

# PFI Notice 2004-4

November 5, 2004

## Effective Date

As Noted

## Special Attention:

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

## Subject:

### Announcing enhancements to the Origination Guide:

- Updating requirements for High Cost, Covered and Home Loans (Massachusetts, New Jersey and Indiana)

### Enhancements will affect the following Guide Chapters:

Origination Guide – Forms and Exhibits      **Predatory Lending Category (Exhibit A)**

**PFI's are reminded that by delivering a Mortgage under the MPF Program, the PFI represents and warrants that a Mortgage is not a High Cost Loan as defined by the then-current version of Standard & Poor's LEVELS Glossary, Appendix E ("S&P's Exhibit E").**

## Description of Change:

The following revisions have been made to the Origination Guide

### **Origination Guide Revisions:**

#### Predatory Lending (Exhibit A)

We are updating our Predatory Lending requirements and the Predatory Lending Category Exhibit (Exhibit A) due to the recently announced Standard & Poor's policy stating that Massachusetts High Cost Home Mortgage Loans and Indiana High Cost Home Loans are excluded from Standard & Poor's structured finance transactions. See Origination Guide Chapter 2.6.1.1 for more information on the ineligibility of unratable loans. We are also updating our Predatory Lending requirements for New Jersey High Cost Home Loans.

In connection with its recent announcements, Standard & Poor's updated its LEVELS Glossary, Appendix E (Origination Guide Exhibit A). Consequently, Exhibit A to the Origination Guide is also being updated. See Chapter 2.6 of the Origination Guide for more information. See PFI Notice 2004-2 for a full explanation of the use and purpose of Exhibit A.

**Effective for Mortgages with Note Dates on or after November 7, 2004,** Massachusetts High Cost Home Mortgage Loans are not eligible for delivery under the MPF Program.

All PFIs are required to review their retail, broker and correspondent loan origination processes and make any necessary changes to ensure that ineligible Mortgages are not delivered under the MPF Program.

**Effective for Massachusetts and New Jersey Mortgages with Note Dates on or after November 7, 2004,** in order to ensure that Massachusetts High Cost Home Mortgage Loans and New Jersey High Cost Home Loans are not delivered under the MPF Program, a post-purchase due-diligence review of all Mortgages on properties located in these states will be conducted and will continue until the MPF Banks determine that a lesser level of diligence is appropriate and prudent. The procedures below will be followed by MPF Quality Assurance to conduct these reviews:

MPF Quality Assurance will notify the PFI via the "Notice of Request for Review Letter" identifying the loans covered by the review. This letter will be issued to all affected PFIs once a month for loans on properties located in these states delivered through the date of the letter. The PFI will have 15 days to comply with the request and provide the required documentation. This documentation will include, but is not limited to, copies of the Note, the initial Application, the HUD-1 Settlement Statement, the Final Truth-in-Lending Disclosure and the payoff letter (for refinance transactions). If the documentation is not supplied by the 15<sup>th</sup> day, the loan will be deemed ineligible and therefore subject to repurchase.

A delivery fee may be assessed in the future for all loans that are secured by property in these affected states. If a delivery fee is to be assessed, sufficient notice will be provided.

If a Mortgage is found to be an ineligible predatory loan, the PFI will be required to repurchase the Mortgage within five (5) Business Days after the notice by the MPF Bank or MPF Provider (See Origination Guide Chapters 2.6.4 and 2.12).

In addition to the review of all Massachusetts and New Jersey Mortgages after the effective dates noted above, PFIs are reminded of the requirement to have internal procedures that are used to screen out ineligible predatory loans (See Origination Guide Chapter 2.6.4). The MPF Bank may be contacting PFIs for their predatory lending screening procedures.

### **Reminder**

PFIs are reminded that the Indiana Home Loan Practices Act (the Act) will become effective on January 1, 2005. As the Act is currently written, Indiana High Cost Home Loans originated on or after January 1, 2005 will not be eligible for delivery under the MPF Program. Additionally, Home Loans, as defined by the Act will not be eligible for delivery under the MPF Program

until the "Predatory Lending Category" data field is available for use and the PFI is able to provide such data (See PFI Notice 2004-2 for a full explanation of the "Predatory Lending Category" data field). If revisions to the Act are announced prior to January 1, 2005, we will provide information regarding any resultant changes to this policy.

The procedures contained in this PFI Notice 2004-4 may be further revised to reflect changes in the existing laws and interpretation of such laws by both Standard and Poor's and the MPF Banks' regulator, the Federal Housing Finance Board.

**REVISIONS TO THE ORIGINATION & SERVICING GUIDES:**

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

- Origination Guide – Predatory Lending Category (Exhibit A)

We have highlighted the changes to Origination Guide Exhibit A by double underlining the revised text.

**If you have any questions about these changes, please contact your MPF Bank Representative.**