

PFI Notice 2009-2

May 15, 2009

Effective Date

Immediately except as noted

Special Attention:

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

NOTE: The enhancements announced in this PFI Notice apply to all MPF Mortgage Products.

Subject:

Announcing enhancements to the Origination, Underwriting and Servicing Guides:

- Revised Eligibility Requirements for High-Balance Mortgage Loans & Temporary High-Cost Area Loan Limits
- Loans Underwritten Using Desktop Underwriter or Loan Prospector
- Anti-Predatory Lending Update under Regulation Z
- Revised Request for PMI Cancellation Form

Enhancements will affect the following Guide Chapters:

Origination Guide Chapter 2	General MPF Policies
Underwriting Guide Chapter 2	Mortgage Eligibility
Underwriting Guide Chapter 4	Borrower Eligibility
Underwriting Guide Chapter 5	Property Valuation and Eligibility
Servicing Guide Forms & Exhibits	Request for PMI Cancellation (Form SG343)

Description of Changes:

Origination and Underwriting Guide Revisions

Revised Eligibility Requirements for High-Balance Mortgage Loans & Temporary High-Cost Area Loan Limits (Underwriting Guide Chapter 2.1, 2.2.3.1, 4.5.1, 5.1 and OG Exhibit N)

Pursuant to the American Recovery and Reinvestment Act (ARRA) of 2009, which granted a temporary increase to the maximum conforming loan limits for mortgages originated in 2009, we are updating the High-Balance Loan Limits and eligibility criteria.

Loans underwritten under the original High-Balance Mortgage Loan guidelines published with PFI Notice 2008-6 must be delivered no later than May 29, 2009. After this date, all High-Balance Mortgage Loans delivered are subject to the additional eligibility requirements below to be eligible for delivery under the MPF Program. We have published the increased temporary loan limits, which expire December 29, 2009, in Origination Guide (OG) Exhibit N, with an effective date of June 1, 2009. **We will begin accepting delivery of High-Balance Mortgage Loans, with the increased temporary loan limits beginning June 1, 2009.**

Below are the changes to the eligibility criteria for all *High-Balance Mortgage Loans* effective June 1, 2009. These new eligibility requirements **will continue to apply after the temporary higher limits expire.**

- All borrowers must have a credit score. The minimum primary credit score is:
 - 660 for all 1 unit property types with a primary residence occupancy type, LTV less than or equal to 75% and all transaction types *except* cash-out refinance; or
 - 700 for all 1 unit property types with a primary residence occupancy type, LTV greater than 75% and all transaction types *except* cash-out refinance; or
 - 740 for all 1 unit property types with a primary residence occupancy type and a cash-out refinance transaction type (LTV/TLTV maximum is 60%); or
 - 740 for the 2-4 unit property types and all eligible transaction types; or
 - 740 for the second home occupancy type and all eligible transaction types (LTV/TLTV maximum is 65 %.)
- No cash-out refinance and limited cash-out refinance transactions for 1 unit properties with loan amount > \$625,500 are limited to an 80% LTV/TLTV
- Cash-out refinance transactions for 1 unit properties will be limited to a 60% LTV/TLTV
- If the property was purchased within the prior 6 months, the borrower is ineligible for a cash-out refinance transaction
- Cash-out refinance transactions for 2-4 unit properties are ineligible

- A Field Review Appraisal is required (in addition to the full appraisal report) if:
 - The loan amount is \geq \$625,500 and the LTV/TLTV is $>$ 80%, OR
 - The property value is \geq \$1,000,000 and the LTV/TLTV is $>$ 75%
- For condominium properties, the appraisal must contain at least two sales comparables from outside the mortgaged property's condominium project in addition to comparable sales available from within the mortgaged property's condominium project.
- Financed mortgage insurance is acceptable, however the maximum LTV, including the financed premium, cannot exceed 90%.

Note: Origination Guide Exhibit N provides FIPS (Federal Information Processing Standard) codes for counties located in High-Cost Areas. The MPF Program will begin collection of FIPS codes later in 2009 and will publish a separate PFI Notice describing the details of this new Loan Presentment requirement.

Loans Underwritten Using Desktop Underwriter or Loan Prospector (Underwriting Guide Chapter 2.17)

We are enhancing the acceptance of loans underwritten utilizing Desktop Underwriter (DU) or Loan Prospector (LP) with a decision of "Accept and Eligible to Purchase" from LP or an "Approve/Eligible" from DU. With either respective acceptable decision, we now consider the borrower's credit quality to be acceptable. Therefore, a PFI is no longer required to determine acceptability of the borrower's credit quality, as described in Underwriting Guide Chapter 4.5, when the loan has received a decision of "Accept and Eligible to Purchase" from LP or an "Approve/Eligible" from DU.

Note that although PFIs are no longer required to determine the borrower's credit quality under this enhancement, the use of DU or LP to assist making an underwriting decision must conform to the standards of Underwriting Guide Chapter 2.17.

We are also adding clarification that the PFI must meet all applicable Fannie Mae contractual warranties or Freddie Mac requirements regarding the use of DU or LP respectively, including full compliance with all requirements of the DU or LP certificate pertaining to the subject loan. If the PFI cannot comply with such DU or LP requirements the PFI must manually underwrite the loan subject to all MPF Guide requirements for a manually underwritten mortgage.

Anti-Predatory Lending Update under Regulation Z (Origination Guide Chapter 2.6.4)

A new Regulation Z (Truth in Lending) category, "higher-priced mortgage loan" was adopted, effective for mortgages with application dates on or after October 1, 2009, or for any mortgages with a closing date on or after January 1, 2010. We are adding these "higher-priced mortgage loans" to the list of mortgages that are not eligible for delivery under the MPF Program. A higher-priced mortgage loan is a loan with an application date on or after October 1, 2009 or which is closed on or after January 1, 2010 and is secured by:

A first lien mortgage secured by the borrower's principal dwelling with an Annual Percentage Rate (APR) that exceeds the "average prime offer rate" by 1.5 or more percentage points for a comparable transaction as of the date the interest rate is set.

The "average prime offer rate", is an index published by the Federal Reserve Board, based on a survey currently published by Freddie Mac. For more assistance with calculating the "average prime offer rate"/APR spread, refer to the website located at:

<http://www.ffiec.gov/ratespread/newcalc.aspx> *

- * Any reference to the website in this PFI Notice is intended only to help the PFI better understand the data requirements referenced. It is not an endorsement of the website or its contents. The MPF Program is not responsible for the contents of the website or a PFI's reliance on the information contained therein.

These changes are effective for mortgages with application dates on or after October 1, 2009, or for any mortgages with a closing date on or after January 1, 2010.

Note: The MPF Program will begin collection of Average Prime Offer Rate / APR Spread data in accordance with Regulation C (HMDA) requirements later in 2009 and will publish a separate PFI Notice describing details of this new Loan Presentment requirement.

Servicing Guide Revisions

Revised Servicing Form - Request for PMI Cancellation (Servicing Guide Form SG343)

We have updated the Request for PMI Cancellation form (Form SG343) to reflect the PMI cancellation requirements of Servicing Guide Chapter 106.2.2. Servicers should provide either the mortgaged property's current value or original value as applicable.

Additional Revisions

PFI Notice 2009-2 incorporates the following revisions:

- **Underwriting Guide Chapter 5.1.7 - (Appraisal) Reconciliation Section:** We have added further clarification that the appraiser who inspects the mortgaged property must be licensed or certified by the state in which the mortgaged property is located.

Note: In accordance with Title V of the Housing and Economic Recovery Act of 2008, the Secure and Fair Enforcement Mortgage Licensing Act (S.A.F.E. Act), the MPF Program will begin collecting four new data fields (Field Appraiser License, Supervisory Appraiser License (if applicable), Originator's ID# and Originator company ID#). The MPF Program will publish a separate PFI Notice describing details of the new data fields later in 2009. These four new data fields will be mandatory for Loan Presentment no later than January 1, 2010.

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 2 - changed text is highlighted in AllRegs
- Underwriting Guide
 - Chapter 2 - changed text is highlighted in AllRegs
 - Chapter 4 - changed text is highlighted in AllRegs
 - Chapter 5 - changed text is highlighted in AllRegs
- Servicing Guide
 - Forms & Exhibits

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).