

# PFI Notice 2005-4

September 9, 2005

## Effective Date

Immediately, except as noted

## Special Attention:

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

## Subject:

### Announcing changes to the MPF Guides on the following subjects:

- Fidelity and E&O insurance coverage change notification
- Delivery Commitment extension fees
- Borrower's with non-established credit histories
- Credit Enhancement amount expiration
- Borrower's consent to obtain credit information
- Quality Control sample selection
- Repurchase requirements in the case of false representation
- Modification of the terms of a curtailed mortgage
- Custody File Storage Facility Requirements

### Enhancements will affect the following Guide Chapters:

Origination Guide Chapter 5	<b>PFI Institutional Eligibility</b>
Origination Guide Chapter 19	<b>Delivery Commitments</b>
Origination Guide Chapter 20	<b>Loan Level Credit Enhancement</b>
Origination Guide Chapter 27	<b>The Mortgage File</b>
Origination Guide Chapter 28	<b>PFI's In-House Quality Control Program</b>
Underwriting Guide Chapter 4	<b>Borrower Eligibility</b>
Servicing Guide Chapter 105	<b>Custodial Accounts, Advances and Loan Accounting</b>
Custody Manual	<b>Chapters 2, 3, 5 and Exhibit 1</b>

## **Description of Changes:**

The following revisions have been made to the Origination, Underwriting and Servicing Guides and Custody Manual

### **Origination and Underwriting Guide Revisions:**

#### Fidelity and E&O Insurance Coverage Change Notification (OG Chapters 5.2.2 and 5.3)

**Effective for all new PFI Fidelity and E&O Insurance policies or existing policies renewed on or after 12/1/05**, the PFI's fidelity and E&O insurance policies must include insurer's agreements to notify the MPF Bank when the insurer independently cancels, does not renew, reduces or pays a claim that depletes the aggregate limit of insurance by more than 50%. The timing of the notification is dependent on the action taken by the insurer. This change will bring our policy in line with industry standards.

#### Delivery Commitment Extension Fees (OG Chapter 19.7)

PFI's may request the extension of a Delivery Commitment prior to its expiration for up to 20 Business Days, in increments of one-day periods. Each time a Delivery Commitment is extended, an extension fee will be assessed.

#### Non-Established Credit (OG Chapter 20.1.5 and UG Chapter 4.5.4)

A PFI may deliver a mortgage under the MPF Program when the borrower does not have a credit history which is reported through the credit reporting agencies. This is allowed only when the borrower has an established credit history through alternative credit sources. When a borrower is qualified using alternative credit sources and the Mortgage is credit enhanced using a "thin file" FICO score code, the PFI represents and warrants that the credit quality as evidenced by alternative sources meets our non-established credit standards.

#### Credit Enhancement Expiration (OG Chapter 20.2)

A credit enhancement amount for a Mortgage expires 90 days after the PFI has submitted the credit enhancement data to the MPF Provider. This expiration is subject to MPF system limitations such as upgrades, modifications or enhancements and changes in data element requirements.

#### Borrower's Consent to Obtain Credit Information (OG Chapter 27.10.2 and UG Chapter 4.5.1)

A credit score, credit report and/or other credit documentation must be obtained for all Borrowers and maintained in the Mortgage File. **Effective for Mortgages with Note Dates on or after 10/1/05**, originated in a jurisdiction with laws that require the Borrower's consent to obtain his or her credit information, the consent must be included in the Mortgage File and must extend to the Originator's successors and assigns and/or to subsequent investors and Servicers.

#### Quality Control Sample Selection (OG Chapter 28.4)

The method a PFI may use to select loans for its in-house quality control sample is based in part on how many mortgages it originates in a year. If the PFI's volume is under 5,000 Mortgages or it chooses not to use statistical sampling, it must choose a sample of 10% of its total annual home

mortgage production, total annual secondary market home mortgage production or total annual MPF Program originations. The sampling should be timed so that every mortgage within the selected population has a chance of being selected for review within 90 days of its closing date. The PFI samples should include mortgages with high-risk attributes including manufactured homes or cash-out refinances.

#### Repurchase Requirements in the Case of False Representation (OG Chapter 28.11)

A PFI is required to inform the MPF Provider of any incident of suspected fraud or false representation immediately. The MPF Bank may demand purchase, repurchase and/or reimbursement by the PFI when the Borrowers or any other party to the Mortgage transaction has been found to have made false representations relating to such transaction, whether or not the PFI was a party to or had knowledge of such fraud or false representations.

### **Servicing Guide Revisions:**

#### Modification of the Terms of a Curtailed Mortgage (SG Chapter 105.7.5.3)

A borrower may apply a curtailment payment to the principal of a loan at any time. The note may be modified if the curtailment is the greater of \$5,000 or 10% of the current principal balance on the mortgage and it was applied to the loan within 60 calendar days prior to the Note modification date.

### **Custody Manual Revisions:**

#### Custody File Storage Facility Requirements (CM Chapters 2.2, 3.5.1, 5.3.8 and Exhibit 1)

Custodians must store Collateral Files in secure, fire resistant storage facilities with adequate controls on access to assure the safety and security of the Collateral Files. Access to the storage facilities must be controlled either by an automated system or a manual system and the storage facilities must provide fire protection for a minimum of two hours that is attested to by the Custodian's insurance company, local fire marshal or an independent, qualified fire protection contractor.

### **Additional Revisions**

PFI Notice 2005-4 incorporates the following revisions:

**Origination Guide Chapter 5 – PFI Institutional Eligibility:** In the sections of the chapter where PFIs are instructed to notify their MPF Bank or the MPF Provider, we are adding cross-references to Servicing Guide Chapter 111 (Directory and Notices) to assist PFIs in finding where to send their notifications.

**Underwriting Guide Chapter 4.7.4.1 – Gift of Equity:** The MPF Program's guidelines were updated in September 2003 (PFI Notice 2003-6) to allow Borrowers to use gifts of equity when purchasing a home. In this update to the Underwriting Guide, the policy is unchanged, however we have created a distinct section to highlight this unique source of borrower funds.

**Origination, Underwriting and Servicing Guides and Custody Manual – All published chapters:** The chapters of the Guides being published with the Notice contain new phrasing or

terminology that reflects current MPF Program usage. We are also adding cross-references to better assist PFIs in finding critical information.

### **Origination, Underwriting, Servicing Guides and Custody Manual Revisions:**

The following Origination, Underwriting and Servicing Guides and Custody Manual changes can be found on the AllRegs website. In addition, Custody Manual Exhibit 1 can be found on the eMPF website. Links to these sites are on fhbmpf.com and fhb-mpf.com.

- Origination Guide
  - Chapters 5, 19, 20, 27 and 28 - changed text is highlighted in AllRegs
- Underwriting Guide
  - Chapter 4 - changed text is highlighted in AllRegs
- Servicing Guide
  - Chapters 105 - changed text is highlighted in AllRegs
- Custody Manual
  - Chapters 2, 3 and 5 - changed text is highlighted in AllRegs
  - Exhibit 1

**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).**