

## **PFI Notice 2008-2**

April 30, 2008

### **Effective Date**

Immediately except as noted

### **Special Attention:**

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

### **Subject:**

Announcing enhancements to the Origination, Underwriting and Servicing Guide:

- Seasoning for Government Loans
- Appraisal Process and Property Valuation

Enhancements will affect the following Guide Chapters:

Origination Guide Chapter 23

**Mortgage Funding or Purchase**

Underwriting Guide Chapter 5

**Property Valuation & Eligibility**

### **Description of Changes:**

#### **Origination Guide Revisions**

Seasoning for Government Loans (Origination Guide Chapter 23.6.2.2)

We have increased the number of months a Government Loan can be seasoned prior to delivery from five to twelve (borrower's monthly payments applied).

Appraisal Content (Underwriting Guide Chapter 5.1, 5.1.2 and 5.1.7)

The MPF Program is providing clarification regarding appraisal and underwriting practices for appraisals used for mortgages sold under the MPF Program. PFIs are reminded of the continuing requirement that appraisals for mortgages must be performed independently, without influence from any individual or party that may have a financial interest in the mortgage transaction.

Although these requirements have always been MPF Policy and required underwriting practice, further clarifications have been added to our Guide.

Further, to maintain the quality level of the appraisals used for all mortgages delivered under the MPF Program, appraisals must continue to be performed, independent of the lender's origination process, by a licensed appraiser who does not have any financial interest in the mortgage transaction. For PFIs that employ qualified "in-house" appraisers, mortgages using such appraisals are still eligible for delivery under the MPF Program if the appraiser is independent of the PFI's origination process and if the appraiser's position or job duty does not adversely affect the appraiser's ability to independently estimate the property's value, condition and characteristics. However, mortgages using appraisals completed by any appraiser under the employ of or has an affiliation with an interested party (as defined in Underwriting Guide Chapter 2.21) are not eligible for delivery under the MPF Program.

Additionally, we are clarifying our appraisal requirements to specify that the appraisal used to evaluate and underwrite each mortgage loan file must be ordered by the originating lender of the mortgage loan and that the appraisal must indicate the originating lender or PFI as the lender/client on the appraisal. Appraisals ordered by any other party are not eligible for use with mortgages delivered under the MPF Program.

### **Additional Revisions**

PFI Notice 2008-2 incorporates the following revisions or clarification:

- **PFI Notice 2008-1 and Origination Guide Chapter 15.3.1 - Flood Insurance, 1-4 unit Properties:** In conjunction with PFI Notice 2008-1, we changed our guidelines to state:

The insurance coverage requirement, subject to the maximum insurance amount available from the NFIP, is the lesser\* of:

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

The deductible may not exceed the maximum deductible amount permitted under the NFIP.

- \* Please note that the published PFI Notice 2008-1 incorrectly stated that the insurance coverage requirement is the "greater" of the above criteria. The published Guidelines however, correctly state that the coverage requirement is the "lesser" of the above-published criteria. Please disregard this typographical error.

- **Origination Guide Chapter 1.1, Underwriting Guide Chapter 1 and Servicing Guide Chapter 101.1 - Introduction:** We are adding clarification that the Underwriting Guide is considered a part of the MPF Origination Guide. Thus, although the Underwriting Guide appears as a separate section on the AllRegs<sup>®</sup> website, it is

considered a part of the MPF Origination Guide wherever the Origination Guide may be referenced, including the Allregs website, the eMPF<sup>®</sup> website or within the Guides themselves.

- **Origination Guide Forms and Exhibits (Exhibit J):** We have updated the “Frequently Asked Questions and Answers of the MPF Program Custodian” exhibit to provide additional guidance regarding the available custody reports and how they can assist PFIs. Additionally, we have added information to assist with understanding of custody invoices.
- **Origination Guide Forms and Exhibits (Exhibit M):** We have added clarification to the Delegation of Authority - Supplemental form to help clarify that certain functions will require an individual to request eMPF access. For example, where a request is made for loan funding, we recommend eMPF access also be requested.

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

The following Origination and Underwriting 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.

- Origination Guide
  - Chapter 1 - changed text is highlighted in AllRegs
  - Chapter 23 - changed text is highlighted in AllRegs
  - Exhibit J
  - Exhibit M
- Underwriting Guide
  - Chapter 1 - changed text is highlighted in AllRegs
  - Chapter 5 - changed text is highlighted in AllRegs
- Servicing Guide
  - Chapter 101 - 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).**