

PFI Notice 2009-4

September 4, 2009

Effective Date: Immediately, unless otherwise noted

Special Attention: PFI MPF[®] Program Management, Origination Management and Servicing Management

Note: This PFI Notice applies to all MPF Mortgage Products, except as noted

Subject:

Announcing enhancements to the Servicing, Origination and Underwriting Guides:

- MPF Provider address change
- REO Conveyance Documents
- Maximum LTV for Two-Unit Properties
- Debt Ratio Parameters
- Age of Credit and Appraisal Documentation
- IRS Form 4506-T
- Trailing wage earner income
- Verbal Verification of Employment
- Value of Assets used for Reserves
- Continuity of Obligation for Refinance Transactions
- Land Contracts Treated as Refinance Transactions
- Hawaiian Lava Zones
- Financed Mortgage Insurance (All MPF Mortgage products, except the MPF Xtra[™] product)

Enhancements will affect the following Origination, Underwriting and Servicing Guide Chapters:

Origination Guide Chapter 15	Property Insurance
Underwriting Guide Chapter 2	Mortgage Eligibility
Underwriting Guide Chapter 3	Loan Purpose
Underwriting Guide Chapter 4	Borrower Eligibility
Servicing Guide Chapter 107	Mortgage Loan Delinquency
Servicing Guide Chapter 111	Directory and Notices

Description of Changes:

Servicing Guide Revisions:

MPF Provider Address Change (Servicing Guide Chapter 111.2)

Effective August 31, 2009, the MPF Provider and the Federal Home Loan Bank of Chicago will have a new mailing address:

200 East Randolph Drive
Chicago, Illinois 60601

Conveyance Documents (Servicing Guide Chapter 107.5.2)

We are adding clarification that in the event the Servicer takes possession of a Mortgaged Property the conveyance documents should transfer the Mortgaged Property into the name of the Servicer. Conveyance documents must not be in the name of an MPF Bank unless the Servicer is explicitly instructed to do so by the MPF Provider, the MPF Bank or the Master Servicer. The PFI will be charged a \$100 re-conveyance fee if any assignment, quitclaim deed or other conveyance is requested from the MPF Provider, MPF Bank or Master Servicer with respect to any unauthorized conveyance.

Origination and Underwriting Guide Revisions:

Loan Eligibility and Underwriting Changes:

Several loan eligibility and underwriting changes will be effective for all loans delivered under the MPF Program **with an application date on or after October 1, 2009:**

- **Maximum LTV for Two-Unit Properties** (Underwriting Guide Chapter 2.2.3): Two-unit properties are now limited to:
 - 80% LTV/TLTV for all purchase, no cash-out refinance and limited cash-out refinance transaction types; and
 - 75% LTV/TLTV for cash out refinance transaction types.

The LTV/TLTV limits for AHP loans remain unchanged.

- **Total Debt Ratio** (Underwriting Guide Chapter 4.4.3): The maximum total debt ratio for manually underwritten loans is revised from 38% to 36%.

Higher qualifying ratios may be appropriate in some rare cases. A written explanation justifying higher ratios must be provided in the Mortgage File. The recommended maximum total debt ratio for such loans is 50% (45% for loans delivered under the MPF Xtra product). See Underwriting Guide Chapter 2.17 for possible exceptions to this recommendation and Origination Guide Chapter 2.6.3 for guidance on the Borrower's ability to make Mortgage payments.

- **Age of Credit Documentation** (Underwriting Guide Chapter 3.6.2, 3.6.3 and 4.8.2): For existing homes, the maximum age of credit and appraisal documentation is reduced from 4 months to 3 months.

For new construction homes, the maximum age of credit and appraisal documentation at the time the construction loan closed is 4 months. The maximum age of the effective date of the appraisal may continue to be up to 12 months when the appraisal is supported by an appraisal update report, as described in Underwriting Guide Chapter 4.8.2.

- **IRS Form 4506-T:** (Underwriting Guide Chapter 4.6, 4.6.2 and 4.6.3): PFIs must obtain a completed and signed IRS Form 4506-T from all borrowers at both application and closing. It is highly recommended that the IRS Form 4506-T tax return transcripts be obtained from the IRS (or designee) for transactions prior to closing and used to validate the income documentation provided by the borrower and used during the underwriting process.
- **Trailing Wage Earner Income** (Underwriting Guide Chapter 4.6.22): Trailing co-borrower income may no longer be used as eligible income.
- **Verbal Verification of Employment** (Underwriting Guide Chapter 4.6.1, 4.6.2 and 4.6.3): To update and document the borrower's continued employment, the PFI must obtain a verbal verification of employment (VVOE) for all borrowers (Note that the VVOE is not a verification of the borrower's income). The loan file must document the employment verification in the following manner:
 - For non self-employed borrowers, the PFI must contact the employer to confirm the borrower's current employment status, either verbally or in writing, within 10 days prior to the closing date.
 - For self-employed borrowers, the PFI must verify the existence of the borrower's business within 30 days prior to the closing date. The verification must be from a third party, such as a CPA, regulatory agency, licensing bureau, etc. In addition, the borrower's business address and phone listing must be verified via phone book, directory assistance or internet.
- **Value of Assets used for Reserves and Minimum Amount of Reserves** (Underwriting Guide Chapter 4.7.12): A maximum of 70% of the most current documented value of any stocks, bonds or mutual funds may be used as reserves. For any retirement accounts, a maximum of 60% of the most current documented value may be used. In addition, stock options and non-vested restricted stock are not eligible for use as reserves.

The minimum amount of cash reserves for a second home occupancy type is two months of PITI.

- **Continuity of Obligation - Refinance Transactions** (Underwriting Guide Chapter 3.2): We are adding additional situations that demonstrate an acceptable continuation of obligation exists:

- At least one Borrower obligated on the new Note must also have been obligated on the existing Note; or
- A Borrower must have been on title and resided in the subject property for at least the last twelve (12) months; or
- A Borrower, who resides in the subject property, can demonstrate a relationship (relative, spouse, domestic partner, etc.) with the Borrower who is obligated on the Note; or
- A Borrower may also demonstrate a continuation of obligation if he/she recently inherited or was legally awarded the subject property through a divorce, separation or other legal proceeding.

We are also clarifying that if the current borrower is an owner according to the title but is unable to demonstrate an acceptable continuity of obligation or there is no outstanding lien against the subject property, the Mortgage may still be eligible as a cash-out refinance transaction with the following restrictions:

- If the property was purchased in the preceding 12 months prior to the Mortgage Application date, the LTV ratio must be calculated in the same method as a purchase transaction described in Underwriting Guide Chapter 2.2.2 (value is the lower of purchase price or appraised value)
- If the property was purchased more than 12 months prior to the Mortgage Application date, the current appraised value may be used to calculate the LTV ratios.

Land Contracts Payoffs Treated as Refinance Transactions (Underwriting Guide Chapter 3.5)

A transaction in which proceeds are used to pay off a land contract that is treated as a refinance transaction is subject to additional requirements:

- Cash-out refinance transactions are not eligible; and
- For all eligible transaction types (purchase, no-cash out and limited cash-out refinance transactions) with land contracts executed less than 12 months prior to the loan application date, the LTV must be computed based on the lesser of:
 - The appraised value at the time the Mortgage is closed; or
 - The total acquisition cost (calculated by adding the purchase price indicated in the original land contract or contract for deed to the costs the Borrower has incurred for rehabilitation, renovation, refurbishment or energy conservation improvements). The PFI's Mortgage File must contain sufficient documentation to permit calculation of the total acquisition cost.

Hawaiian Lava Zones (Origination Guide Chapter 15.9)

The United States Geological Survey (USGS) categorizes the island of Hawaii into nine "lava zones" based on each zone's probability of exposure to lava flows caused by volcanic eruption.

Only loans secured by properties located on the island of Hawaii that are located within lava zones 3 through 9 are eligible for delivery under the MPF Program. Properties in lava zones 1 and 2 are not eligible due to the increased risk of property destruction from lava flows within these areas.

Hawaiian lava flow maps and other information are available online at the U.S. Geological Survey Hawaiian Volcano Observatory website.

Financed Mortgage Insurance (Origination Guide Chapter 12.1)

Upfront single premium mortgage insurance (MI) may only be financed for one-unit property types, **except for the MPF Xtra product where the MI cannot be financed.** We are also adding clarification that the financed portion may be excluded solely for calculating the level of coverage required. For all other purposes, including Loan Presentment and loan eligibility determination, the LTV (including the amount of financed MI) should not exceed the lesser of 95% or the maximum LTV allowed per Underwriting Guide Chapter 2.2, unless the LTV limit is further restricted elsewhere in the Guides.

Note that the level of credit enhancement obligation may be affected if the loan is delivered with lower MI coverage under this provision. A Financed MI Premium Endorsement to the MI policy is also required in accordance with Origination Guide Chapter 12.1.

Example of financed MI calculations using the following assumptions:

Example 1

Value = \$100,000
Loan Amount prior to including financed MI = \$90,000
Amount of single paid premium MI = \$2,000
Total Loan Amount = \$92,000
Loan Term = 360 months

Given these assumptions, for Loan Presentment and eligibility determination:

The LTV = 92% ($\$92,000 / \$100,000$)

For determination of the level of MI coverage only, subtract the amount of single premium MI financed from the loan amount ($\$92,000 - \$2,000 = \$90,000$). The LTV for determining the level of coverage is 90% ($\$90,000 / \$100,000$) therefore an MI policy with only 25% coverage is eligible for delivery.

Example 2

Value = \$100,000
Loan Amount prior to including financed MI = \$95,000
Amount of single paid premium MI = \$2,000
Total Loan Amount = \$97,000

Loan Term = 360 months

Given these assumptions, for Loan Presentment and eligibility determination:

The LTV = 97% (\$97,000 / \$100,000)

The LTV for determining the eligibility is 97% therefore the loan is not eligible for delivery.

Additional Revisions

PFI Notice 2009-4 incorporates the following revisions:

- **Underwriting Guide Chapter 4.7.4.1 - Gift of Equity:** We previously announced that gifts of equity are allowable from the property seller when the donor is a relative of the borrower. We are clarifying the Guides to eliminate any reference to a real estate agent or builder, since neither of these two parties are eligible to provide a gift of equity.
- **Servicing Guide Chapter 111.2 - Master Servicer Fax Number for Default Servicing:** We have added the Master Servicer's fax number to be used for default servicing.

Origination, Underwriting and Servicing Guide Revisions:

The following Servicing Guide changes can be found on the AllRegs[®] and eMPF[®] websites. Links to these sites are on fhbmpf.com and fhlib-mpf.com or may be accessed directly at <http://www.allregs.com/fhlibmpf/>.

- Origination Guide
 - Chapter 12 - changed text is highlighted in AllRegs
 - Chapter 15 - changed text is highlighted in AllRegs
- Underwriting Guide
 - Chapter 2 - changed text is highlighted in AllRegs
 - Chapter 3 - changed text is highlighted in AllRegs
 - Chapter 4 - changed text is highlighted in AllRegs
- Servicing Guide
 - 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).