

# PFI Notice 2008-1

March 7, 2008

## Effective Date

Immediately except as noted

## Special Attention:

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

## Subject:

Announcing enhancements to the Origination, Underwriting and Servicing Guide:

- Flood Insurance Coverage Amount
- Condominium Project Eligibility Determination
- Interested Party Contribution Limits
- Unacceptable Refinance Practices
- Update to definition of Purchase and Refinance Transactions

Enhancements will affect the following Guide Chapters:

Origination Guide Chapter 15

Origination Guide Chapter 23

Origination Guide Chapter 33

Underwriting Guide Chapter 2

Underwriting Guide Chapter 3

Servicing Guide Chapter 111

**Property Insurance**

**Mortgage Funding or Purchase**

**Condominiums and PUDs**

**Mortgage Eligibility**

**Loan Purpose**

**Directory and Notices**

## Description of Changes:

### Origination Guide Revisions

#### Flood Insurance (Origination Guide Chapter 15.3.1)

We are revising our minimum flood insurance requirements for all mortgages delivered where flood insurance coverage is required. Previously, if the unpaid principal balance was the lowest coverage option, the minimum amount was required to equal 80 percent of the replacement cost of the dwelling.

Effective with this Notice, the requirement for coverage, subject to the maximum insurance amount available from the National Flood Insurance Program (NFIP), is the greater of:

- One hundred percent (100%) of the full replacement cost of the insurable improvements; or
- The unpaid principal balance of the mortgage.

#### Condominium Project Eligibility Determination (Origination Guide Chapter 33)

We are making the following changes and/or clarifying condominium project eligibility, project review and loan eligibility requirements:

##### **Condominium Project Classification and Eligibility Standards (Origination Guide Chapter 33.2)**

We are providing additional guidance regarding eligibility requirements that a PFI should review and evaluate for both Category I and II condominium projects. The PFI:

- Must warrant the non-residential use of total floor space of the project does not exceed twenty percent (20%).
- Must warrant that the unit owners or the homeowner's association owns all the facilities related to the project. The developer may not retain any ownership interest in any of these facilities. Additionally, the amenities and facilities may not be subject to a lease between the unit owners or the homeowner's association and another party.

In addition, we are adding a cross reference to Origination Guide Chapter 33.6.1 where a project is a condominium conversion.

##### **Condominium Project Eligibility (Origination Guide Chapter 33.2.1)**

We are adding clarification that a PFI is required to warrant that a condominium project has enough units to support the costs of insurance deductibles in addition to the existing requirement to support costs of the common elements, amenities and facilities. We also are adding a cross reference to Origination Guide Chapter 33.4.8 and 33.5.4 regarding condominium project budget requirements.

### **Ineligible Condominium Projects (Origination Guide Chapter 33.2.2)**

We are adding to our current existing list of ineligible condominium projects as follows:

- Projects with non-incidental business operations owned or operated by the homeowner's association such as, but not limited to, a restaurant, spa, health club, etc.;
- Investment securities – projects that have documents on file with the Securities and Exchange Commission, or projects where unit ownership is characterized or promoted as an investment opportunity;

Additionally, we are adding a reference in this section to clarify that projects consisting of manufactured homes are not eligible.

### **Condominium Project Limited Review (Origination Guide Chapter 33.3.1)**

Where a loan is underwritten using an approved automated underwriting system (AUS), the loan will be considered eligible for limited review of the project provided the LTV/TLTV does not exceed 90% for a primary residence or 75% for a second home. Previously, the LTV/TLTV limit was 95% for primary residences. Additionally, limited reviews for attached units in new condominium projects are no longer eligible.

### **Manual Review of the Condominium Project (Origination Guide Chapter 33.3.3)**

We are adding a requirement that where the PFI manually reviews a project, the eligibility determination by the PFI can be no greater than six (6) months old at the time any mortgage is delivered under the MPF Program.

### **Maintenance and Repair Funds (Origination Guide Chapter 33.5.4)**

We are providing additional guidance that an adequate reserve fund for maintenance, repairs and replacement of the common elements should be not less than ten percent (10%) of the condominium assessment budget.

### **Interested Party Contribution Limits (Origination Guide Chapter 27.16 and Underwriting Guide Chapters 2.21, 5.1.4 & 5.1.6)**

We have renamed Underwriting Guide Chapter 2.21 from “Seller/Builder Contribution Limits” to “Interested Party Contribution Limits” to describe the parties that may have a financial interest in, or can influence the terms, the sale or transfer of the subject property. These persons or entities include, but are not limited to, the property seller, the builder/developer, the real estate agent or broker, or any affiliate who may benefit from the sale of the property and/or the sale of the property at the highest price possible.

We currently allow any interested party contributions paid directly to the borrower to be used for normal and customary closing costs only. They may not be used as part of the borrower's down payment. In addition, we are adding clarification that any interested party contributions paid indirectly to the borrower via a third party organization (including nonprofit entities) are also not eligible for use as any part of the borrower's down payment. Such indirect contributions may be eligible only for customary closing costs up to the limits described in Underwriting Guide

Chapter 2.21. If a mortgage is delivered using an approved FHLB Affordable Housing Program (AHP) subsidy, please contact the MPF Bank for details regarding the interested party contribution limit requirements under the applicable AHP.

Additionally, contributions used for payment abatements of any type are not allowable for any mortgage delivered under the MPF Program. Payment abatements include any incentive provided to a borrower from an interested party in which the interested party provides funds to pay or reimburse any housing expense, which includes, completely or in part, principal, interest, taxes, insurance or any homeowner's association fees.

#### Unacceptable Refinance Practices (Underwriting Guide Chapter 3.2.4)

We consider the delivery of any mortgage that is in the process of being refinanced as unacceptable (even if no agreement for future refinancing was entered into at the time of origination). Therefore, a PFI must not deliver any mortgage under the MPF Program that the PFI (or the PFI's affiliates) has agreed to refinance or is currently in the process of refinancing.

#### Updated Definitions for Purchase and Refinance Transactions (Underwriting Guide Chapters 3.1 & 3.2)

Following are additions to our definitions of a purchase and refinance transaction, respectively:

**Purchase Mortgages:** The borrower(s) may not receive any cash back through a purchase transaction except for funds representing:

- A reimbursement for the borrower's overpayment of fees;
- Costs paid by the borrower in advance, such as an appraisal, earnest money, credit report, etc.;
- A legitimate pro-rated real estate tax credit in areas where real estate taxes are paid in arrears.

If a borrower receives cash back for a permissible purpose as stated in this Notice, the PFI must confirm that the borrower meets the applicable contribution requirement described in Underwriting Guide Chapter 4.7.

**Refinance Mortgages:** For a refinance transaction to be eligible for delivery under the MPF Program where there is currently an outstanding debt there must be a continuity of obligation. Thus, there must be at least one borrower obligated on the refinance loan that is also obligated on the existing loan. If there is no borrower on the existing loan that is not also on the new loan, the transaction must be underwritten as a purchase.

#### Additional Revisions

PFI Notice 2008-1 incorporates the following revisions:

- **Origination Guide Chapter 12.1.1 - MPF Approved Mortgage Insurers:** Due to a number of mortgage insurance company name changes, we have updated the list of approved mortgage insurers.

- **Origination Guide Chapter 23.6.2.1 - Seasoning for Closed Conventional Loans:** We have added clarification for the requirements of a seasoned closed loan where the loan may be a construction - permanent loan and for closed loans where the property is secured by a condominium unit.
- **Origination Guide Chapter 31.6.4 - Short Form Security Instruments:** We previously announced the use of FNMA/FHLMC short form security instruments in a PFI Advisory dated August 15, 2007. These details are now incorporated into the Origination Guide.
- **Origination Guide Forms and Exhibits (Exhibit A):** We previously announced that Maine High Rate, High Fee mortgages are now considered “unratable” in a PFI Advisory dated January 11, 2008. This change is now reflected in Exhibit A.
- **Servicing Guide Chapter 111.2 - Directory:** We have added an additional fax number for the Master Servicer.

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

The following Origination, Underwriting and Servicing Guide changes can be found on the AllRegs<sup>®</sup> and eMPF<sup>®</sup> 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 12 - changed text is highlighted in AllRegs
  - Chapter 15
  - Chapter 23 - changed text is highlighted in AllRegs
  - Chapter 27 - changed text is highlighted in AllRegs
  - Chapter 31 - changed text is highlighted in AllRegs
  - Chapter 33 - changed text is highlighted in AllRegs
  - Exhibit A
- 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 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).**