

PFI Notice 2009-7

December 18, 2009

Effective Date: See the Description of Changes for the effective dates

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

Note: The enhancements announced in this PFI Notice apply to all MPF products, except as noted.

Subjects:

Announcing enhancements to the Origination, Underwriting and Servicing Guides:

- 2010 Conventional and High-Balance Mortgage Loan Limits
- Use of Desktop Originator (DO) as an Automated Underwriting System
- Guidance Regarding the Use of IRS Form 4506-T
- New and Revised Data Elements for Loan Presentment including new required data for Government Loans
- Removal of the Verbal Verification of Employment as an eligible Documentation Type
- New Data Elements on Loan Presentment Report
- 2010 Investor Reporting Calendar

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

Origination Guide Forms & Exhibits	Loan Presentment Request (Form OG3) Loan Presentment Report (Exhibit D)
Underwriting Guide Chapter 2	Mortgage Eligibility
Underwriting Guide Chapter 4	Borrower Eligibility
Servicing Guide Forms & Exhibits	Investor Reporting Calendar (Exhibit A)

Description of Changes:

Origination Guide Revisions:

2010 Conventional and High Balance Mortgage Loan Limits (Underwriting Guide Chapter 2.1)

Following the FHFA's announcement that 2009 conventional loan limits will remain the same for 2010, the MPF Program's 2010 conventional loan limits will also not change. The national limit for 2010 was left unchanged based on declines in FHFA's monthly and quarterly house price indexes over the past two years.

The loan limits for "High-Balance Mortgage Loans," are set in accordance with the High-Cost Area Limits provision under HERA. High-Cost Areas are calculated annually by the Department of Housing and Urban Development (HUD). However, as noted in FHFA's announcement, HUD's determination of High-Cost Area Limits is subject to a 30-day appeal period during which HUD may re-evaluate individual area median home prices. The FHFA will issue a subsequent announcement if any individual High-Cost Area Limit is increased because of HUD's appeal process. Regardless of any FHFA updates to the High-Cost Area Limits, PFIs should continue to use the existing version of the Origination Guide Exhibit N (effective June 1, 2009) until a revised version is published with a future PFI Notice.

Number of Units	Maximum Original Loan Amount for Conventional Mortgage Loans (Properties in Contiguous States, District of Columbia & Puerto Rico)	Maximum Original Loan Amount for Conventional Mortgage Loans (Properties in Alaska, Guam, Hawaii & Virgin Islands)
1	\$ 417,000	\$625,500
2	\$ 533,850	\$800,775
3	\$ 645,300	\$967,950
4	\$ 801,950	\$1,202,925
To determine the Maximum Original Loan Amount for High-Balance Mortgage Loans, refer to the High-Cost Area Loan Limits exhibit, Origination Guide Exhibit N.		

Use of Fannie Mae's Desktop Originator (DO) (Underwriting Guide Chapter 2.17 and Origination Guide Form OG3)

Effective immediately, for all MPF products **except for the MPF Xtra[®] product**, PFIs may use Fannie Mae's Desktop Originator (DO) to assist with making their underwriting decisions for conventional loans. The MPF Program will consider a DO "Preliminary Underwriting Findings" output with an "Approve / Eligible" recommendation as an acceptable Automated Underwriting System (AUS) decision in the same respect as a Desktop Underwriter (DU) or Loan Prospector (LP) decision.

PFI's that deliver loans using a DO "Approve / Eligible" recommendation to help underwrite the loan must meet the same MPF Program and Fannie Mae requirements that apply to the use of DU. This includes full compliance with all requirements of the respective DO recommendation and accuracy of the data used to obtain the DO "Approve / Eligible" recommendation.

We have created a new Automated Underwriting System (AUS) code for loans that use a DO "Approve / Eligible" recommendation to help underwrite the loan. When applicable, PFI's must complete the Automated Underwriting System (AUS) Loan Presentment field by delivering code 14 – "DO Approve/Eligible."

Note that since DO is not an acceptable AUS under the MPF Xtra product, all loans delivered under the MPF Xtra product that received a DO "Approved / Eligible" recommendation must still meet all of the requirements for a manually underwritten loan. PFI's should complete the Automated Underwriting System (AUS) Loan Presentment field by delivering code 13 – "None (No AUS used - a manually underwritten loan)".

Guidance Regarding the Use of IRS Form 4506-T (Underwriting Guide Chapter 4.6)

As announced in PFI Notice 2009-4, the MPF Program highly recommends that PFI's use IRS Form 4506-T to obtain a borrower's tax transcripts and validate the borrower(s) income for loans delivered under the MPF Program's conventional portfolio products (Original MPF, MPF 100, MPF 125, and MPF Plus).

As announced in MPF Xtra PFI Notice 2009-5 for loans delivered under the MPF Xtra product, the use of IRS Form 4506-T to obtain tax transcripts for every borrower with qualifying income to validate the borrower(s) income is required either prior to closing during the underwriting of the loan or during the PFI's post-closing quality control process.

With this PFI Notice, we are providing additional information to assist PFI's with the use of IRS Form 4506-T in obtaining a borrower's tax transcripts from the IRS (or its designee) to validate the documented income used to qualify the borrower(s).

What to Request from the IRS

When PFI's use the 4506-T to obtain tax transcripts from the IRS, the request to the IRS should correspond to the level of income documentation used to underwrite the loan and reported for Loan Presentment. The following table shows the minimum transcript information to request from the IRS under 8 typical income documentation scenarios.

If the level of income documentation used for underwriting the loan and reported on the Loan Presentment is:	The 4506-T Request must be for the most recent filing(s) of:			
	1040	1120 or 1065	1099	W-2
YTD Paystub (with approved AUS)				1 year
YTD Paystub & One W-2 (with approved AUS)				1 year
YTD Paystub & Two W-2s				2 years

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If the level of income documentation used for underwriting the loan and reported on the Loan Presentment is:	The 4506-T Request must be for the most recent filing(s) of:			
	1040	1120 or 1065	1099	W-2
YTD Income Information & one 1099/1040 (with approved AUS)	1 year		1 year	
YTD Income Information & two 1099s/1040s	2 years		2 years	
One Year Personal Returns (with approved AUS)	1 year			
Two Years Personal Returns	2 years			
Two Years Personal Returns & Two Years Business Returns	2 years	2 years		

When requesting information from the IRS, PFIs must take into consideration that it typically takes the IRS 6-8 weeks to add new filings or corrections to its database. Therefore, PFIs must select the tax year information applicable to the situation. Following are some examples of how to determine the appropriate tax year information to select:

- When **manually underwriting a salaried borrower**, the PFI would request two years of W-2s to verify income. For example, a January 2010 request to the IRS should be for the 2007 and 2008 W-2s since the borrower's 2009 income information has not been filed with the IRS.
- When **underwriting a salaried borrower through an approved AUS**, the AUS may only require the PFI to obtain a recent paystub. In this case, the PFI should request the most recently filed Form W-2. For example, a June 2010 initial request to the IRS should be for the 2009 W-2.
- When **manually underwriting a self-employed borrower**, the PFI would request two years of individual federal tax returns. In this case, the PFI should request the most recent two years of available tax returns. For example, a January 2010 request to the IRS should be for the 2007 and 2008 Form 1040s. However, an August 2010 request to the IRS should be for the 2008 and 2009 Form 1040s.

Reviewing the Transcripts from the IRS

Transcripts received from the IRS **are not** to be used to document borrower income. They are to be used only to **validate** the income documentation provided by the borrower that was used in the underwriting process to meet the minimum income documentation required in the MPF Guides.

If the documentation used to calculate the borrower's income (e.g., 2008 W-2) is from the same year as the information available from the IRS (e.g., 2008 W-2 transcript), the information must match exactly (differences for rounding purposes are acceptable).

There are some situations, however, in which a variation between the income documentation and the IRS transcript may be acceptable. For example, if the income documentation requirement is one year-to-date paystub, there is a likelihood of variation between the paystub and the W-2 transcript from the IRS (possibly because of the 6- to 8-week lag in IRS database updates). The PFI **must** review the transcript information to determine the reasons for any income discrepancies

between the income documentation provided by the borrower and the IRS transcripts. **If the discrepancies cannot be explained and supported by documentation already in the loan file, the PFI must obtain additional information to address the inconsistencies and retain the documentation that addresses the inconsistencies in the loan file.**

Loan Presentment when IRS Transcripts are Used

We have added a new level of income documentation option for Loan Presentment:

- Documentation Type 20 = “24 months or more income/employment verification & tax transcripts acquired using IRS Form 4506-T”

This new level of income documentation should be selected when PFIs acquire tax transcripts using the IRS Form 4506-T, **prior to loan closing**, and obtain 24 months or more income documentation. **In order to use this Documentation Type Code, the transcripts must validate the income documentation used to calculate the borrower’s income.** When the income is both documented and validated as described above, this new level of income documentation is considered a higher quality of documentation when selected for Loan Presentment. (See the following subject topic of this Notice for the effective date of this new Loan Presentment level of documentation option).

New and Revised Data Elements for Loan Presentment (Origination Guide Form OG3)

We have revised the data elements for Loan Presentment with changes to five existing data fields and one new data field. All PFIs must use the new and revised data elements in accordance with the Loan Presentment Request Form (Form OG3) instructions for all initial and resubmitted Loan Presentment requests (including submission via the eMPF[®] website or via facsimile) in accordance with the following revision dates:

The following Data Field is revised **effective immediately**:

- Automated Underwriting System (AUS)/Decision Field - We have added an option for code 14 – “DO Approve/Eligible” under this field. Refer to the previous section of this Notice to determine when it is appropriate to select this option.

The OG3 Form and Instructions are revised effective with this Notice for the following fields. However, these revised field changes will not be effective for Loan Presentment until **January 4, 2010**:

- Documentation Type:
 - **We have removed the documentation type code 3 = “Verbal verification of employment (VVOE) only with output certificate from an approved AUS.”** Effective January 4, 2010, a PFI that wishes to deliver a loan with this documentation type must contact the MPF Service Center for further assistance.
 - We are adding a new documentation type code 20 = “24 months or more income /employment verification & tax transcripts acquired using IRS Form 4506-T.” Refer to the previous section of this Notice to determine when it is appropriate to select this option.

- The following fields are now mandatory fields for conventional and government loans:
 - Race/National Origin (Borrower and Co-Borrower) - *The PFI may select up to a maximum of five options per borrower where applicable.*
 - Ethnicity (Borrower and Co-Borrower)
 - Number of Bedrooms
 - Rent Level
 - Rent + Utilities

- The following fields are now mandatory for government loans (they are currently mandatory for conventional loans):
 - FICO Score (Borrower and Co-Borrower)
 - Housing Expense Ratio
 - Total Debt Ratio
 - First Time Buyer
 - Occupancy
 - Monthly income

Some types of government mortgage refinance programs do not require that the lender obtain the current income and credit information on the borrower that would be used to provide the required FICO score, housing and debt ratio and monthly income data. In those cases, the PFIs may use the information in the loan file for the mortgage being refinanced or may obtain the new information on the borrower in order to provide this information.

- The Appraisal Document File Identifier field has been added for future use, however, **PFIs should not complete this field** until the MPF Program instructions are issued.

New Data Elements on Loan Presentment Report (Origination Guide Exhibit D)

The three following new fields will be visible on the Loan Presentment Report (Origination Guide Exhibit D) effective for Loan Presentments completed on or after January 4, 2010. These fields will contain values assigned by the MPF Program and are used for the MPF Program's internal purposes only. **PFIs will not complete any of these new fields.** They will not be available as a data elements for Loan Presentment until the MPF Program instructions are issued that explain what data and definitions will apply to these fields:

- Special Housing Goals Loan
- Affordable Category
- Mortgage Acquired using Federal Financial Stability Plan Funds

Servicing Guide Revisions:

Investor Reporting Calendar (Servicing Guide Exhibit A):

To assist PFIs in complying with timely reporting, the MPF Program offers an annual reporting schedule, the Investor Reporting Calendar, which is published as Servicing Guide Exhibit A. With this Servicing Guide update, we are publishing the 2010 Investor Reporting Calendar.

The Servicer must complete and forward to the Master Servicer all forms and reports provided for in Servicing Guide Chapter 105.8.1, and such additional forms or reports reasonably requested by the Master Servicer, no later than the 5th Business Day of each month for all portfolio MPF products (**Original MPF, MPF 100, MPF 125, MPF Plus, and MPF Government**).

For PFIs that service mortgages delivered under the **MPF Xtra product**, these reports are due by 12:00 P.M. (noon) Eastern Time on the 2nd Business Day of each month.

Additional Revisions

PFI Notice 2009-7 incorporates the following revision:

- **Servicing Guide Chapter 111.2 - Directory:** We have updated the contact fax number for the Loan Servicing Department.

Additional Information

Access to the Active Master Commitment (MC) Summary Report and the Booked Loans for the Month Report via the eMPF[®] website:

The Active MC Summary Report and the Booked Loans for the Month Report have been previously available to PFIs via the eMPF website in a Rich Text Format (RTF). Effective during the month of January and thereafter, these reports will be available only as a PDF. For a brief period during January, the reports will be available in both the RTF format and PDF format until they are transitioned to the PDF format at some time prior to January 31, 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
 - Form OG3
 - Exhibit D
- Underwriting Guide
 - Chapter 2 - Changed text is highlighted in AllRegs
 - Chapter 4 - Changed text is highlighted in AllRegs

- Servicing Guide
 - Chapter 111 - Changed text is highlighted in AllRegs
 - Exhibit A

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).