

## PFI Notice 2010-3

May 18, 2010

**Effective Date:** Immediately except where noted

**Special Attention:** PFI MPF<sup>®</sup> Program Management and Origination Management

**Note:** The enhancements announced in this PFI Notice apply to all MPF products.

### Subjects:

Announcing enhancements to the Origination and Underwriting Guides:

- Maximum TLTV clarification
- Borrower Identification
- Social Security Number or Individual Taxpayer Identification Number Verification
- Excluded Parties List
- Undisclosed Liabilities
- Property Unit Number
- IRS Forms 4506 and 4506-T
- Condominium Project Eligibility Determination
- Updated MPF Program Custodian Exhibits

Enhancements will affect the following Origination and Underwriting Guide Chapters:

|                                    |  |
|------------------------------------|--|
| Origination Guide Chapter 2        | <b>General MPF Policies</b>  |
| Origination Guide Chapter 28       | <b>PFI's In-House Quality Control Program</b>  |
| Origination Guide Chapter 31       | <b>General Warranties and Responsibilities</b>   |
| Origination Guide Chapter 33       | <b>Condominiums and PUDs</b>   |
| Origination Guide Forms & Exhibits | <b>MPF Program Custodian - Document Codes (Exhibit H)</b><br><b>MPF Program Custodian - Exception Codes (Exhibit I)</b><br><b>Initial Certification Review Checklist (Exhibit K)</b><br><b>MPF Condominium Checklist (Exhibit O)</b><br><b>Credit Enhancement Form and Instructions (Form OG3)</b> |
| Underwriting Guide Chapter 2       | <b>Mortgage Eligibility</b>  |
| Underwriting Guide Chapter 4       | <b>Borrower Eligibility</b>  |

## Description of Changes:

### Origination Guide Revisions:

#### Conventional High-Balance Mortgage Loan Maximum LTV and TLTV Ratios (Underwriting Guide Chapter 2.2.3.1)

The MPF Program announced the eligibility criteria for High-Balance Mortgage Loans in PFI Notice 2009-2. The eligibility criterion includes the requirement that borrowers have a minimum primary credit score based on the transaction type and the LTV.

We are revising the eligibility table in Underwriting Guide Chapter 2.2.3.1 in order to clarify that the minimum FICO score requirements for a transaction type are based on a maximum LTV/TLTV combination, not just the LTV. As an example, for a 1-unit primary residence with a loan amount > \$625,500 in an eligible High-Cost Area, the minimum FICO score requirements are:

- 700 for a loan with an LTV or TLTV >75%
- 660 for a loan with a LTV **and** TLTV ≤ 75%

#### Borrower Identification (Origination Guide Chapter 28.7.1 (New) and Underwriting Guide Chapter 4.1.6 (New))

We are adding a requirement for PFIs to confirm a borrower's identity for loans delivered under the MPF Program. The PFI must document and retain in the loan file, the identity of each borrower following the information and documentation required under the laws and regulations of the Department of Treasury's Office of Foreign Assets Control (OFAC) regulations and the U.S. Patriot Act. Loans in which the borrower is a "specially designated national and blocked person" on the OFAC list (SDN List) are not eligible for delivery under the MPF Program.

The documentation required to establish the borrower's identity may include, but is not limited to, the following:

- state issued identification, such as a driver's license or state ID with photo;
- federally issued identification, such as a passport (may be a foreign passport for legal resident aliens);
- any other documents the PFI deems necessary to comply with federal obligations (birth certificate, social security card, military ID, US alien registration card, etc.)

Regardless of the documentation used to establish the borrower's identity, it must meet the requirements of the laws and regulations of the Department of Treasury's Office of Foreign Assets Control (OFAC) and the U.S. Patriot Act.

Social Security Number (Origination Guide Chapter 28.7.2 (New) and Underwriting Guide Chapter 4.1.7 (New))

In order to establish the borrower's identity and ensure correct data delivery, we are adding the requirement that for all borrowers, the PFI is required to document a valid Social Security Number (SSN) for each borrower, co-borrower, and cosigner on the mortgage. All individuals eligible for legal employment in the US are required to have an SSN. Each borrower must provide the lender with evidence of his or her own valid SSN as issued by the Social Security Administration (SSA). While the actual social security card is not required, the PFI is required to validate the SSN. PFIs may use various means for validating the SSN including examining the borrower's pay stubs, passport, valid tax returns, and may use service providers including those with direct access to the SSA. The lender is also required to resolve any inconsistencies or multiple SSNs for individual borrowers that are revealed during loan processing and underwriting.

There may be instances where the borrower's name on a document listing the disclosed SSN is different from the name used on the loan application or shown on the other documents. In these cases, the PFI must verify and document that this different name is a variant of the borrower's name on the application. Examples include a borrower who uses a shortened or abbreviated version of their name or a borrower who legally changed their name, but has not changed their name in all private or public records.

**If in any instance the PFI cannot independently verify that the disclosed SSN belongs to the borrower as named on the application, the PFI must either:**

1. Verify the borrower's SSN directly through the Social Security Administration (SSA), by submitting Form SSA-89 (or any other form or method accepted by the SSA) to the SSA; or
2. Verify the borrower's SSN through a vendor that validates directly with the SSA.

**If the SSN cannot be validated with the SSA for any reason, the loan will not be eligible for delivery under the MPF Program.**

Individual Taxpayer Identification Number Verification (Origination Guide Chapter 28.7.3 (New) and Underwriting Guide Chapters 4.1.3, 4.1.4 and 4.1.8 (New))

An Individual Taxpayer Identification Number (ITIN) is issued by the IRS in cases where the borrower is not able to obtain an SSN from the Social Security Administration. We are adding the requirement for a borrower who is a permanent or non-permanent resident alien and who is unable to obtain an SSN from the Social Security Administration, that the borrower must have an (ITIN) issued by the IRS. As the ITIN cannot be verified with the IRS or the SSA, the PFI must independently verify the ITIN disclosed by the borrower using the same validation methods as those stated above for a SSN.

Excluded Parties List (Origination Guide Chapter 2.9, 28.6.5 (New), 31.7 and Underwriting Guide Chapter 2.23 and 4.1.6 (New))

**For all loans delivered on or after June 1, 2010**, if a company or an individual involved directly, as a manager or as a supervisor, in the mortgage transaction is on HUD's Limited Denial of Participation List (LDP List), **the loan is ineligible for delivery under the MPF Program and may be subject to repurchase.** A company or individual that is involved in the mortgage transaction includes, but is not limited to:

- Any employee, or manager/supervisor involved directly or with critical influence on or substantive control over the employee, who originates, processes, underwrites or services the loan (including persons who work for the PFI, third party brokers, correspondents or third party vendors);
- The appraiser, supervisory appraiser or any individual or company that is relied upon for the determination of the property condition, valuation and/or inspection; or
- Any "interested party" (as described in Underwriting Guide Chapter 2.21) who may benefit financially from the mortgage or property sale transaction.

Therefore, PFIs are encouraged to confirm that **no** companies or individuals involved in the mortgage transaction, directly or as a manager or supervisor, are on the HUD LDP List prior to delivery of the loan under the MPF Program. Regardless of the reason for the party being excluded, any such party to the transaction appearing on the list will result in the loan being ineligible under the MPF Program.

For assistance locating the LDP List, PFIs may use the HUD website accessed using the following link\*:

[https://www5.hud.gov/ecpcis/main/ECPCIS\\_List.jsp](https://www5.hud.gov/ecpcis/main/ECPCIS_List.jsp)

- \* Any reference to a website other than the eMPF<sup>®</sup> 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.

Undisclosed Liabilities (Underwriting Guide Chapters 4.4.1, 4.4.2.1, 4.5.6.1, 4.5.6.3 and 4.8.1)

All of a borrower's obligations must be used to determine the borrower's capacity to repay the mortgage in the calculation of the qualification ratios. However, there may be situations in which the borrower's obligations listed on the initial loan application do not accurately reflect all of the borrower's obligations at the time of closing. Examples are the occasion in which a borrower opens a new credit account between the initial loan application and the closing or the borrower fails to disclose a debt on the initial application. If this should occur, the PFI must include these obligations in the determination of the borrower's capacity to repay the mortgage.

To ensure that all borrower obligations were used to determine the borrower's capacity to repay the mortgage, we are now requiring PFIs to represent and warrant that all borrower liabilities outstanding at the time of closing were used to calculate the qualification ratios. This

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representation and warranty includes the accurate reporting of data for Loan Presentment and any applicable Automated Underwriting System. The verification of any new obligation must be obtained from the new creditor or the credit report, but not from the borrower.

In addition, a copy of the final loan application, based on the PFI's verification of the information that the borrower provided in the initial application, must be included in the loan file. The PFI represents and warrants that the final loan application reflects a correct reconciliation of all the information provided in the loan file, including information in the credit, income, asset verifications, information furnished on the initial application and any PFI verifications of any new obligations.

#### IRS Forms 4506 and 4506-T (Origination Guide Chapter 28.6.1)

We are updating the Guides to reflect new, longer expiration date of an IRS Form 4506 or 4506-T of 120 days from the date a borrower signs the form.

#### Condominium Project Eligibility Determination (Origination Guide Chapter 33.2, 33.3.3 and Origination Guide Exhibit O (new))

In an effort to help PFIs ensure that they have covered all of the MPF Program's condominium project requirements when underwriting the project, we are providing a new checklist that PFIs may use to help identify the necessary steps required for determination of project eligibility.

Using this checklist, the "MPF Program Condominium Checklist" (Origination Guide Exhibit O), will not relieve the PFI from any of the representations or warrants required in Origination Guide Chapter 33 when delivering a loan with condominium property type. Therefore, this checklist is to be used for reference or assistance only, not as a substitute to the Guides. This form is available for immediate use at the PFI's discretion.

Additionally, we have made the following enhancements to the condominium guidelines:

- We are adding a clarification that 2-4 unit condominium projects are not subject to the minimum pre-sale requirements of a Category I or II condominium project and instead, the PFI should only verify that no more than one unit in the project has been conveyed and occupied as an investment property in accordance with Origination Guide Chapter 33.6.2:
- We are removing the requirement for PFIs to review the condominium project documents described in Origination Guide Chapter 33.4 when completing a manual review of a Category I Condominium Project. The requirement to review the condominium project documents when completing a manual review of a Category II Condominium Project is unchanged; and
- We have added a cross-reference to Origination Guide Chapter 33.3.3 to clarify that the manually review condominium projects must meet the requirements of Origination Guide Chapter 33.5.

## Custody Exhibits (Origination Guide Exhibits H, I, K and Form OG3)

We are updating three Exhibits used for processing custodial documents:

- MPF Program Custodian - Document Codes (Exhibit H) - We have added two new document codes:
  - DOC - Miscellaneous documents; and
  - TAGR - Trust agreements
- MPF Program Custodian - Exception Codes (Exhibit I) - We have added four new exception codes:
  - 09c - Missing legal description or property address;
  - 22j - Missing endorsement on note or allonge;
  - 51a - Missing mortgage date on investor assignment; and
  - 67 - Power of Attorney is in file
- Initial Certification Review Checklist (Exhibit K) - We have made the following changes to the checklist:
  - Clarifying that a lost note affidavit or lost instrument bond is not acceptable for loans delivered under the MPF Xtra<sup>®</sup> product;
  - Clarifying that the assignment is not completed “without recourse”;
  - Clarifying that the assignment contains the date of the mortgage, the property address or legal description, and is dated on or after the Note date;
  - Adding power of attorney to the checklist, which must be notarized on or before the note date; and
  - Clarifying that if an allonge to the note is dated, the date is not prior to the note date;
  - We are adding a reminder that if the mortgaged property’s address includes a unit number, the unit number must be included in the property address on the Note (a similar reminder has been added to the Loan Presentment Request Form (Form OG3)).

## Additional Revisions

PFI Notice 2010-3 incorporates the following revision:

- **Underwriting Guide Chapter 2.17 - Automated Underwriting System:** We are adding a reminder that when using an approved AUS, the PFI must adhere to all instructions required according to the AUS output certification.

Note that Fannie Mae recently revised Desktop Underwriter (DU) regarding the verification of borrower occupancy of the mortgaged property. DU will now issue a documentation requirement when it appears that the mortgaged property may not be the borrower’s primary residence. This was previously only a “red flag” message.

- **Servicing Guide Chapter 111.2 - Directory:** We have added new, separate fax numbers for the MPF Provider's Loan Servicing, Loan Accounting, and Loan Custody departments to the Directory. PFIs should use the new appropriate specific fax number for the respective department in place of the prior general fax number.

### **Origination and Underwriting 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 or may be accessed directly at <http://www.allregs.com/fhlbmpf/>.

- Origination Guide
  - Chapter 2 - Changed text is highlighted in AllRegs
  - Chapter 28 - Changed text is highlighted in AllRegs
  - Chapter 31 - Changed text is highlighted in AllRegs
  - Chapter 33 - Changed text is highlighted in AllRegs
  - Form OG3
  - Exhibit H
  - Exhibit I
  - Exhibit K
  - Exhibit O
- 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

**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).**