

## **PFI Notice 2008-4**

August 28, 2008

### **Effective Date**

Immediately except as noted below.

### **Special Attention:**

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

### **Subject:**

Announcing enhancements to the Origination and Underwriting Guide:

- Limited Cash-Out Refinance Requirements
- Revised Credit Guidelines for Borrowers with Prior Bankruptcy or Foreclosure
- Updating requirements for High Cost, Covered and Home Loan categories (including categories affecting New York)

Enhancements will affect the following Guide Chapters:

Origination Guide

**Forms and Exhibits**

Underwriting Guide Chapter 3

**Loan Purpose**

Underwriting Guide Chapter 4

**Borrower Eligibility**

### **Description of Changes:**

#### **Origination Guide Revisions**

Limited Cash-Out Refinance Mortgages (Underwriting Guide Chapter 3.2.3)

For limited cash-out refinance mortgages, we are modifying the allowance to pay off junior liens secured by the mortgaged property to match the no cash-out refinance guidelines to pay off any junior lien. Specifically, a payoff is allowed for any junior lien secured by the mortgaged property for which proceeds were used in their entirety to acquire such property.

Borrower Bankruptcy or Foreclosure (Underwriting Guide Chapter 3.2.2, 4.5.5, 4.5.5.2 and 4.5.5.3)

Effective September 30, 2008, we are revising the elapsed time period for reestablishing credit after a bankruptcy, foreclosure or deed-in-lieu of foreclosure.

Additionally, we are adding exceptions for borrowers who claim that the derogatory information is a result of extenuating circumstances. Extenuating circumstances are nonrecurring events that are beyond the borrower's control and result in a sudden, significant and prolonged reduction in income or a catastrophic increase in financial obligations. Documentation to support a borrower's claim of extenuating circumstances should confirm the nature of the event that led to the bankruptcy or foreclosure related action and should demonstrate that the borrower had no other reasonable option than to default on his/her financial obligations.

The revised period for reestablishing credit after such adverse credit issues are as follows:

- Foreclosures - If the borrower's credit history reflects a foreclosure:
  - For purchase, no cash-out and limited cash-out transactions, the foreclosure must have occurred a minimum of five (5) years prior to the mortgage application date. Purchase transactions require a minimum borrower FICO score of 680 and a downpayment the greater of ten percent (10%) or the minimum required for the transaction.
  - For cash-out refinance or second home transactions, the foreclosure must have occurred a minimum of seven (7) years prior to the mortgage application date.

In such an event that extenuating circumstances are documented for the foreclosure, at least three (3) years must have elapsed from the completion date to reestablish credit.

- Deed in Lieu of Foreclosure - If the borrower's credit history reflects a deed in lieu of foreclosure:
  - For purchase, no cash-out and limited cash out transactions, four (4) years must have passed from the completion date (execution of the deed in lieu) to the mortgage application date. Purchase transactions require a minimum downpayment equal to the greater of ten percent (10%) or the minimum required for the transaction.
  - For cash-out refinance or second home transactions, the foreclosure must have occurred a minimum of seven (7) years prior to the mortgage application date.

In such an event that extenuating circumstances are documented for the deed in lieu of foreclosure, at least three (3) years must have elapsed from the completion date to reestablish credit.

- Chapter 7 and 11 Bankruptcy - If the borrower's credit history reflects a Chapter 7 or 11 bankruptcy, the bankruptcy must either have been discharged or dismissed at least four (4) years prior to the mortgage application date.

In such an event that extenuating circumstances are documented for the bankruptcy filing, at least two (2) years must have elapsed from the discharge or dismissal date to reestablish credit.

- Chapter 13 Bankruptcy - If the borrower's credit history reflects a Chapter 13 bankruptcy, the bankruptcy must either have been discharged at least two (2) years or dismissed at least four (4) years prior to the mortgage application date. No exception to this period for Chapter 13 bankruptcies is permitted regardless of circumstances.

In addition, a borrower with multiple bankruptcy filings is not eligible under the MPF Program unless the multiple filings were each the result of extenuating circumstances. In such an event that extenuating circumstances are documented for multiple filings, at least five (5) years must have elapsed from the discharge or dismissal date of the last bankruptcy filing to reestablish credit.

#### Predatory Lending (Origination Guide Exhibit A)

We are updating the Anti-Predatory Lending Category (Exhibit A) to reflect the addition of a new "subprime home loan" category for the state of New York as a result of an amendment to the New York Banking Law, enacted as Senate Bill 8143-A. Mortgages with a note date on or after September 1, 2008 that fall under this law's definition of "subprime home loan" are ineligible for delivery under the MPF Program.

All PFIs are required to review their retail, broker and correspondent loan origination processes and make any necessary changes to ensure that ineligible mortgages are not delivered under the MPF Program. PFIs are reminded that by delivering a mortgage under the MPF Program, the PFI represents and warrants that a mortgage is not a High Cost Loan as defined by the then-current version of Standard & Poor's LEVELS Glossary, Appendix E, and MPF Origination Guide, Exhibit A.

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

The following Origination Guide 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
  - Exhibit A
- Underwriting Guide
  - Chapter 3 - changed text is highlighted in AllRegs
  - Chapter 4 - 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).**