1. Loans 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 (existing requirement; see Chapter 2.6.4 of the Origination Guide);
2. Loans which a rating agency does not permit to be included in structured finance transactions rated by the rating agency (existing requirement; see Chapter 2.6.9 of the Origination Guide); and
3. Loans categorized as High Cost Loans or Covered Loans (**effective immediately**) or Home Loans (**effective July 1, 2004**) by Standard & Poor's LEVELS Glossary, Appendix E, as amended from time to time (see the revisions to Chapter 2.6.4 of the Origination Guide described below).

Please note that Standard & Poor's classifications are not consistent with state law classifications in all cases. Some loans defined as "Covered Loans" under state law are classified as "High Cost" by Standard & Poor's because they have features generally associated with High Cost Loans. *Although Appendix E's categories may differ from state or local law definitions and names, the categories in Appendix E must be used to determine a loan's eligibility and delivery requirements under the MPF Program.* For example, a "covered loan" under Colorado law is considered "High Cost" under Appendix E, and therefore cannot be delivered under the MPF Program.

Note: Loans which are not ratable by a rating agency are ineligible for delivery under the MPF Program, regardless of S&P's predatory lending categorization. For example, since Georgia loans originated from October 1, 2002 through March 6, 2003 (Georgia interim loans) are not ratable by S&P, they remain ineligible for delivery under the MPF Program.

While most loans sold under the MPF Program are not affected by predatory lending laws, in some jurisdictions predatory lending laws do affect non-predatory loans. Consequently, we emphasize to PFIs that the changes to Chapter 2.6 of the Origination Guide affect **only** those loans which are subject to predatory lending laws or rating agency restrictions and do **not** affect loans which are not subject to such laws or restrictions. We also remind PFIs of their ongoing obligation to ensure that operational procedures are in place to identify and exclude from their MPF deliveries all ineligible loans and all loans that do not comply with any applicable law including predatory lending laws.

Three key dates impact the new requirements described in this PFI Notice*:

1. **Effective immediately**, loans classified as "High Cost" or "Covered" in Standard & Poor's LEVELS Glossary, Appendix E, as amended (referred to below as "Appendix E") are ineligible for delivery under the amendment to Ch. 2.6. In order to assist PFIs in complying with amended Chapter 2.6.4 of the Origination Guide, Appendix E is being added as Exhibit A to the MPF Origination Guide. Future changes to S&P's Appendix E will be incorporated into Exhibit A.
2. **Effective immediately**, loans classified in Appendix E as "Home Loans" will also be ineligible for delivery under the MPF Program.

3. **In the near future** (i.e., after a new data field is added to the MPF system), loans classified in Appendix E as Home Loans or Covered Loans **will be eligible** for delivery provided the PFI is able to deliver the required new data element – as described below.

*Note: Georgia loans originated from October 1, 2002 through March 6, 2003 remain ineligible for delivery under the MPF Program for all three periods.

New Data Element (Chapter 23.2.1, Form OG3 Instructions and Glossary)

In the near future, a “Predatory Lending Category” data field will be added to our data file layout with loan categories based upon Exhibit A of the Origination Guide (as updated by Standard & Poor’s LEVELS Glossary, Appendix E). Loans included in Appendix E’s Covered or Home Loan categories will be reported in the new data field as "Covered Loan" or "Home Loan" respectively. All other loans will be reported as "None of the above" – indicating that they are not Covered or Home Loans. Note: Since loans in the “High Cost” category are not eligible for delivery under the MPF Program, "High Cost" is not an available option for the new data field. (See the Credit Enhancement Request (Form OG3) Instructions)

The effective date of this new data element will be announced at a later date. After the effective date, loans in Appendix E’s “Covered Loan” and “Home Loan” categories **will be eligible** for delivery provided the PFI is able to provide data in the new Predatory Lending Category. Until a PFI is able to provide such data, the PFI may not deliver loans that are categorized in Appendix E as “High Cost, “Covered” or “Home Loans.”

Additional Revisions

PFI Notice 2004-2 also incorporates the following revisions:

- **Origination Guide Chapter 2.6.6 - Prepayment Penalties and Mandatory Arbitration Clauses:** To bring our requirements in line with industry standards, we are adding a prohibition against the purchase of mortgages with mandatory arbitration clauses.
- **Origination Guide Chapter 2.12 – Repurchase and Indemnification:** To provide for easier reference we have duplicated the “Loan Repurchase Amount” determination guidelines from Chapter 24.3.2 into this chapter.
- **Credit Enhancement Request (Form OG3) Instructions:** In addition to the changes described above, based on feedback from our PFIs, we have clarified the instructions for completing some of the data fields on the credit enhancement request form (Form OG3).

REVISIONS TO THE ORIGINATION AND SERVICING GUIDES:

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

- Origination Guide Chapters 2 and 23
- Credit Enhancement Request (Form OG3) Instructions and Exhibit A
- Origination Guide Glossary
- Servicing Guide Glossary

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).