

PFI Notice 2005-6

Date: November 18, 2005

Effective Date

Immediately, except as noted

Special Attention:

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

Subject:

Announcing enhancements to the Origination and Underwriting Guides on the following subjects:

- New Appraisal Forms
- Revised Uniform Residential Loan Application
- Revised Uniform Underwriting and Transmittal Summary
- Additional Parcels
- Seller / Builder Contribution Limits
- Bridge Loan Financing
- Appraisal Photographs
- Secondary Financing Documentation

Enhancements will affect the following Guide Chapters:

Origination Guide Chapter 26	MPF Bank's Quality Control Review
Origination Guide Chapter 27	The Mortgage File
Origination Guide Chapter 28	PFI's In-House Quality Control Program
Origination Guide Forms & Exhibits	Credit Enhancement Request (Form OG3)
Underwriting Guide Chapter 2	Mortgage Eligibility
Underwriting Guide Chapter 3	Loan Purpose
Underwriting Guide Chapter 4	Borrower Eligibility
Underwriting Guide Chapter 5	Property Valuation and Eligibility

Description of Changes

Underwriting Guide Revisions

New Appraisal Forms (UG Chapters 2, 3, 4 & 5, OG Chapters 27 & 28 and Form OG3)

As a result of changes in industry practices, the existing appraisal forms have been revised, and several new appraisal forms have been added. The new and revised forms feature a single use for each form (for example, property type and interior or exterior inspections) and a standardized format for all of the forms with expanded comment areas. The forms are designed to support current mortgage industry and appraisal reporting practices. You may begin using the new forms immediately; but the new appraisal forms are required **for all Appraisals having an effective date on or after January 1, 2006.**

Additional Parcels (Underwriting Guide Chapters 2.7.1 and 5.1.3)

Occasionally a property may include a lot (or separate parcel of land) that is adjoining the parcel containing the mortgaged property. We are adding criteria to clarify when a separate parcel may be part of the security used for a mortgage delivered under the MPF Program. The additional adjoining parcel must be zoned residential, not contain a residential structure, and the mortgage must be a valid first lien on all parcels.

Seller / Builder Contribution Limits (UG Chapter 2.21)

We have expanded the percentage of funds a property seller or builder may contribute to a transaction. A seller or builder may now contribute up to 9% of a property's value for a mortgage secured by a primary residence or second home with an LTV of 75% or less. PFIs are reminded that seller and builder contributions may be used only for normal and customary closing costs including prepaid items (such as prepaid interest, prepaid real estate taxes, escrow funds, initial mortgage insurance premium, hazard or other insurance premiums).

Bridge Loan Financing (UG Chapters 3.9 and 4.7.14)

We are adding more options for borrowers using a bridge loan on their prior residence for a source of downpayment on a new home. A borrower's previous housing payment and the payments on short-term financing secured by the sale of the Borrower's previous residence may be excluded from the monthly debt payment-to-income ratio if the Borrower has:

- A signed sales contract for the previous residence; and
- A lender's commitment to the buyer of the previous residence (if the signed sales contract contains a financing contingency); and
- Evidence of reserves of six months based on the payments for the previous residence; or
- In lieu of the three items above, an executed buyout agreement that is part of an employer relocation plan where the employer / relocation company takes responsibility for the outstanding Mortgage(s).

Origination Guide Revisions

Uniform Residential Loan Application (URLA) (OG Chapters 27 and 28)

Due to changes in industry practices, the Uniform Residential Loan Application (URLA) (FNMA Form 1003 / FHLMC Form 65) and all of its supplements* have been revised. Changes to the application include:

- Requirements for the collection of asset and liability information from all persons, in addition to spouses, with property or similar rights according to applicable state law;
- A signature line for the borrower and co-borrower indicating their intent to apply for joint credit; and
- A separate acknowledgement that the owner of the loan, its servicer, successors and assigns may verify or re-verify the information in the loan application from any source, including a consumer reporting agency.

You may begin using the new form immediately; however, the new form is **required for loan applications taken on or after January 1, 2006** and subsequently delivered under the MPF Program.

** The Application supplements are the Statement of Assets and Liabilities (FNMA Form 1003A / FHLMC Form 65A), the Uniform Residential Loan Application –Spanish Version (Form 1003(S)) and the Statement of Assets and Liabilities – Spanish Version (Form 1003A (S)).*

The Uniform Underwriting and Transmittal Summary (OG Chapter 27 and UG Chapter 4)

Because of changes in industry practices, the Uniform Underwriting and Transmittal Summary (FNMA Form 1008 / FHLMC Form 1077) have been revised. You have the option to begin using the new form immediately; however, the new form is **required for loan applications taken on or after January 1, 2006** and subsequently delivered under the MPF Program.

Additional Revisions

PFI Notice 2005-6 incorporates the following revisions:

Origination Guide Chapter 26 – MPF Bank’s Quality Control Review: In lieu of original photographs of the mortgaged property and comparables, copied, digital or electronically imaged photographs may be sent to the MPF Provider when a loan is requested for MPF quality control review. All copied, digital or electronically imaged photographs must be clear and detailed.

Origination Guide Chapter 27 – The Mortgage File: For each Mortgage originated with secondary financing, regardless of the Mortgage’s loan purpose or the disbursed / outstanding balance of any HELOC, the Mortgage File must contain copies of the Note, Security Instrument and HUD-1 Settlement Statement on the secondary financing.

Underwriting Guide 5 - Property Valuation & Eligibility: Due to changes in industry practices, the appraiser must conduct research and an analysis on any prior sales or transfers of the property in the past three years, review the sales contract, determine if the property is structurally sound and determine if conditions exist that affect the livability of the property.

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Origination and Underwriting Guide - All published chapters and forms: The chapters and forms of the Origination and Underwriting Guide published with the Notice contain revised terminology that reflects current MPF Program usage. We are also adding cross-references to better assist PFI's in finding critical information.

Origination and Underwriting Guide Revisions:

The following Origination and Underwriting Guide changes can be found on the AllRegs and eMPF[®] websites. Links to these sites are on fhlbmpf.com and fhlb-mpf.com or may be accessed directly at <http://www.allregs.com/fhlbmpf/>.

- Origination Guide
 - Chapters 26, 27 and 28 – changed text is highlighted in AllRegs
 - Form OG3
- Underwriting Guide
 - Chapters 2 through 5 – changed text is highlighted in AllRegs

Note: The new appraisal, application and underwriting transmittal forms are available on AllRegs[®], or you may contact your current forms vendor to obtain copies.

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).