

PFI Notice 2007-9

December 17, 2007

Effective Date

Immediately except as noted

Special Attention:

PFI MPF[®] Program Management, Origination Management and Servicing Management

Subject:

Announcing enhancements to the Origination, Underwriting and Servicing Guide:

- Conventional Loan Limits for 2008
- Limited Cash-out Refinance
- TLTV Limit Clarification for Loans with HELOC Subordinate Financing
- Custodial Account Reconciliation
- High Level Concern (HLC) Mortgage Quality Control Review Requirements
- Mortgage Insurance Cancellation Policy

Enhancements will affect the following Guide Chapters:

Origination Guide Chapter 23	Mortgage Funding or Purchase
Origination Guide Chapter 28	PFI's In-House Quality Control Program
Origination Guide Forms & Exhibits	Loan Presentment Request (Form OG3)
Underwriting Guide Chapter 2	Mortgage Eligibility
Underwriting Guide Chapter 3	Loan Purpose
Underwriting Guide Chapter 5	Property Valuation & Eligibility
Servicing Guide Chapter 105	Custodial Accounts, Advances and Loan Accounting
Servicing Guide Chapter 106	Insurance
Servicing Guide Chapter 107	Mortgage Loan Delinquency
Servicing Guide Chapter 111	Directory and Notices

Description of Changes:

Origination Guide Revisions

Conventional Loan Limits for 2008 (UG Chapter 2.1)

We are retaining the 2007 conventional loan limits (originally announced in PFI Notice 2006-7) as the conventional loan limits for 2008. The Office of Federal Housing Enterprise Oversight (OFHEO) announced that the conventional loan limits will remain the same for 2008 due to the decline in the current national average price for single-family homes, as reported by the Federal Housing Finance Board (FHFB). The conventional loan limits are based on the change in the average home price in the Monthly Interest Rate Survey of the FHFB. The FHFB reported a decline in the average price of \$10,685 (3.49 %) from October 2006 to October 2007.

Below, for your reference, are the 2008 Loan Limits:

Number of Units	Maximum Original Loan Amount	Properties in Alaska, Guam, Hawaii or Virgin Islands
1	\$ 417,000	\$625,500
2	\$ 533,850	\$800,775
3	\$ 645,300	\$967,950
4	\$ 801,950	\$1,202,925

New Limited Cash-Out Refinance Loan Purpose (UG Chapter 3.2.3 and Form OG3)

A Limited Cash-Out Refinance mortgage is a mortgage for which the loan proceeds are limited to amounts used to buy out the equity of a co-owner or to provide flexibility to our standard refinance policy for borrowers impacted by a natural disaster. A PFI that delivers a Limited Cash-Out mortgage must indicate 'cash-out' in the Loan Purpose field when completing the Loan Presentment. The Form OG3 instructions have been updated to reflect this change.

Proceeds used to buy out the equity of a co-owner may include:

- Paying off the first mortgage
- Paying off any subordinate liens
- Paying related closing costs, financing costs and prepaid items

The party buying out the other party's interest must be able to qualify for the mortgage under our standard underwriting guidelines. The LTV and TLTV limits are the same as for purchase and no cash-out transactions described in Underwriting Guide Chapter 2.2.3.

Limited Cash-Out Refinance for Disaster Impacted Properties

To assist borrowers located in FEMA Disaster Areas (defined below), we will allow certain flexibility to our standard underwriting guidelines. Borrowers impacted by a natural disaster may be eligible for a Limited Cash-Out Refinance mortgage provided the following requirements are met:

- The security property is located in any county, city or parish that is designated by the Federal Emergency Management Agency (FEMA) as eligible for individual assistance because of a natural disaster (“FEMA Disaster Areas”).
- The mortgaged property is an owner-occupied principal residence
- The mortgage originated under the Limited Cash-Out Refinance guidelines is delivered to the MPF Program within two (2) years of the FEMA disaster declaration date (available on the FEMA website).
- The loan purpose is coded as a cash-out refinance when completing the Loan Presentment.

The underwriting flexibilities to our standard refinance guidelines are as follows:

- Consolidation of “non-purchase money” subordinate financing is allowable if the subordinate financing, including any draws on a HELOC post-date the disaster. The entire HELOC balance may be paid off through the Limited Cash-Out Refinance if a portion of the amount was used for disaster related expenses connected to the property damage of the principal residence.
- Cash-Out for reimbursement of documented out of pocket expenses for the completed repair of disaster related property damage to the principal residence is not to exceed the lesser of \$15,000 or ten percent (10%) of the balance of the new refinance mortgage.
- The LTV/TLTV limits are the same as for purchase and no cash-out transactions described in Underwriting Guide Chapter 2.2.3.

Aside from the Guide flexibility above, the Limited Cash-Out Refinance mortgage must meet the standard underwriting guidelines published in the MPF Underwriting Guide. Additionally, a Limited Cash-Out Refinance mortgage is not eligible to be delivered as an Expedited (streamlined) Refinance mortgage.

TLTV Limit for Loans with HELOC Subordinate Financing (Underwriting Guide Chapter 2.2.3)

Where secondary financing is in the form of a Home Equity Line of Credit (HELOC), we are reminding PFIs that the total outstanding/disbursed balance of the HELOC is used to calculate the maximum Total Loan to Value (TLTV) allowable for underwriting qualification purposes. Additionally, the total limit (maximum total draw allowable) of the HELOC cannot exceed 100% TLTV. The total limit of the HELOC (including the primary financing and any other subordinate financing) is used to calculate the TLTV for completing the TLTV field in the Loan Presentment (see Form OG3 instructions). We have updated Underwriting Guide Chapter 2.2.3 LTV/TLTV tables and associated footnote to clarify this requirement.

Below is an example for reference that we previously published in PFI Notice 2001-7:

Example:

Appraisal/Purchase Price = \$100,000

1st Mortgage Amount = \$90,000

LTV with 1st Mortgage = 90%

Current HELOC Balance = \$5,000

TLTV with 1st & HELOC Balance = 95%
(TLTV used for underwriting purposes)

Total HELOC Limit = \$10,000

TLTV with 1st & Total HELOC = 100%
(TLTV used for Loan Presentment and to determine the TLTV “limit” does not exceed 100%)

Assuming a 1-unit primary residence fixed-rate loan, the LTV Ratio, TLTV Ratio with the current HELOC balance, and the TLTV Ratio with the HELOC total credit line meet the maximum allowable ratios listed in Underwriting Guide Chapter 2.2.3.

Servicing Guide Revisions

Custodial Reconciliation Reporting (Servicing Guide Chapter 105.1.3 and 105.8.1)

Effective January 1, 2008, Servicers will continue to prepare monthly custodial account reconciliations for each custodial account maintained, however, they will no longer forward these copies to the Master Servicer. Instead, copies shall be retained by the Servicer and, only if requested by the MPF Provider, Servicers shall forward these copies to MPF Loan Administration-Servicing. Reconciliations submitted by PFIs must include complete copies of the Custodial Account bank statement(s), proof of cash and documentation supporting all the reconciling items.

PFI Quality Control Review Responsibility for High Level Concern Mortgages (Servicing Guide Chapter 107.1.2.1 & 107.4.5.1 and Origination Guide Chapter 28.3 & 28.4.2)

It is the responsibility of each Servicing PFI to determine if a mortgage is a High Level Concern (HLC) and/or an Early Payment Default (EPD) Mortgage. This responsibility is inclusive for any Servicer that has acquired the servicing of any MPF Mortgage from an Originating PFI.

We are adding clarification that it is the Servicing PFI’s responsibility to complete a quality control review for any HLC or EPD Mortgage regardless of whether it was also the Originating PFI.

Mortgage Insurance Cancellation Policy (SG 106.2.2)

Previously, when a borrower requested mortgage insurance cancellation, a servicer was required to verify the mortgaged property had not been encumbered by a subordinate lien prior to allowing cancellation. Based on feedback from PFIs, we are removing this requirement. Because of the unique servicer - borrower relationship, the servicer may cancel mortgage insurance based on Applicable Standards without the additional step of verifying that no subordinate lien(s) have been placed on the mortgaged property. For further information regarding Applicable Standards, please refer to Servicing Guide Chapter 103.1.

Additional Revisions

PFI Notice 2007-9 incorporates the following revisions:

- **Origination Guide Chapter 23.6.3 - Data to be Submitted for the Purchase of Closed Loans:** We have deleted text that previously differentiated the data delivery method based on remittance type.
- **Underwriting Guide Chapter 3.2.4 - Unacceptable Refinance Practices:** In conjunction with this Notice, this section has been moved to Underwriting Guide Chapter 3.2.4 from its previous section in Underwriting Guide Chapter 3.2.3.
- **Underwriting Guide Chapter 3.3.1 - Eligible Mortgages for Expedited Refinance:** We have added a cross-reference for clarity.
- **Underwriting Guide Chapter 5.2.3 - Rural Properties:** We have added clarification that an appraiser must include the entire acreage of a proposed mortgaged property for evaluation when completing an appraisal. The site size in the appraisal report should correspond to the legal description provided in the mortgage/deed of trust or the final title policy/attorney's opinion, and if provided, the survey. The appraiser must also provide an accurate description of the entire parcel and its improvements.
- **Underwriting Guide Chapter 5.2.6.5 - Title and Lien Requirements for Manufactured Housing:** We have updated this section to reflect the use of the now current ALTA 7.1 endorsement (in lieu of ALTA 7) for mortgages secured by manufactured homes.
- **Servicing Guide Chapter 111.2 - Directory:** "MPF Loan Administration" has replaced "MPF Loan Accounting" in this directory. "MPF Loan Administration" is inclusive of MPF Loan Accounting, MPF Loan Servicing and MPF Custody. We have added e-mail addresses for each department.

Origination, Underwriting and Servicing Guide Revisions:

The following Origination, Underwriting and Servicing 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
 - Chapter 23
 - Chapter 28 - changed text is highlighted in AllRegs
 - Form OG3
- Underwriting Guide
 - Chapter 2 - changed text is highlighted in AllRegs
 - Chapter 3 - changed text is highlighted in AllRegs
 - Chapter 5 - changed text is highlighted in AllRegs
- Servicing Guide
 - Chapter 105 - changed text is highlighted in AllRegs
 - Chapter 106
 - Chapter 107 - changed text is highlighted in AllRegs
 - Chapter 111 - changed text is highlighted in AllRegs

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).