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CHAPTER 1. INTRODUCTION (7/24/17)¹

The MPF® Traditional Selling Guide (“Selling Guide”), the MPF Program Guide, the MPF Traditional Servicing Guide, product specific manuals, forms, exhibits, (together referred to herein as the “Guides”), and the Applicable Agreements apply to all Participating Financial Institutions (PFIs) originating or delivering MPF Traditional Mortgage Loans into the MPF Program. This Selling Guide outlines the requirements and/or processes for PFIs to originate and deliver MPF Traditional Mortgage Loans under the MPF Program. All MPF Traditional Mortgage Loans delivered under the MPF Program must meet these guidelines. PFIs must abide by the procedures, terms, and conditions set forth in this Selling Guide, as it may be amended from time to time. Failure of a PFI to perform its obligations under either the Applicable Agreements or the Guides constitutes an Event of Default entitling the MPF Bank to exercise all available remedies as provided in the Guides and Applicable Agreements.

¹ MPF Announcement 2017-37 (7/24/17)

CHAPTER 2. MORTGAGE LOAN ELIGIBILITY

2.1 Loan Limits (12/13/2018)²

There is no minimum loan amount for Mortgage Loans delivered under the MPF Traditional Product. The following maximum original loan amounts apply to Conventional Mortgage Loans with a Funding Date on or after January 1, 2019.

Number of Units	Maximum Original Loan Amount for Conventional Mortgages (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	\$484,350	\$726,525
2	\$620,200	\$930,300
3	\$749,650	\$1,124,475
4	\$931,600	\$1,397,400

2.1.1 Conventional High-Balance Mortgage Loans

To determine the maximum original loan amount for Conventional High-Balance Mortgage Loans, see the applicable Conventional High-Cost Area Loan Limits exhibit (Exhibit N). Properties located in counties that are not listed on Exhibit N are subject to the Conventional Mortgage Loan limits above.

2.2 Mortgage Loan Attributes

An investment quality mortgage loan is a loan that is made to a borrower, from whom repayment of the debt can be expected, is secured by one-to-four unit residential real property and is originated in accordance with the requirements of the MPF Guides, Government Agency and Applicable Laws. The PFI warrants that all Mortgage Loans delivered to the MPF Bank have the characteristics of an investment quality Mortgage Loan.

² MPF Announcement 2018-61 (12/13/18)
MPF Announcement 2017-77 (12/22/17)
MPF Announcement 2017-62 (10/27/17)
MPF Announcement 2017-18 (4/20/17)
MPF Announcement 2016-30 (12/22/16)

2.3 Mortgage Loan Terms (12/22/16)³

The Note must provide for a fixed interest rate and full amortization by maturity through regular fixed monthly payments up to a maximum term of thirty (30) years. Amortization must begin within sixty-two (62) days of the final disbursement of the Mortgage Loan proceeds.

2.3.1 Maturity

For the fifteen-year product type, the original maturity of the Mortgage Loan must be more than five (5) years and must not extend beyond fifteen (15) years from the Note date.

For the twenty-year product type, the original maturity of the Mortgage Loan must be more than fifteen (15) years and must not extend beyond twenty (20) years from the Note date.

For the thirty-year product type, the original maturity of the Mortgage Loan must be more than twenty (20) years and must not extend beyond thirty (30) years from the Note date.

2.3.2 Principal Amount (12/22/16)⁴

The entire principal amount of the Mortgage Loan must be fully disbursed to the Borrower, or disbursed or advanced in accordance with the direction of the Borrower prior to the purchase of the Mortgage Loan by the MPF Bank or any other investor under the MPF Program. For example, a refinance Mortgage Loan cannot be purchased by the MPF Bank or any other investor under the MPF Program during any applicable rescission period for the refinance Mortgage Loan. The principal amount of the Mortgage Loan must be as represented to the MPF Bank by the Originator and must be fully secured by the Security Instrument, which must not allow the Borrower to borrow additional funds.

2.3.3 Monthly Payments

Monthly Payments must:

- Consist of Principal and Interest Payments that do not change for the life of the loan;
- Fully amortize the Mortgage Loan over the term of the loan; and
- Have no potential negative amortization, rate concessions or graduated-payment mortgage (GPM) features.

2.4 Maximum LTV and TLTV Ratios

³ MPF Announcement 2016-30 (12/22/16)

⁴ MPF Announcement 2016-30 (12/22/16)

This section describes acceptable LTV and TLTV.

2.4.1 Calculating LTV and TLTV Ratios (7/24/17)⁵

The LTV is determined by dividing the original mortgage amount (generally the purchase price less the down payment) by the value. For purchase Mortgage Loans (except manufactured homes), "value" is the lower of the appraised value of the Mortgaged Property at the time of Closing, or the purchase price. For refinance Mortgage Loans (except manufactured homes), "value" is the appraised value of the Mortgaged Property at the time the refinance Mortgage Loan is closed.

The Total Loan-to-Value Ratio (TLTV) is determined by dividing the sum of the original Mortgage Loan, and secondary financing amounts, including any eligible PACE obligation, by the value, as defined above.

The data delivery format for the LTV should be delivered in the following format: xxx.xxx (3 decimal places). (For example, 80.021 percent.)

2.4.2 LTV Ratios and Occupancy Eligibility for Conventional Conforming Mortgage Loans (3/16/17)⁶

The following eligibility grids are for manually underwritten loans only. Loans underwritten with Desktop Underwriter® or Loan Product Advisor® must follow the eligibility requirements issued by the applicable agency (Fannie Mae or Freddie Mac). The eligibility grids for Fannie Mae can be found by clicking the following link: [Fannie Mae Eligibility Matrix](#).

The Freddie Mac eligibility grids can be found in the Freddie Mac Single-Family Seller/Servicer Guide.

Note: Loans underwritten manually or with an AUS are subject to a maximum LTV of 95%. See [Chapter 4](#) for additional requirements for loans underwritten with an AUS.

TERMS OF 30 YEARS OR LESS

MANUAL UNDERWRITING

PURCHASE, RATE AND TERM REFINANCE, AND LIMITED CASH-OUT REFINANCE TRANSACTIONS

⁵ MPF Announcement 2017-37 (7/24/17)

⁶ MPF Announcement 2017-12 (3/16/17)

MPF Announcement 2016-30 (12/22/16)

MPF Announcement 2016-17 (11/29/16)

PFI Notice 2016-12 (9/1/16)

MPF® Traditional Selling Guide

Mortgage Loan Eligibility

Mortgage Partnership Finance® Program

Property Type	Maximum LTV	Maximum TLTV*	Maximum TLTV where secondary financing is a HELOC**
1 Unit Primary Residence	95%	95%	95%
1 Unit Second Home	90%	90%	90%
2 Unit Dwelling	85%	85%	85%
3-4 Unit Dwelling	75%	75%	75%
Manufactured Housing with a term = <20 years (Primary Residence only)	95%	Sec. fin. not permitted	Sec. fin. not permitted
Manufactured Housing with a term >20 years (Primary Residence only)	90%	Sec. fin. not permitted	Sec. fin. not permitted

TERMS OF 30 YEARS OR LESS MANUAL UNDERWRITING			
CASH-OUT REFINANCE TRANSACTIONS			
Property Type	Maximum LTV	Maximum TLTV*	Maximum TLTV where sec. fin. is a HELOC**
1 Unit Primary Residence	90%	90%	90%
1 Unit Second Home	85%	85%	85%
2-4 Unit Dwelling	75%	75%	75%
Manufactured Housing with a term = < 20 Years (Primary Residence only)	65%	Sec. fin. not permitted	Sec. fin. not permitted

Manufactured Housing with a term >20 years is not eligible for a cash-out refinance.

TERMS OF 30 YEARS OR LESS			
MANUAL UNDERWRITING			
EXPEDITED REFINANCE TRANSACTIONS			
Property Type	Maximum LTV	Maximum TLTV*	Maximum TLTV where sec. fin. is a HELOC**
1-2 Unit Primary Residence (excluding manufactured homes)	95%	95%	95%
3-4 Unit Primary Residence	75%	75%	75%
1 Unit Second Home (excluding manufactured homes)	90%	90%	90%

** If the secondary financing is a Home Equity Line of Credit (HELOC), use the first lien plus the full HELOC limit, even if undrawn, to determine the TLTV.

2.4.3 LTV Ratios and Occupancy Requirements for Conventional High-Balance Mortgage Loans (3/15/18)⁷

The following eligibility grids are for manually underwritten loans only. Loans underwritten with Desktop Underwriter® or Loan Product Advisor® must follow the eligibility requirements issued by the applicable agency (Fannie Mae or Freddie Mac). The eligibility grids for Fannie Mae can be found by clicking the following link: [Fannie Mae Eligibility Matrix](#).

The Freddie Mac eligibility grids can be found in the Freddie Mac Single-Family Seller/Servicer Guide.

TERMS OF 30 YEARS OR LESS			
MANUAL UNDERWRITING			
PURCHASE, RATE AND TERM REFINANCE, AND LIMITED CASH-OUT REFINANCE			
Purpose	Maximum LTV	Maximum TLTV	Minimum Primary Credit Score
1 Unit Primary Residence (ALL purchase transactions OR rate and term and limited cash-out transactions with Loan Amount ≤ \$726,525)	90%	90%	700 > 75% LTV or TLTV 660 ≤ 75% LTV and TLTV

⁷ MPF Announcement 2018-18 (3/15/18)
MPF Announcement 2016-30 (12/22/16)

TERMS OF 30 YEARS OR LESS			
MANUAL UNDERWRITING			
PURCHASE, RATE AND TERM REFINANCE, AND LIMITED CASH-OUT REFINANCE			
Purpose	Maximum LTV	Maximum TLTV	Minimum Primary Credit Score
1 Unit Primary Residence (Rate and Term & Limited Cash-Out Transactions with Loan Amount > \$726,525)	80%	80%	700 > 75% LTV or TLTV 660 ≤ 75% LTV and TLTV
1 Unit Second Home	65%	65%	740
2-4 Unit Primary Residence	75%	75%	740
Manufactured Housing (Primary Residence only) Loan amount ≤ \$726,525	90%	Sec. fin. not permitted	700 > 75% LTV or TLTV 660 ≤ 75% LTV and TLTV
Manufactured Housing (Primary Residence only) Loan Amount > \$726,525	80%	Sec. fin. Not permitted	700 > 75% LTV or TLTV 660 ≤ 75% LTV and TLTV

TERMS OF 30 YEARS OR LESS			
MANUAL UNDERWRITING			
CASH-OUT REFINANCE TRANSACTIONS			
Purpose	Maximum LTV	Maximum TLTV with Secondary Financing	Minimum Primary Credit Score
1 Unit Primary Residence only	60%	60%	740
Manufactured Housing with a term ≤ 20 years (Primary Residence only)	60%	Sec. fin. not permitted	740

2.5 Additional High-Balance Mortgage Loan Requirements (3/15/18)⁸

⁸ MPF Announcement 2018-18 (3/15/18)

High-Balance Mortgage Loans are subject to the following criteria in addition to all other underwriting requirements:

- Expedited refinance transactions are not permitted;
- Cash-out refinance transactions are allowable only for primary residences;
- Cash-out refinance transactions are allowable only if the property was purchased more than six (6) months prior to the transaction;
- If mortgage insurance is financed, the maximum LTV, including the financed mortgage insurance premium, cannot exceed ninety percent (90%);
- Every Borrower must have a valid FICO®⁹ score based on an established credit history;
- A field review Appraisal is required in addition to the full Appraisal report if:
 - The loan amount is > \$726,525 and the LTV/TLTV is > 80%; or
 - The property value is > \$1,000,000 and the LTV/TLTV is > 75%;
- If a field review Appraisal is required, the “value” to determine maximum LTV/TLTV ratios and eligibility must be calculated using the lower of the value determined by the original Appraisal or the value determined by the field review Appraisal;

The Appraisal for a condominium unit must contain at least two (2) comparable sales from outside the condominium project, in addition to a comparable sale from within the condominium project.

2.6 Eligible Transactions

This section addresses the transaction types that are eligible under the MPF Program.

2.6.1 Purchase Transactions (12/22/16)¹⁰

A purchase transaction allows the Borrower to use the proceeds of the Mortgage Loan to finance the acquisition of the Mortgaged Property. Alternately, the purchase Mortgage Loan proceeds could pay off the outstanding balance owed on a land contract, or convert an interim construction loan into permanent financing. The Borrower should not receive any cash at settlement, except reimbursement of overpaid fees and charges, or refunds required by regulation. The Borrower may also receive

⁹ FICO® is a registered trademark of the Fair Isaac Corporation.

¹⁰ MPF Announcement 2016-30 (12/22/16)

reimbursement for costs paid in advance for such items as the Appraisal, earnest money, credit report, or a pro-rated real estate tax credit in areas where real estate taxes are paid in arrears. The Borrower should not be on title to the Mortgaged Property prior to the Closing.

2.6.2 Refinance Transactions (7/24/17)¹¹

A refinance Mortgage Loan is transaction for which the proceeds are used to pay off an existing mortgage(s), and the current Borrower executes a new Note using the same property as security. The property may not be currently listed for sale.

2.6.2.1 Rate and Term Refinance

A rate and term refinance transaction allows a Borrower to pay off an existing mortgage by obtaining new financing secured by the same property, the proceeds of which can only be used to:

- Pay off the existing first mortgage, regardless of its age;
- Satisfy related closing costs, financing costs, and prepaid items;
- Disburse cash not to exceed the lesser of \$2,000 or 2% of the Principal Balance of the new Mortgage Loan; and
- Pay off any junior liens secured by the Mortgaged Property which were used in their entirety to acquire such property (documentation demonstrating that the full amount of the lien was used for the purchase must be maintained in the Mortgage Loan File).

The junior lien requirement does not apply if the Mortgaged Property is subject to a PACE obligation that meets the requirements in Selling Guide 2.6.8.

2.6.2.2 Limited Cash-Out Refinance (9/1/16)¹²

A limited cash-out refinance allows a Borrower to pay off an existing mortgage and retain minimal cash from the proceeds of a new loan secured by the same property. The new loan may lower the interest rate, shorten the term or convert from an adjustable-rate mortgage to a fixed-rate mortgage.

A limited cash-out refinance is not eligible as an expedited (streamlined) refinance. The proceeds from a limited cash-out refinance may be used for the following:

- Pay off the existing first mortgage, regardless of its age;
- Buy out equity of a co-owner who is a divorced spouse, a former domestic partner, or a family member in an inherited property situation;

¹¹ MPF Announcement 2017-37 (7/24/17)

MPF Announcement 2016-12 (3/16/17)

MPF Announcement 2016-30 (12/22/16)

¹² PFI Notice 2016-12 (9/1/16)

- Payoff a non-purchase money subordinate loan that was used for repair of disaster-related property damage or to obtain reimbursement for out-of-pocket expenses used to complete repairs;
- Pay off any junior liens secured by the Mortgaged Property which were used in their entirety to acquire such property;
- Satisfy related closing costs, financing costs and prepaid items;
- Pay off a land contract, lease with option to buy, or a construction loan; and
- Disburse cash not to exceed the lesser of \$2,000 or 2% of the Principal Balance of the new Mortgage Loan.

The transaction must meet the following criteria:

- Payoff of the current mortgage only includes the principal balance plus accrued interest and any required prepayment penalty. Other costs such as late fees and past due amounts such as delinquent taxes cannot be paid with the new Mortgage Loan proceeds.
- If the first mortgage is a Home Equity Line of Credit, a copy of the Settlement Statement from the Borrower's purchase of the Mortgaged Property must be provided and retained in the Mortgage Loan File to evidence that the proceeds were fully disbursed on the date of the purchase-money loan and used entirely to acquire the Mortgaged Property.
- A copy of the Settlement Statement from the Borrower's purchase of the Mortgaged Property must be provided and retained in the Mortgage Loan File evidencing that any subordinate financing being paid off with the new Mortgage Loan was used in its entirety to acquire the Mortgaged Property.
- The only fees included in the new Mortgage Loan are standard loan fees (e.g., closing costs on the new mortgage; prepaid items such as interest, taxes, insurance, etc.; and points).

The Borrower may be refunded overpaid fees and charges due to federal or state laws or regulations. Refunds such as these are not included in the maximum cash back limitation, provided the Settlement Statement clearly identifies the refund with a notation of the reason and the Mortgage Loan File includes documentation to support the amount and the reason for the refund.

The eligibility requirements for delivery of a limited cash-out refinance used to buy out the equity of a co-owner are as follows:

- The co-owner (other than a family member who inherited an interest in the Mortgaged Property) receiving the buy-out proceeds must have jointly owned the Mortgaged Property with the Borrower for a minimum of twelve (12) months prior to the initial Loan Application;

- All parties (other than parties who inherited an interest in the Mortgaged Property) must provide evidence that they occupied the Mortgaged Property as their Primary Residence from an acceptable source of verification, such as a driver's license, or a bank statement, credit card bill, utility bill, etc. that was mailed to the individual at the address of the Mortgaged Property ;
- The co-owner receiving the buy-out proceeds must provide a written agreement, signed by all parties (including the Borrower), stating the terms of the property transfer and the disposition of the proceeds from the refinance transaction;
- The Borrower who retains ownership of the Mortgaged Property may not receive any buyout proceeds from the refinance transaction; and
- The Borrower who retains ownership of the Mortgaged Property must be able to qualify for the Mortgage Loan under the applicable underwriting guidelines.

2.6.2.2.1 Limited Cash-Out Refinance for Major Disaster Impacted Properties (8/13/18)¹³

Borrowers impacted by a Major Disaster are afforded certain flexibilities as to the requirements for limited cash-out refinance transactions. To be eligible, the following criteria must be met:

- The Mortgaged Property must be located in any county, municipality or parish that was designated by the Federal Emergency Management Agency (FEMA) as a Declared Disaster area no more than two (2) years prior to the date the Mortgage Loan is delivered into the MPF Program;
- The Mortgaged Property must be a Primary Residence;
- The Mortgage Property must be appraised “as is” with no conditions that affect the livability, soundness, or structural integrity of the property or appraised subject to completion of the specific repairs, and a completion report must be provided prior to delivery of the new Mortgage Loan;
- There must be no escrow for any incomplete repairs that affect the habitability or structural integrity of the Mortgaged Property prior to delivery into the MPF Program;
- The cash-out amount must be:
 - for reimbursement of documented out-of-pocket expenses for the completed repair of disaster-related property damage in an amount not to exceed the lesser of \$15,000 or ten (10%) percent of the Principal Balance of the new Mortgage Loan; or
 - for documented consolidation any subordinate financing, including draws on HELOCs that post-date the disaster, used to repair disaster-related property damage.

¹³ MPF Announcement 2018- 39 (8/13/18)
MPF Announcement 2016-30 (12/22/16)

Documentation for the disaster-related repairs must be obtained as evidence that a portion of the subordinate financing and/or the entire requested cash-out amount were used for disaster-related property repairs. Some examples of acceptable documentation are copies of cancelled checks, receipts, work orders, etc., related to the cost of materials and labor. The Borrower may not receive reimbursement for their "sweat equity" in connection with the repairs.

2.6.2.3 Cash-Out Refinance (3/15/18)¹⁴

A cash-out refinance transaction allows a Borrower to pay off an existing mortgage by obtaining new financing secured by the same property, or allows the Borrower to obtain a mortgage on a property that is currently owned free and clear. The Borrower must have purchased or acquired the property at least six (6) months prior to consummation of the new mortgage transaction unless one of the following exceptions is met:

- The delayed financing requirements are met; or
- The Borrower acquired the property through an inheritance or was legally awarded the property (i.e. divorce, separation, or dissolution of a domestic partnership).

If an LLC that is majority-owned or controlled by the Borrower(s) owns the property prior to Closing, the time it was held by the LLC may be used to satisfy the Borrower's six month ownership requirement. The ownership of the property must be transferred from the LLC's name to the individual Borrower's name in order to close the Mortgage Loan.

The Mortgage Loan proceeds from a cash-out refinance may be used for the following:

- Pay off the existing first mortgage, regardless of its age;
- Pay off any junior liens secured by the Mortgaged Property for which proceeds were not used solely to acquire such property;
- Satisfy related closing costs, financing costs and prepaid items; and / or
- Pay "cash out" to the Borrower (or any other payee) in an amount that exceeds the lesser of \$2,000 or two percent (2%) of the Principal Balance of the new Mortgage Loan.

The Mortgage Loan may not be subject to any temporary buydown plan.

¹⁴ MPF Announcement 2018-18 (3/15/18)
MPF Announcement 2017-37 (7/24/17)
MPF Announcement 2016-30 (12/22/16)

2.6.2.3.1 Delayed Financing Exception (7/24/17)¹⁵

Borrowers who have purchased the subject property within six (6) months of the disbursement date of the new mortgage loan are eligible for a cash-out refinance if in addition to meeting the eligibility requirements in the Guides, the Borrower also meets all of the following requirements:

- The original purchase transaction was an arms-length transaction;
- The purchase transaction must be documented as confirming no mortgage financing was used to obtain the property, either with a settlement statement or a recorded trustee's deed (or similar alternative) confirming the amount paid by the grantee to trustee;
- The preliminary title search or report must confirm that there are no existing liens on the subject property;
- The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property); and
 - If the source of funds was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the settlement statement for the new loan mortgage loan must reflect that all cash-out proceeds will be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the new mortgage loan. Funds that are received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.
- The new loan amount can be no more than the actual documented amount of the Borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV, CLTV, and HCLTV ratios for the cash-out transaction based on the current appraised value).

2.6.2.4 Unacceptable Refinance Practices

The PFI may not intentionally target Mortgage Loans delivered under the MPF Program for refinance. A PFI may not separate mortgages loans in its own portfolio or sold to other investors from those sold to an MPF Bank for differential treatment in terms of refinance advertising, offers, or practices.

The PFI must incorporate adequate controls in its origination and refinancing procedures to prevent unacceptable refinance practices by the Originator or any of its mortgage brokers and correspondents. If a PFI has knowledge or reason to believe a mortgage broker, a correspondent, Originator, or the PFI has received an application to refinance or has agreed to refinance a mortgage (either orally or in writing) that would violate the unacceptable refinance practices policy or

¹⁵ MPF Announcement 2017-37 (7/24/17)
MPF Announcement 2017-12 (3/16/17)

Applicable Law, it may not deliver such mortgage under the MPF Program. The following are considered unacceptable refinance practices:

- The delivery of any Mortgage Loan that is in the process of being refinanced (even if no agreement for future refinancing was entered into at the time of origination);
- Refinancing activity that is prohibited by an applicable federal, state or local law or regulation; and
- Refinancing activity that causes the refinance loans or the refinance lender to be included within a category defined by applicable federal, state or local law, which is subject to additional restrictions, limitations or requirements as a result of being included in such category. Such categories include but are not limited to high cost loans, high risk loans, and high rate loans;

The PFI must monitor the prepayment levels of its Mortgage Loans, particularly refinance Mortgage Loans. If the PFI becomes aware of circumstances likely to result in unusually high prepayment rates on Mortgage Loans sold to the MPF Bank, it must notify its MPF Bank Representative immediately. If requested to do so by the MPF Bank, the PFI is obligated to cooperate fully and promptly with the MPF Bank personnel and to provide adequate information to determine the reason and solution for any high prepayment rates. The MPF Bank reserves the right to initiate an investigation of high prepayment rates of a particular PFI.

A PFI (i) engaging in unacceptable refinance practices, (ii) knowingly selling or delivering Mortgage Loans to the MPF Bank from mortgage brokers or correspondents it knew, or should have known, were engaging in unacceptable refinance practices, or (iii) failing to maintain proper controls for such Mortgage Loans being sold or delivered to the MPF Bank, will be subject to any and all the remedies available to the MPF Bank at law or in equity or pursuant to the Guides and the PFI Agreement, including, but not limited to, disqualification, suspension and / or requiring the PFI to make the MPF Bank whole for losses, including losses associated with repurchases at par for Mortgage Loans delivered at premium prices.

2.6.3 Construction-to-Permanent Transactions (3/15/18)¹⁶

The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a Borrower for the purpose of replacing construction (or interim) financing that the Borrower has obtained to fund construction of a new property. Construction-to-permanent loans are eligible under the MPF Program, so long as the construction phase is completed and permanent financing is in place prior to delivery to the MPF Bank.

The payoff of a construction loan or conversion to permanent financing may be accomplished in two ways:

¹⁶ MPF Announcement 2018-18 (3/15/18)

- A single Closing; or
- Dual Closings.

2.6.3.1 General Requirements (5/1/19)¹⁷

In addition to all other underwriting requirements in this Guide, the following additional requirements also apply to construction-to-permanent transactions:

- The underwriting analysis must be based upon the terms of the permanent Mortgage Loan and must comply with the MPF Program requirements in effect at the time of conversion to permanent financing, including the age of documentation and age of Appraisal requirements in MPF Traditional Selling Guide sections 5.1.3 and 7.3.1.
- Appraisal Waivers are not accepted for this type of loan;
- The property type must not be a condo;
- The Mortgage Loan must not be an expedited refinance;
- The certificate of occupancy must have been issued; the Borrower must have accepted the Mortgaged Property as complete, and the loan must be amortizing with regularly scheduled Principal and Interest Payments. In a jurisdiction that does not issue certificates of occupancy or equivalent permission to occupy homes, the certification customary in that jurisdiction may be submitted;
- The Borrower must hold title to the lot, which was acquired previously or acquired as part of the transaction;
- The minimum Borrower contribution must be met unless the Borrower acquired the lot a year or more prior to the Mortgage Loan Application and uses the lot or land as their minimum funds requirement; and
- An Appraisal Update and / or Completion Report (FNMA Form 1004D / FHLMC Form 442) completed by the appraiser is required for all Appraisals made subject to completion in accordance with plans and specifications.

¹⁷ MPF Announcement 2019-26 (5/1/19)
MPF Announcement 2018-18 (3/15/18)
MPF Announcement 2017-63 (10/31/17)
MPF Announcement 2017-37 (7/24/17)
MPF Announcement 2016-30 (12/22/16)
PFI Notice 2016-12 (9/1/16)

2.6.3.2 Single Close Transactions (3/15/18)¹⁸

A construction-to-permanent single close loan is a residential Mortgage Loan that allows disbursements for construction of the improvements on the property through the initial phase of the loan. Upon completion of the property improvements, the loan converts to a fixed-rate, fully amortizing loan over the remaining term with an executed rider or modification.

Construction-to-permanent loans with a single Closing are eligible for delivery under the following MPF Traditional Products:

- MPF Original;
- MPF 125; and
- MPF 35.

Single Eligible Close Loan Purposes

Where the Borrower is **not** the owner of record prior to the construction (or interim) financing:

- The transaction must be delivered as a purchase transaction;
- The permanent Mortgage Loan File must contain evidence of the purchase price, which includes cost of the improvements and the lot (if acquired separately); and
- The LTV / TLTV must be based upon the lower of the appraised value or the purchase price.

Where the Borrower **is** the owner of record prior to the construction (or interim) financing,

- The transaction must be delivered as a rate and term refinance or limited cash-out refinance transaction;
- The permanent Mortgage Loan File must contain evidence of the date title to the lot was acquired; and
- The LTV / TLTV must be based upon the “as completed” appraised value of the lot and improvements.

Conversion to Permanent Financing

¹⁸ MPF Announcement 2018-18 (3/15/18)
MPF Announcement 2016-30 (12/22/16)

The construction financing must be converted to a permanent loan using one of the following methods:

- A construction rider is used subject to the following requirements:
 - The construction rider documents the terms of the construction financing and converts the Note to permanent financing upon completion of construction.
 - The rider must be referenced in and attached to the Uniform Instrument used for the permanent Mortgage Loan.
 - The construction provisions of the rider must become null and void at the completion of the construction phase and prior to the permanent Mortgage Loan's delivery under the MPF Program.
- A Loan Modification Agreement (FNMA Form 3179) is used subject to the following requirements:
 - The modification occurs prior to or at the time of conversion to permanent financing;
 - Only the interest rate, loan amount, loan term, and amortization type (from adjustable-rate to fixed-rate) may be modified;

If any other terms of the loan change, then the loan must be closed as a dual close transaction.

 - The loan amount may only be increased to cover documented increases in construction costs; and
 - The Loan Modification Agreement must be recorded in addition to the recording of the original security instrument.

2.6.3.3 Dual Close Transactions (3/15/18)¹⁹

A construction-to-permanent dual close transaction includes a loan for the interim construction financing of a residential property and a separate loan for the permanent financing. Upon completion of the property improvements, the outstanding balance of the interim loan becomes due, and a new Note must be executed for the permanent financing. The interim loan cannot be modified into long-term financing.

A dual close transaction requires two separate loan Closings and two sets of Closing documents. The Mortgage Loan File must contain both sets of Closing documents.

¹⁹ MPF Announcement 2018-18 (3/15/18)
MPF Announcement 2017-37 (7/24/17)
MPF Announcement 2016-30 (12/22/16)

Construction-to-permanent loans with a dual Closing are eligible for delivery under the following MPF Traditional Products:

- MPF Original;
- MPF 125; and
- MPF 35.

A dual close may be closed as a limited cash-out or cash-out transaction. The LTV/TLTV must be based upon the “as completed” appraised value of the property.

Construction-to-permanent financing for manufactured housing must be completed with dual Closings.

2.6.4 Expedited (Streamline) Refinance (5/1/19)²⁰

An expedited refinance allows the PFI to streamline the processing by collecting fewer documents for certain refinance transactions. The following documentation represents the minimum required for all expedited refinance transactions:

- A newly completed Uniform Residential Loan Application (FNMA Form 1003 / FHLMC Form 65).
- A payment history for the existing mortgage loan is required. If the payment history for the existing mortgage loan is not included on the Borrower’s credit report, then a mortgage payment history for the existing mortgage loan is required showing the most recent twelve (12) months prior to the Closing of the new Mortgage Loan. If the existing mortgage loan is less than twelve (12) months old, then a payment history from the loan’s inception is required;
- A credit report that meets the requirements in this Guide;
- Verification of the Borrower’s and co-Borrower(s’) current, eligible income;
- The original appraisal, or the DU report reflecting the Appraisal Waiver offer relied on to originate the existing loan, for the existing mortgage loan, provided that the PFI determines there has been no decrease in the market value of the Mortgaged Property between the note date of the existing mortgage loan and the Closing the new Mortgage Loan. If the PFI cannot determine whether the market value has decreased, then a new Appraisal must be completed in accordance with MPF Program Requirements.
- For Mortgage Loans secured by 2-4 unit properties, the PFI must:
 - Verify that the Borrower currently occupies the Mortgaged Property and has done so for the preceding year; and

²⁰ MPF Announcement 2019-26 (5/1/19)

- Use the 1-4 Family Rider (FNMA/FHLMC Form 3170) for the new Mortgage Loan.

2.6.4.1 Expedited Refinance Mortgage Loan Eligibility (12/22/16)²¹

For an expedited refinance transaction, the existing mortgage loan must meet the following requirements:

- The mortgage loan was originated or serviced by the PFI;
- The mortgage loan meets the standard requirements for refinances in this Selling Guide;
- The PFI possesses or has access to the original (or copy of the original) underwriting file;
- The mortgage loan is a conventional loan;
- The mortgage loan has one of the following payment structures:
 - A fixed-rate, level-payment first mortgage;
 - A non-negatively amortizing adjustable rate mortgage; or
 - A balloon mortgage;
- The mortgage loan was originally underwritten in compliance with the MPF Guides;
- The mortgage loan meets MPF Program LTV and TLTV ratio requirements;
- The mortgage loan has had no more than one (1) payment over twenty-nine (29) days late, but no greater than fifty-nine (59) days late, during the preceding twelve (12) months, or since inception if the mortgage is less than twelve (12) months old; and
- The mortgage loan must be secured by a property type eligible under the MPF Program.

For an expedited refinance transaction, the new Mortgage Loan must meet the following requirements:

- The new Mortgage Loan must be a 15-, 20-, or 30-year fixed-rate, fully amortizing loan;
- The new Mortgage Loan may not provide for the payoff of any subordinate financing, including HELOCs. Subordinate mortgage liens are permitted to remain in place, provided that they are subordinate to the new Mortgage Loan and they meet the subordinate financing requirements in this Selling Guide;
- The new Mortgage Loan may not be subject to any temporary buydown plan;
- The Borrower(s) on the new Mortgage Loan must be identical to the Borrower(s) on the Mortgage Loan being refinanced; and

²¹ MPF Announcement 2016-30 (12/22/16)

- The new Mortgage Loan must meet all other eligibility and underwriting criteria in the Guides.

2.6.4.2 Principal Amount of the New Mortgage Loan

If the principal amount of the new Mortgage Loan is less than original principal amount of the existing Mortgage Loan, the following requirements must be met:

- The principal amount of the new Mortgage Loan cannot contain closing costs exceeding two and one-half percent (2.5%) of the current balance of the existing Mortgage Loan; and
- The principal amount of the new refinance Mortgage Loan cannot be used to pay "cash-out" to the Borrower or any other payee.

If the principal amount of the new Mortgage Loan exceeds the original principal amount of the existing Mortgage Loan, the following requirements must be met:

- The principal amount of the new Mortgage Loan may not be greater than two and one-half percent (2.5%) more than the original principal amount of the existing Mortgage Loan;
- The Mortgaged Property must be a 1-unit Primary Residence or second home;
- The principal amount of the new refinance Mortgage Loan cannot be used to pay "cash-out" to the Borrower or any other payee; and
- The existing Mortgage Loan must not have any payments over twenty-nine (29) days late during the preceding twelve (12) months. If the Mortgage Loan is less than twelve (12) months old, the payment history must be included in the Mortgage Loan File and, to substitute for the previous mortgage payment history, a minimum FICO score of 700 on the new loan is required.

2.6.4.3 Monthly Payment of the New Mortgage Loan

The monthly PITIA payment for the new Mortgage Loan is limited to:

- An increase of no greater than five percent (5%) over the existing mortgage PITIA, if the existing mortgage loan is an ARM; or
- An increase of no greater than twenty percent (20%) over the existing mortgage PITIA, if the existing mortgage loan is a fixed-rate mortgage and the term is being reduced.

2.6.4.4 Credit Enhancement Data for the New Mortgage Loan (12/22/16)²²

Credit Enhancement data for the new Mortgage Loan must be submitted. However, Borrower, Mortgaged Property, and loan data may be obtained from the Mortgage Loan File of the existing loan and from the following sources:

²² MPF Announcement 2016-30 (12/22/16)

- The Uniform Residential Loan Application (FNMA Form 1003 / FHLMC Form 65);
- The new "in-file" credit report including FICO score;
- The Borrowers' current, eligible income that is verified and calculated in accordance with the standards in this Selling Guide; and
- The Appraisal relied upon for the new Mortgage Loan.

2.6.5 New York Consolidation, Extension and Modification Agreements (CEMA)

For Mortgaged Properties located in the state of New York that are being refinanced, the new Mortgage Loan may be documented with a Consolidation, Extension and Modification Agreement (CEMA) (FNMA / FHLMC Form 3172), which consolidates into one document the terms of prior notes and mortgages related to the Mortgaged Property, and if new funds are advanced, the terms of the new Note and Security Instrument.

For CEMA, specific instructions for delivering documents to the Custodian can be found in MPF Traditional Selling Guide 15.1.1.

2.6.6 Payoff of a Land Contract (12/22/16)²³

A Mortgage Loan in which the proceeds are used to pay off the unpaid balance under a land contract or contract for deed may be considered a purchase transaction, a rate and term refinance, or a limited cash-out refinance transaction. A Mortgage Loan which is used to pay off a land contract may not be underwritten as a cash-out refinance.

If the transaction is viewed as a purchase, all loan proceeds must be used to pay off the outstanding balance under the land contract, and no loan proceeds may be disbursed to the Borrower.

For transactions where the land contract was executed less than twelve (12) months prior to the Loan Application Date, the LTV must be computed based on the lesser of the following:

- The appraised value at the time the Mortgage Loan 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 Mortgage Loan File must contain documentation to support the calculated total acquisition cost.

For refinance transactions where the land contract was executed more than twelve (12) months prior to the Loan Application Date, the LTV must be computed based upon the appraised value at the time the Mortgage Loan is closed.

²³ MPF Announcement 2016-30 (12/22/16)

2.6.7 Subordinate Finance Transactions (12/22/16)²⁴

Second trust deeds, junior liens and subordinate liens (subordinate financing) are defined as mortgages that have rights that are secondary (inferior) to that of another mortgage on the same property. Subordinate financing, new or existing, is acceptable, provided that, in addition to all other underwriting guidelines provided in this Guide, the following requirements are met:

- The monthly payments on the subordinate loan must be included in calculating the Borrower's monthly housing expense ratio;
- The following types of subordinate financing are acceptable:
 - If a closed-end loan, must be a “safe harbor” QM loan;
 - Open-end periodic payment mortgages, in which the payment amount does not change during the loan term, with a minimum payment that covers the interest due for the corresponding period;
 - Open-end periodic payment mortgages, in which the payment amount may vary from period to period, with the following restrictions:
 - The minimum payment covers the interest due for the corresponding period; and
 - The periodic payment must remain constant for each 12-month period over the term of the secondary mortgage, with the exception of home equity lines of credit (“HELOCs”) which may have monthly payments that do not remain constant for 12-month periods;
- The maximum TLTV ratio for the first and second mortgage must comply with the limits outlined in this Selling Guide;
- The subordination agreement must be recorded concurrently and clearly in second position with the first mortgage/deed of trust, as applicable;
- “Piggy Back” or simultaneous second mortgages that are recorded in a clear second position, evidenced by the closing instructions and the final title policy when issued;
- Seller financed mortgages at a market interest rate and with a minimum payment that covers the interest due for the corresponding period;

Note: If subordinate financing provided by the property seller is more than 2% below the typical interest rate for subordinate financing acquired through a state or federally regulated financial institution, the subordinate financing must be considered a sales concession and must be deducted from the sales price.

²⁴ MPF Announcement 2016-30 (12/22/16)

- Employer-funded subordinate financing structured in one of the following ways (the financing terms may provide for the employer to require full repayment of the debt if the Borrower's employment is terminated before the maturity date of the subordinate financing):
 - Fully amortizing, level monthly principal and interest payments;
 - Payments deferred for a certain period before changing to fully amortizing, level principal and interest payments;
 - Payments are deferred over the entire term; or
 - The debt is forgiven over time.

The following types of subordinate financing are unacceptable:

- Mortgages with negative amortization;
- Mortgages that restricts prepayments, such as with prepayment penalties;
- Mortgages that do not fully amortize under a level monthly payment plan where the maturity or balloon payment date is less than five years after the note date of the new first mortgage;
- Mortgages with "wraparound" terms that combine the indebtedness of the first mortgage with that of the secondary mortgage; and
- Mortgages where the terms of the note provide for future advances (excluding HELOCs);

2.6.7.1 New or Existing Subordinate Finance

New subordinate financing may not be provided by an interested party.

The Originator will need the following documentation at time of underwriting:

- Existing: A copy of the executed note, trust deed and subordination agreement.
- New: A copy of the note that will be executed at closing on the new subordinate financing, if available.

2.6.7.2 Home Equity Lines of Credit (HELOCs) (3/16/17)²⁵

Mortgaged Property secured by subordinate financing in the form of a HELOC is permitted.

The total of the first Mortgage Loan balance plus the HELOC limit may not exceed ninety-five percent (95%) of the Mortgaged Property value.

For the purposes of loan eligibility and Loan Presentment, the TLTV must be calculated using the full HELOC limit, even if undrawn.

²⁵ MPF Announcement 2017-x (3/16/17)

The following table provides an example of how to calculate the TLTV for loan eligibility and Loan Presentment:

1) First Mortgage Amount	2) Full HELOC Limit	3) Outstanding HELOC Amount	4) Mortgaged Property Value	TLTV (1+2) / 4
\$50,000.00	\$40,000.00	\$10,000.00	\$100,000.00	90%

2.6.8 Property Assessed Clean Energy (PACE) Loans (10/31/17)²⁶

Mortgage Loans secured by a Mortgaged Property with an outstanding PACE or similar program loan, are eligible for delivery under the MPF Program if the PACE or similar program loan's lien is not superior to that of the Mortgage Loan.

An exception to these requirements is permitted if:

- The PACE or similar program's loan was originated before July 6, 2010; and
- The Mortgage Loan is a refinance of a Mortgage Loan acquired by an MPF Bank prior to July 6, 2010 (MPF-to-MPF refinance) that meets the following requirements:
 - The PACE loan must be paid in full if the Borrower has sufficient equity to pay off the PACE loan as part of a rate and term refinance, limited cash-out refinance, or a cash-out refinance; or
 - If the Borrower does not have sufficient equity to pay off the PACE loan, the Mortgage Loan must be underwritten as a rate and term refinance or limited cash-out refinance with the PACE loan remaining in place. Under this circumstance, the PACE loan is not required to be included in the TLTV calculation; however, the PACE loan payment must be included in the monthly housing expense and DTI calculation.

2.6.9 Non-Arm's Length Transactions

A non-arm's-length transaction is a transaction where there exists a personal or business relationship between the borrower and any party involved in the transaction.

A non-arm's-length transaction on a newly constructed second home is not permitted.

2.6.10 Temporary Buydowns (12/22/16)²⁷

²⁶ MPF Announcement 2017-63 (10/31/17)

A temporary buydown occurs when funds are provided to the Originator by the Borrower or a third party for the purpose of reducing the Borrower's monthly Principal and Interest Payment for short periods, such as one to three years. Any buydown that remains in effect for less than the full term of a loan is considered a temporary buydown. The Mortgage Loan must be qualified at the Note Rate.

Fixed-rate / fixed payment Mortgage Loans with temporary buydowns are eligible for delivery under the MPF Program under the following conditions:

Maximum LTV	Maximum annual buydown schedule
95%	2%-1%-0% ("2-1 Buydown")
90%	3%-2%-1% ("3-2-1 Buydown")
Qualification ratios	28%/36%
Qualification rate	Note Rate

A temporary buydown is not permitted on a cash-out refinance, an expedited (streamlined) refinance, or for a loan secured by manufactured housing.

Temporary buydown example:

²⁷ MPF Announcement 2016-30 (12/22/16)

Fixed Rate, 30-year loan, Primary Residence; 95% LTV; 2%-1%-0% buydown; Note Rate: 9% (Qualification Rate)	
Year 1:	9% (Note Rate)
	<u>-2% (temporary buydown)</u>
	7% payment rate / 1st year (start rate)
Year 2:	9% (Note Rate)
	<u>-1% (temporary buydown)</u>
	8% payment rate / 2nd year
Year 3:	9% (Note Rate)
	<u>-0% (temporary buydown)</u>
	9% payment rate / 3rd year through term

2.6.11 Texas 50(a)(6) Mortgages (5/1/19)²⁸

A Texas Section 50(a)(6) loan originated in compliance with the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution is eligible for delivery under the MPF Program. Some MPF Banks may impose additional restrictions on delivery of such loans; therefore, PFIs should contact their local

²⁸ MPF Announcement 2019-26 (5/1/19)
MPF Announcement 2018-18 (3/15/18)

MPF Bank before delivery of any Texas 50(a)(6) loans, to ensure compliance with MPF Bank specific requirements.

Because the MPF Program's classification of mortgage transactions as "cash-out refinance" or "limited cash-out refinance" or "rate and term refinance" may differ from the way mortgage loans are classified under Texas law, PFIs should not rely on the MPF Program's classification of mortgage transactions for purposes of determining whether compliance with the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution is required.

All Texas 50(a)(6) loans must be delivered with Special Feature Code 304 and must have appraisals. Appraisal Waivers are not acceptable for this type of loan.

2.7 Ineligible Transactions, Products or Attributes (5/1/19)²⁹

Only MPF Traditional product offerings are eligible for delivery under the MPF Traditional product. No other investor products, including those from Fannie Mae and Freddie Mac, are eligible for delivery under the MPF Traditional products.

In addition, the following products or attributes are ineligible under the MPF Traditional product, regardless of underwriting method used:

- Co-ops
- Investment properties
- Constructions loans, unless the terms of Construction to Permanent Financing in Chapter [2.6.3](#) are followed.
- ARMs
- Balloon mortgages
- Interest only
- Home improvement/rehabilitation loans
- Condotels
- Time shares
- Unimproved land
- Agricultural properties, such as farms or ranches
- Properties that are not suitable for year-round occupancy, regardless of location

²⁹ MPF Announcement 2019-26 (5/1/19)
MPF Announcement 2018-18 (3/15/18)
PFI Notice 2016-12 (9/1/16)

- Properties on the island of Hawaii located within lava zone 1 or 2, as defined by the U.S. Geological Survey Hawaiian Volcano Observatory
- Fannie Mae's Refi Plus and Freddie Mac's Open Access
- Fannie Mae's HomeReady
- Mortgage Loans without a DU Appraisal Waiver, that have a Freddie Mac Automated Collateral Evaluations (ACEs) appraisal waiver, or that do not meet Appraisal Waiver requirements outlined in the Guides, including MPF Traditional Selling Guide 4.2.1.
- Freddie Mac's Relief Refinance MortgagesSM

2.8 Government Mortgage Loan Eligibility and Underwriting Requirements (7/24/17)³⁰

To be eligible under the MPF Program, Government Mortgage Loans must meet the MPF Program's eligibility requirements in addition to the following:

- Comply with the applicable Government Agency's standards;
- Comply with all Applicable Laws; and
- Maintain the associated Government Agency guaranty and/or insurance at all times until payoff or liquidation of the loan.

Government Mortgage Loans eligible for delivery under the MPF Program are one-to-four family fully amortizing fixed rate mortgages that are:

- FHA insured mortgages;
- HUD guaranteed Section 184 loans with an Indian Loan Guarantee Certificate;
- VA guaranteed mortgages; or
- RHS Section 502 guaranteed mortgages.

The Originator should comply with all of the specific underwriting requirements of the applicable insuring or guaranty Government Agency as identified below:

- For FHA/HUD, visit <http://portal.hud.gov/hudportal/HUD>
- For VA, visit [<http://www.benefits.va.gov/homeloans/lenders.asp>]
- For Rural Housing Service, visit [<http://www.usdaloans.net/usda-home-loan-guidelines-2>]

³⁰ MPF Announcement 2017-37 (7/24/17)

2.8.1 Maximum Loan Limits for Government Mortgage Loans (7/24/17)³¹

The maximum FHA, VA, HUD 184, and RHS 502 loan amounts are those established by the FHA/HUD, VA and RHS. The maximum LTV and TLTV limits for Government Mortgage Loans are those established by the applicable Government Agency.

2.8.2 Eligible Borrowers for Government Mortgage Loans

Eligible Borrowers are those established by the applicable Government Agency.

2.8.3 Eligible Property Types for Government Mortgage Loans (4/6/18)³²

Eligible property types are those established by the applicable Government Agency, other than commercial property. Mortgage Loans sold as Servicing Released must comply with any additional requirements or restrictions the Servicer has for manufactured homes, as is provided for in the applicable Servicer's Manual.

2.8.4 Government Mortgage Loan Streamline Refinances (12/22/16)³³

FHA streamlined refinance loans, VA Interest Rate Reduction Refinance Loans (IRRRLs) and RHS streamlined refinance loans are eligible under the MPF Program.

For all Government Mortgage Loan streamline refinances, Borrower and co-Borrower income must be collected and delivered for the purpose of Loan Presentment, regardless of the requirements of the Government Agency that insures or guarantees the loan. The MPF Program does not require the income be used to qualify the Borrower(s) if the Government Agency does not require its use for qualification purposes.

2.8.5 Properties Impacted by a Major Disaster (8/13/18)³⁴

Originators are required to follow the applicable Government Agency requirements for providing Major Disaster assistance.

³¹ MPF Announcement 2017-37 (7/24/17)

MPF Announcement 2016-30 (12/22/16)

³² MPF Announcement 2018-22 (4/6/18)

³³ MPF Announcement 2016-30 (12/22/16)

³⁴ MPF Announcement 2018-39 (8/13/18)

CHAPTER 3. BORROWER ELIGIBILITY

3.1 Borrower Overview

This section describes the types of Borrowers who are eligible under the MPF Program.

3.1.1 OFAC

All Borrowers' names must be checked against Office of Foreign Asset Control (OFAC) lists of known or suspected terrorists or terrorist organizations including the Specifically Designated Nationals and Blocked Persons (SDN) list. The Mortgage Loan is ineligible for delivery under the MPF Program if a match is found.

3.1.2 Eligible Borrowers (12/11/18) ³⁵

The Borrower should be of legal age per local and state jurisdiction and able to enter into a binding contract. All eligible Borrowers must be Natural Persons and have valid and verifiable Social Security numbers (SSN) or Individual Taxpayer Identification Numbers (ITINs). Other forms of taxpayer identification are not allowed. If any discrepancies are found involving Borrowers' SSN or ITIN, these must be resolved before Closing.

A Borrower must be on title as owner of the Mortgaged Property, unless the property is titled in the name of an :

- Inter Vivos Revocable Trust that meets Guide eligibility requirements (see Chapter 3.1.5 for eligibility requirements); or
- Illinois Land Trust that meets Guide eligibility requirements (see Chapter 3.1.6 for eligibility requirements).

3.1.3 Co-Borrower

The co-Borrower, or joint applicant, is any Borrower other than the primary Borrower who has applied with the Borrower for joint credit. The co-Borrower may, but is not required to, take title to the Mortgaged Property and will sign the Note and/or Security Instrument as their status requires.

3.1.4 Non-Occupant Co-Borrower (12/22/16) ³⁶

³⁵ MPF Announcement 2018-60 (12/11/18)

³⁶ MPF Announcement 2016-30 (12/22/16)

The non-occupant co-Borrower applies with the Borrower for joint credit and may take title to the Mortgaged Property, but will not occupy the property. The non-occupant co-Borrower will be required to sign the Note and/or Security Instrument. The non-occupant co-Borrower may not be an interested party (e.g. a real estate agent, builder, or seller).

The occupant Borrower must be able to qualify for the loan using solely his/her own income with a total debt ratio at or below 43%. Once that requirement is met, the non-occupant co-Borrower's income may be used for qualifying purposes, subject to the following LTV and occupancy requirements:

LTV	Co-Borrower Occupancy Status
>95% (for loans with AHP funds only)	Co-Borrower must occupy the property
90.01%-95%	The co-Borrower must occupy the property, unless the Mortgage Loan was underwritten and approved using DU or Loan Product Advisor
90% or below	The co-Borrower is not required to occupy the property

3.1.5 Inter Vivos Revocable Trust (12/11/18)³⁷

An inter vivos revocable trust is a trust that:

- One or more individuals create during his or her lifetime,
- Becomes effective during the creator's lifetime,
- Can be changed or canceled by its creator at any time for any reason, during that individual's lifetime,
- Names the creator as its beneficiary,
- Has at least one of the creators as a trustee or an institutional trustee that customarily performs trust functions and is authorized to act as trustee under the laws of the applicable state.

Loans where title to the Mortgaged Property is held by an inter vivos revocable trust are eligible if a Borrower is the primary beneficiary of the trust and is the individual establishing the trust.

³⁷MPF Announcement 2018-60 (12/11/18)
MPF Announcement 2016-30 (12/22/16),

The Mortgage Loan must be underwritten with one of the individuals establishing the trust as the Borrower or co-Borrower, and the beneficiary must become personally liable on the Note, acknowledge the Security Instrument and occupy the Mortgaged Property.

As evidence that the trust meets state and MPF Program standards, the Mortgage Loan File must contain a copy of the trust agreement or trust certificate and at least one of the following:

- An attorney's opinion stating the trust meets all applicable state requirements; or
- Certification from a title company evidencing compliance with any applicable state requirements.

The trust agreement must state that the trustee is authorized to borrow money for the purpose of purchase or refinance (as applicable for the transaction being requested), and if consent of the beneficiary is required, such written consent must be obtained and retained in the Mortgage Loan File.

Title to the property must be vested solely in the trustee(s) of the inter vivos revocable trust, jointly in the trustee(s) of the inter vivos revocable trust and in the name of the individual Borrower or in the trustee(s) of more than one inter vivos revocable trust.

In addition, the following requirements must be met:

- The title insurance policy (or attorney's opinion of title) shall not list any exceptions with respect to the trustee holding title to the property or to the trust.
- Title held in the trust must not reduce the MPF Bank's rights, including the right to have full title to the property should foreclosure proceedings be initiated.
- The title insurance policy ensures full title protection to the MPF Bank.
- Title to the security property is vested solely in the trustee(s) of the inter vivos revocable trust, jointly in the trustee(s) of the inter vivos revocable trust and in the name(s) of the individual borrower(s), or in the trustee(s) of more than one inter vivos revocable trust.

The Originator must ensure that all loan documents are properly executed according to Applicable Law to ensure the granting of a first lien is properly conveyed.

3.1.6 Illinois Land Trust

Loans where title to the Mortgaged Property is held by an Illinois Land Trust are eligible, provided the trust meets the following criteria:

- The land trustee must be a financial institution customarily engaged in the business of acting as trustee under Illinois land trusts (individuals are not acceptable as trustees);
- All primary beneficiaries of the land trust must be a qualifying Borrower and must execute the Note and Security Instrument as individuals, without any reference to the Borrower's status as beneficiary(ies), co-signer(s), guarantor(s), etc., of the trust;

- The land trustee must execute the Note, the Security Instrument, and if applicable, any riders:
 - The land trustee must execute the Security Instrument as trustee under the particular trust agreement dated a specified date and known as a specified trust number;
 - The notary's certificate of acknowledgement should reflect that the execution is by the officer(s) of the institution acting as trustee, and specify the officer's(s') title(s); and
 - The land trustee's execution of the Note and Security Instrument may either include a rider or stamp (whichever is customary) indicating that the trustee is not personally liable on the Note or on the Mortgage covenants and that the Mortgagee can only look to trust assets to satisfy those obligations of the trustee. However, the rider or stamp must not be more broadly stated than only relieving the trustee from personal liability.
- The Uniform Instrument, Illinois Mortgage Form 3014, must be amended as follows:
 - In the "Definitions" on page 1, describe "Borrower" as both (i) an institution which is a trustee under the particular trust agreement dated a specified date and known as a specified trust number and (ii) the credit-seeking beneficiary(ies) of the trust.
 - PFI must add the following language to the second paragraph of "Transfer of Rights in the Property:"

"The term "Property" wherever used in this Security Instrument expressly includes all rights of the trust and of any beneficiary of the trust to receive the net proceeds from the rental, sale, hypothecation, or other disposition of the Property, whether or not such rights are classified as real or personal property or such proceeds are otherwise distributable to the beneficiaries of the trust pursuant to a trust agreement. The Borrower warrants that it possesses full power and authority to execute this Security Instrument."
- The trustee and the beneficiary(ies) must sign an agreement substantially in the form of the "Agreement by Beneficiary and Trustee to Notify Lender of a Sale or Transfer of Interest" (the "Agreement"), Exhibit P, which Agreement amends the trust agreement between the beneficiary(ies) and the trustee in order to protect the Mortgagee from transfers of beneficial interests in the trust without the Mortgagee's knowledge; or
 - If the PFI cannot obtain an Agreement, an assignment of beneficial interest in lieu of the Agreement is acceptable.

3.1.7 Non-U.S. Citizen

A non-U.S. citizen Borrower, who is lawfully residing in the U.S. as a permanent or non-permanent resident alien, is eligible for a Mortgage Loan on the same terms as a U.S. citizen.

Borrowers must have current acceptable documentation from the Bureau of Citizenship and Immigration Services (BCIS), within the Department of Homeland Security, evidencing the person's legal residency status in the U.S.

3.1.8 Social Security Number and Individual Taxpayer Identification Number Verification

All Borrowers must have a valid Social Security Number (SSN) or, in the case of permanent or non-permanent resident alien who do not have a SSN, a valid Individual Taxpayer Identification Number (ITIN). The Borrower's SSN or ITIN must be consistent throughout the Mortgage Loan File. Minor name variations, such as a Borrower who uses a shortened or abbreviated name are acceptable when the Mortgage Loan File contains documentation that the Borrower is the same person as the name variation(s). When there are inconsistencies or multiple SSNs and/or ITINs for any Borrower(s), acceptable documentation resolving the discrepancies must be included in the Mortgage Loan File by either:

- Verification of the Borrower's SSN and/or ITIN directly through the Social Security Administration (SSA), such as through the submission of Form SSA-89 (or any other form or method accepted by the SSA) to the SSA for validation; or a
- Verification of the Borrower's SSN and/or ITIN through a vendor that validates directly through the SSA.

If the SSN or ITIN cannot be validated with the SSA, the Mortgage Loan is not eligible for delivery under the MPF Program.

3.1.9 Maximum Loans Per Borrower (12/22/16)³⁸

There are no restrictions regarding the maximum number of loans permitted for a single Borrower.

3.2 Ineligible Borrowers

The following types of borrowers are ineligible:

- Persons without SSNs or ITINs
- Land trusts that are not Illinois Land Trusts
- Any corporate entities such as corporations, general and limited partnerships, "Doing Business As" (d/b/a) entities
- Religious or nonprofit organizations
- Persons with a life estate in the mortgaged property

³⁸ MPF Announcement 2016-30 (12/22/16)

- Persons who are acting on behalf of another person involved in the transaction as a court appointed guardian.

CHAPTER 4. UNDERWRITING STANDARDS

4.1 Permitted Underwriting Methods

Conventional Mortgage Loans and Government Mortgage Loans must be manually underwritten in accordance with the underwriting and eligibility guidelines of the Guides or applicable Government Agency. If a Mortgage Loan is underwritten using an automated underwriting system, the underwriting and eligibility guidelines of the applicable agency must be followed subject to the restrictions specified in this Selling Guide.

4.2 Conventional Mortgage Loans

This section contains guidance for underwriting methods to be used for Conventional Mortgage Loans.

4.2.1 Automated Underwriting Systems (AUS) (7/12/19)³⁹

Mortgage Loans may be underwritten using Fannie Mae's Desktop Underwriter® (DU®) or Freddie Mac's Loan Product Advisor® automated underwriting system. Mortgage Loans underwritten with either AUS must follow the overall program requirements, underwriting requirements, and eligibility requirements of the applicable GSE for that Mortgage Loan and not the manual underwriting guidelines of this Selling Guide. The only MPF Program Requirements that supersede Fannie Mae/DU and Freddie Mac/Loan Product Advisor requirements are the following:

- Max LTV: 95%
- Minimum FICO: 620
- Full Interior/Exterior Appraisal, or a DU eligible Appraisal Waiver if the MPF Program and any specific MPF Bank requirements for appraisal waivers are met.
- Occupancy Requirements
- Property Type Eligibility (for example: Co-ops are not eligible under the MPF Program)
- Products or loan attributes on the ineligible list (see Selling Guide Chapter [2.7](#))

If a loan that is underwritten with an AUS and receives an ineligible recommendation due to guidelines that do not make the loan ineligible under the MPF Program, the PFI should contact its MPF

³⁹ MPF Announcement 2019-36 (7/12/19)
MPF Announcement 2019-26 (5/1/19)
MPF Announcement 2019-18 (3/1/2019)
MPF Announcement 2017-12 (3/16/17)
MPF Announcement 2016-17 (11/29/16)

Bank to confirm the Mortgage Loan is acceptable for delivery. If the Mortgage Loan is acceptable to the MPF Bank, the PFI must document the name of the individual from their MPF Bank that provided the approval and the date of approval on the FNMA 1008/FHLMC 1077.

In order to be eligible, Mortgage Loans must have received an acceptable DU or LPA recommendation as provided for in this Guide, or must be manually underwritten pursuant to MPF Program underwriting guidelines.

4.2.1.1 Fannie Mae Desktop Underwriter (DU)

Fannie Mae's DU guidelines provided in this Guide do not apply to the use of Fannie Mae's Desktop Originator® (DO®), which is an ineligible AUS System under the MPF Program.

4.2.1.1.1 Loans with an "Approve/Eligible" Recommendation

Mortgage Loans must receive an "Approve/Eligible" recommendation from DU, and any verification messages or approval conditions specified on the Desktop Underwriter Findings Report must be satisfactorily resolved before Closing. Terms and conditions of the closed Mortgage Loan and underwriting information in the Mortgage Loan File must match the data on which the DU recommendation/verification messages are based.

4.2.1.1.2 Appraisal Waivers (5/1/19) ⁴⁰

MPF Traditional Mortgage Loans with no Appraisals that have an eligible Appraisal Waiver issued through DU that is accepted by the loans originator, are eligible for delivery under the MPF Program. Not all MPF Banks accept delivery of loans with no Appraisals, and some MPF Banks may impose additional restrictions on delivery of loans with Appraisal Waiver offers; therefore, PFIs should contact their local MPF Bank before delivery of any loan with an Appraisal Waiver offer, to ensure eligibility and compliance with MPF Bank specific requirements.

The following transactions are not eligible for an appraisal waiver:

- properties located in a disaster-impacted area, unless the loan meets MPF Guides and Fannie Mae's requirements for such transactions;
- when the lender has any reason to believe an appraisal is warranted;
- construction and construction-to-permanent loans;
- two- to four-unit properties;
- value of the subject property provided to DU is \$1,000,000 or greater;

⁴⁰ MPF Announcement 2019-26 (5/1/19)

- community land trusts or other properties with resale restrictions, which include loan casefiles using the Affordable LTV feature;
- manufactured homes;
- when the mortgage insurance provider requires an appraisal;
- DU loan casefiles that receive an Ineligible recommendation;
- transactions using gifts of equity; and
- Texas Section 50(a)(6) loans.

Rural High-Needs Appraisal Waivers are not eligible.

In addition to confirming the loan meets all DU Appraisal Waiver eligibility criteria, all MPF Guide eligibility requirements and MPF Bank eligibility requirements, when delivering a Mortgage Loan with an Appraisal Waiver offer, the PFI:

- Must execute an Appraisal Waiver specific MC Amendment;
- Must receive a valid Appraisal Waiver offer on its final submission to DU;
- Must ensure the date of the DU Appraisal Waiver does not precede the date of the Note and Security Instrument by more than four months;
- Must ensure that, if the Mortgaged Property is located in a Major Disaster area, the Appraisal Waiver offer is obtained at least 120 days after the disaster ended;
- Must identify the appropriate appraisal type (i.e. Appraisal Waiver) in the eMPF website and leave “Appraiser’s State License Number” blank;
- Must submit the Mortgage Loan using Special Feature Code (SFC) 801;
- Must ensure an Appraisal is not required by Applicable Law (including but not limited to laws relating to the placement of mortgage insurance);
- Must ensure an Appraisal is not required by the mortgage insurance (MI) provider (if applicable);
- Must ensure there are no other factors that would warrant an Appraisal, such as, for example, the occurrence of a natural disaster or event potentially causing damage to the property;
- Must ensure the transaction is not one that DU was unable to identify as having ineligible criteria (for example, Texas 50(a)(6) loans);
- Must ensure an Appraisal was not obtained;
- Must ensure the property is not subject to Article XVI, Section 50(a)(6) of the Texas Constitution;

- Must ensure the loan meets the property eligibility type for sale into the MPF Program;
- Must ensure the condition of the Mortgaged Property meets the requirements of the Guides as of the date of loan delivery into the MPF Program;
- Represents and warrants that no PFI employee or representatives have made any statements to any third party (including a Borrower) that the PFI or another person on behalf of the PFI performed or will perform a property valuation review or obtained an Appraisal of the Mortgage Property;
- Represents and warrants that all data pertaining to the Mortgaged Property submitted through DU is accurate and complete;
- Represents and warrants the property value estimate entered into DU; and
- Represents and warrants that the Mortgage Loan meets all other requirements of the MPF Traditional product as set forth in the Guides and by the MPF Bank.

4.2.1.1.3 Delivery Requirements

Any mortgage loan to be delivered for purchase as a DU underwritten Mortgage Loan must include all applicable DU reports as listed below:

- Underwriting Findings (includes Risk/Eligibility, Findings, Verification Messages/Approval Conditions, and Observations);
- Credit Report Summary; and
- Underwriting Analysis Report.

4.2.1.2 Freddie Mac Loan Product Advisor®

4.2.1.2.1 Loans with An “Accept” Risk Class (5/1/19)⁴¹

Mortgage Loans must receive an “Accept” risk class from Loan Product Advisor, and any verification messages or approval conditions specified on the last Loan Product Advisor Feedback Certificate must be satisfactorily resolved before Closing. However, a full interior/exterior Appraisal is required for all Mortgage Loans underwritten with Loan Product Advisor, regardless of what Appraisal type Loan Product Advisor may allow. Freddie Mac ACE appraisal waivers are not eligible. Terms and conditions of the closed Mortgage Loan and underwriting information in the Mortgage Loan File must match the data on which the Loan Product Advisor “Accept” risk class is based.

⁴¹ MPF Announcement 2019-26 (5/1/19)
MPF Announcement 2016-17 (11/29/16)

4.2.1.2.2 Loan Product Advisor Delivery Requirements (11/29/16)⁴²

Any Mortgage Loan File delivered as a Loan Product Advisor underwritten Mortgage Loan must include:

- Loan Product Advisor Feedback Certificate; and
- Credit documentation as required by Loan Product Advisor, including all credit reports and all credit scores generated.

Additional submission requirements may apply.

4.2.2 Manual Underwriting

Conventional Mortgage Loans may be manually underwritten. Manually underwritten loans must follow the underwriting and eligibility guidelines of this Selling Guide.

4.3 Government Mortgage Loans

This section contains guidance for underwriting methods to be used for Government Mortgage Loans.

4.3.1 FHA Mortgage Loans (11/29/16)⁴³

FHA Mortgage Loans may be underwritten manually in compliance with the requirements of this Selling Guide as well as FHA requirements, or underwritten using DU or Loan Product Advisor as described below.

4.3.1.1 DU Underwritten FHA Mortgage Loans

Any FHA Mortgage Loan underwritten using DU must comply with the following requirements:

- DU for FHA Mortgage Loans must include the Underwriting Findings report(s) in the file;
- All conditions and requirements identified through DU must be included in the file; and
- Files must be packaged in accordance with FHA published requirements.

Any FHA Mortgage Loan underwritten using DU must comply with the terms of the FHA Lenders Handbook and Fannie Mae's Desktop User Guide.

Any FHA Mortgage Loans underwritten using DU, except a Streamline Refinance and assumption, must be scored through TOTAL Mortgage Scorecard. TOTAL Mortgage Scorecard is not an AUS, but a scorecard that interfaces with an AUS such as DU, and provides a Feedback Certificate/Finding Report. The TOTAL Mortgage Scorecard Feedback Certificate/Finding Report used in the underwriting

⁴² MPF Announcement 2016-17 (11/29/16)

⁴³ MPF Announcement 2016-17 (11/29/16)

decision must be included in the FHA case binder. All data entered into the AUS must be verified as accurate and complete, and the entire mortgage application must comply with all FHA requirements.

4.3.1.2 Loan Product Advisor Underwritten FHA Mortgage Loans (11/29/16)⁴⁴

Any FHA Mortgage Loan underwritten using Loan Product Advisor must comply with the following requirements:

- Loan Product Advisor Mortgage Files must include:
 - Loan Product Advisor Feedback Certificate;
 - All documents as indicated by the Loan Product Advisor Feedback Certificate, including all conditions.

Any FHA Mortgage Loan, except a Streamline Refinance and assumption, must be scored through TOTAL Mortgage Scorecard. TOTAL Mortgage Scorecard is not an AUS, but a scorecard that interfaces with an AUS such as Loan Product Advisor, and provides a Feedback Certificate/Finding Report. The TOTAL Mortgage Scorecard Feedback Certificate/Finding Report used in the underwriting decision must be included in the FHA case binder. All data entered into the AUS must be verified as accurate and complete, and the entire mortgage application must comply with all FHA requirements.

4.3.2 VA Mortgage Loans (11/29/16)⁴⁵

VA Mortgage Loans may be underwritten manually in compliance with the requirements of this Selling Guide as well as VA requirements, or underwritten using DU or Loan Product Advisor as described below.

4.3.2.1 DU Underwritten VA Mortgage Loans

Any VA Mortgage Loan underwritten using DU must comply with the terms of the VA Lenders Handbook and Fannie Mae's DU requirements.

Any VA Mortgage Loan underwritten using DU must include the Underwriting Reporting the Mortgage Loan File as well as meet all conditions and requirements identified by DU.

4.3.2.2 Loan Product Advisor Underwritten VA Mortgage Loans (11/29/16)⁴⁶

Any VA Mortgage Loan underwritten using Loan Product Advisor must comply with the terms of the VA Lenders Handbook and the Freddie Mac Loan Product Advisor requirements.

⁴⁴ MPF Announcement 2016-17 (11/29/16)

⁴⁵ MPF Announcement 2016-17 (11/29/16)

⁴⁶ MPF Announcement 2016-17 (11/29/16)

Loan Product Advisor Mortgage Files must include:

- Loan Product Advisor Feedback Certificate; and
- All documents as indicated by the Loan Product Advisor Feedback Certificate, including all conditions

4.4 Affordable Housing Program (AHP) Funds

This section describes the requirements for affordable housing financing that is provided by a Federal Home Loan Bank (FHLB) or provided by another third party.

Mortgage Loans with AHP funds must be a purchase or a limited cash-out refinance transaction.

The maximum LTV for Mortgage Loans with AHP funds is one-hundred percent (100%), with the exception of Conventional High-Balance Mortgage Loans, which are subject to a maximum LTV of ninety percent (90%). The maximum TLTV (first Mortgage Loan plus the grant and any subordinate financing, if applicable) for loans with AHP funds is one-hundred and five percent (105%).

The income limits established by the AHP funds provider must be followed.

4.4.1 FHLB Funds

The FHLB Affordable Housing Program provides subsidies (grants) to member institutions to assist in the creation and preservation of housing for lower income individuals and families.

Mortgage Loans with FHLB AHP funds may be delivered to a participating MPF Bank. Down Payment Plus/Plus Advantage Grants or equivalent funds from an FHLB are eligible.

Prior to the delivery of Mortgage Loans with FHLB funds, the participating MPF Bank's AHP must be approved for use under the MPF Program. The PFI should contact its MPF Bank for more information.

4.4.2 Non-FHLB Funds (3/16/17)⁴⁷

Non-FHLB AHP funds may be provided by:

- A federal agency, municipality, state, or county;
- State or local housing finance agency; or
- A nonprofit organization.

⁴⁷ MPF Announcement 2017-12 (3/16/17)
MPF Announcement 2016-30 (12/22/16)

Non-FHLB AHP funds must meet the following requirements:

- AHP funds may not be provided by the property seller or another interested party to the transaction;
- AHP funds are only permitted for Primary Residences;
- AHP funds cannot be used for manufactured homes; and
- AHP funds may be used toward the Borrower's down payment, closing costs, property renovations, or a permanent interest rate buydown.

The Originator must ensure all AHP second lien programs comply with the requirements in this Guide.

The AHP Checklist (Exhibit U) may be used to assess whether a non-FHLB AHP program is acceptable.

4.4.3 Repayment Terms (12/22/16)⁴⁸

The following repayment terms are acceptable for AHP funds:

- Fully amortizing, level monthly payments;
- Payments deferred for a period of time that are subsequently changed to fully amortizing, level monthly payments;
- Payments deferred for the entire loan term that only become due and payable if the Borrower pays off the mortgage or sells the Mortgaged Property prior to the maturity date of the AHP second; and
- A loan that is forgiven over time.

If the loan terms provide for payments that are deferred for five years or more, then the monthly payment of the AHP second is not required to be included in the debt-to-income ratio. If the payments are deferred for less than five (5) years, then the monthly payment of the AHP second must be included in the debt-to-income ratio.

⁴⁸ MPF Announcement 2016-30 (12/22/16)

CHAPTER 5. UNDERWRITING THE BORROWER

5.1 Documentation Requirements (12/22/16)⁴⁹

The following requirements apply when documenting Mortgage Loans:

- The Mortgage Loan File must contain acceptable documentation to support the underwriting decision;
- When standard documentation does not provide sufficient information to support the decision, additional explanatory statements or documentation must be provided;
- For loans underwritten with an AUS, the documentation requirements must comply with the applicable AUS. For loans underwritten manually, the documentation requirements must comply with MPF Program Requirements;
- All required documentation must be verified and retained in the Mortgage Loan File;
- Certified true copies may be individually stamped certified true and exact (the signature must contain at least the first initial of the signer and the full surname), or a “blanket” true and exact certification identifying the loan and the name of the person certifying the documents may be included;
 - Erasures and white-outs are not permitted on any document.
- Tax returns, if required, must be true copies of filed returns and must be signed by all Borrowers. Tax return copies that are signed by a tax preparer are not acceptable;
- W-2 forms that are marked “Employer Copy” are not acceptable;
- Handwritten W-2 forms or paystubs are not acceptable. Tax returns must be obtained if computer-generated documents are not available;
- Letters of explanation regarding financial circumstances must specifically address the financial or credit concern presented and must contain a complete explanation in the Borrower’s own words, and be signed and dated by the Borrower; and
- Any documentation discrepancies must be adequately explained and documented in the Mortgage Loan File.

5.1.1 Complete Applications Required

All Loan Applications (Fannie Mae Form 1003/Freddie Mac Form 65) submitted to underwriting must be accurate and complete with the following information for each Borrower:

⁴⁹ MPF Announcement 2016-30 (12/22/16)

- Borrower name;
- A full two-year history of employment and residency;
- Social Security Number or Individual Taxpayer Identification Number;
- Address of the Mortgaged Property;
- Estimate of the property value; and
- Mortgage Loan amount sought.

In addition, a complete Loan Application requires the following:

- All declaration questions must be marked and indicate how the Loan Application was taken.
 - If the interview is conducted face to face, the government monitoring information must be completed. If the Borrower chooses not to participate, the interviewer must complete the government monitoring section based on observation.
- The interviewer's name and employer must be completed, including NMLS numbers for each.
- The final Loan Application must include the Borrower's complete and accurate financial information as relied upon by the underwriter, and must be signed and dated by all parties.

All Loan Applications must be reviewed for reasonability as part of the underwriting process. The feasibility of occupancy claims and the overall financial picture of the Borrowers must be reasonable. Where conflicting information exists between or within documents, an adequate explanation must be obtained and documented in the Mortgage Loan File.

5.1.2 Zero Tolerance

The MPF Program has a zero tolerance policy on matters relating to fraud or misrepresentation. Originators must have appropriate processes in place to escalate and report suspicious activities.

5.1.3 Age of Documents (1/28/19)⁵⁰

Information used to make the credit decision must be current. The maximum age of documents at Closing is as follows:

⁵⁰ MPF Announcement 2019-11 (1/28/19)
MPF Announcement 2017-37 (7/24/17)
MPF Announcement 2016-30 (12/22/16)

Table 5 - 1			
Item	Existing Property Age as of Note Date	New Construction Age as of Note Date	Properties Impacted by a Major Disaster Age as of Note
Initial Application (1003)	120 days	120 days	180 days
Credit Report	120 days	120 days	180 days
Income Documentation	120 days	120 days	180 days
Asset Documentation	120 days	120 days	180 days

Some documents, such as tax returns or divorce decrees, are not subject to these timeframes, as their validity does not change over time.

5.1.4 Direct Written Verifications

Written verifications for employment, deposit accounts and/or mortgage/rental history (VOE/VOD/VOM/VOR) must pass directly between the Originator and employer, financial institution, mortgagor/landlord, as applicable, without being handled by any third party (including the Borrower). Documentation must not contain any alterations, erasures, correction fluid or correction tape.

5.1.5 Verification of Borrower Identity (12/22/16)⁵¹

The Borrower's identity must be confirmed and established with acceptable documentation such as:

- State issued identification (ID), such as a driver's license or state ID with photo; or
- Federally issued identification, such as a passport (may be a foreign passport for legal resident aliens).

Any other documents deemed necessary to comply with federal obligations (birth certificate, social security card, military ID, US alien registration, etc.) must be verified by the Originator.

Copies of government issued identification should not be maintained in the Mortgage Loan File when prohibited by law. The following steps are required to document verification of Borrower's identity:

- Verify the accuracy of the data contained on the ID against the information provided by the Borrower;
- Record the following information on a document to be retained in the Mortgage Loan File:
 - a. The type of ID provided (state issued I.D., passport, etc.);
 - b. The expiration date of the ID document provided by the Borrower;

⁵¹ MPF Announcement 2016-30 (12/22/16)

- c. Any unique number assigned to the ID by the issuer of the ID (driver's license number, passport number, etc.);
- d. Personal data listed on the identification that specifically identifies the Borrower (photograph, home address, social security number, birth date, etc.); and
- e. Any additional information regarding other steps or procedures the Originator performed in order to validate the Borrower's identity.

The verification of the documentation should be signed and dated by the individual completing the validation of the Borrower's identity and clearly identify the type of ID used.

5.2 Alternative Documentation

This section provides alternative documentation solutions.

5.2.1 Eligibility Criteria

Alternative documentation provided in lieu of Verifications of Employment and/or Verifications of Deposit are permitted if they are legible originals or certified true and exact copies. The documentation cannot contain any alterations, erasures or white-outs.

Each copy must be stamped and signed by the loan processor or branch manager, certifying that they are true copies of the originals.

5.2.2 FAX or Emailed Copies

Faxed or scanned copies in lieu of original document copies are acceptable subject to the following:

- Verification must be transmitted directly from the Originator to an employer, depository institution, mortgagee or landlord. The employer, depository institution, mortgagee or landlord must transmit the verification directly back to the Originator;
- Photocopies or faxes of documents in the Borrower's control, such as paystubs or bank statements, may be received by the Originator directly from the Borrower; and
- Documents that are emailed or faxed to the Originator must clearly identify the name of the employer, depository institution, mortgagee or landlord as sender, and the source of information—for example, by including that information in the fax banner at the top of the document or email message.

5.2.3 Internet Documentation

Internet documents or downloads of credit reports, as well as income, employment and asset verifications are acceptable. This allowance for internet documents does not change the required content or level of documentation needed. The information must be easy to read, understandable,

and have no evidence of alterations, erasures or white-outs, and must make sense based on the borrower profile and transaction terms.

The following source validation criteria apply to all documents obtained via the internet:

- Documents must identify the Borrower as the employee or owner of the applicable account;
- Documents must identify the credit reporting agency, employer, or depository/investment firm's name and source of information;
- Headers, footers, and the banner portion of the printout of the downloaded web page(s) must reflect the appropriate firm;
- Documents must display the Internet uniform resource locator (URL) address and the date and time printed; and
- When an internet download is sent by fax, the fax header may not cover URL information.

5.2.4 Reverification Authorization

A Borrower's consent must be evidenced by his signature on the appropriate form in order to allow subsequent reverification.

5.3 Automated Validation Services

Automated validation services approved by Fannie Mae or Freddie Mac that are utilized in conjunction with Fannie Mae's DU or Freddie Mac's LPA to validate borrower income, employment, and asset data are acceptable under the MPF Traditional product. However, unlike Fannie Mae and Freddie Mac, the MPF Program does not provide any representation and warranty relief.

5.4 Credit History (12/22/16)⁵²

Current and past credit histories for all Borrowers on the loan must be analyzed through the review of a credit bureau report prepared by a national credit bureau. If a Borrower does not have a traditional credit history, then the Borrower's nontraditional credit history must be analyzed.

The Originator is responsible for verifying that all credit histories and credit references are valid and that all credit documentation is accurate up until Closing.

When there is an existing fraud alert on a credit bureau report, the Loan Application may not be processed without contacting the individual in accordance with instructions that usually accompany a fraud alert (i.e., a victim's statement), or otherwise employing additional steps to verify the individual's identity.

⁵² MPF Announcement 2016-30 (12/22/16)

5.5 Credit Reports

The credit history of the Borrower, as evidenced in the residential mortgage credit report, is critical in analyzing the Borrower's ability to repay the proposed loan.

5.5.1 Age of Reports

A current credit bureau report is required for all applicants. A credit bureau report is current only if it is no more than 120 days old on the date the Note is signed.

The credit report must be analyzed closely and compared to data on the Loan Application.

5.5.2 Credit Report Requirements (12/22/16)⁵³

The following is required with respect to Borrower credit reports:

- Credit reports must be obtained for each Borrower on the Loan Application who has an individual credit record. Acceptable report types are a Residential Mortgage Credit Report (RMCR), an in-file credit report, or a merged credit report;
- Reports must include information from all three repositories (Experian, TransUnion and Equifax) and the reports should display credit scores;
- If all three credit reports are not available, the Mortgage Loan File must indicate that all three agencies were accessed and that a report (or score) was not available;
- Each report must be an unaltered original and must include the full name, address and telephone number of the reporting agency and the names of national repositories from which data was drawn;
- For each debt listed, the report must provide the creditor's name, date opened, amount of highest credit balance, current status, required payment, unpaid balance, and payment history. The historical status must be in a number of times past due format—0X30, 0X60, 0X90 days late. Statements such as "current," "as agreed" or "satisfactory" are not acceptable by themselves. Additional statements such as "unable to verify" may be included where applicable;
- The credit report must list all inquiries that have been made in the past 90 days;
- The credit reports must indicate the dates the accounts were last updated with the creditor;
- All available public record information such as judgments, foreclosures, tax liens and bankruptcies must be included, with source of information;

⁵³ PFI Notice 2016-12 (9/1/16)

- Residence history and most recent two years' employment history are required to appear on credit reports;
- Frozen credit is not permitted. If unfrozen by the Borrower after application, a new three-file merged report must be obtained;
- The credit report must reflect all open credit account lists on the Loan Application. For any debts listed on the Loan Application that do not appear on the credit reports, an independent written verification must be obtained;
- The credit report must reflect a twelve-month (12) mortgage or rental payment history for all properties owned or rented in the most recent twelve (12) months. If this information is not included in a traditional credit report, alternative credit references may be submitted. Refer to Chapter 5.4.5 for list of supplemental documents that may be utilized for borrowers with limited or no traditional credit history.
- Credit reports must show a minimum of three (3) tradelines with a 12 month history of satisfactory payment; and
- Foreign credit reports are not permitted.

5.5.3 Adverse Credit (12/22/16)⁵⁴

When significant adverse credit is identified in a Borrower's credit history, documentation must be provided evidencing whether the derogatory information was due to extenuating circumstances, and that an acceptable credit history has been re-established.

Documentation to support a Borrower's claim of extenuating circumstances should confirm the nature of the event that led to the adverse credit issue and should demonstrate that the Borrower had no other reasonable option than to default on his/her financial obligations. Examples of extenuating circumstances include loss of employment, serious long-term illness and medical bills, which are not covered by insurance.

5.5.4 Disputed Information

If a Borrower indicates that any significant information in the credit report is not accurate, the information must be reviewed with the Borrower in detail and the credit-granting company should be contacted to confirm accuracy.

If the credit reporting company confirms that the disputed information is incorrect or incomplete and underwriting of the Loan Application needs to be completed before the credit files can be corrected, the Originator cannot use the credit score(s) in the underwriting of the Loan Application. The credit

⁵⁴ MPF Announcement 2016-30 (12/22/16)

risk assessment must be based on a review of the Borrower's traditional credit history, typically through manual underwriting.

Use of a "Credit Repair" company is not acceptable.

5.5.5 Limited or No Traditional Credit History (10/31/17)⁵⁵

If a Borrower has limited or no traditional credit history as required in this Guide, four (4) credit references from the credit report and / or alternative sources should be documented as open, and active for at least twelve (12) months for each Borrower whose income is being used for qualification.

Non-traditional mortgage credit reports may not be used to offset derogatory references or to enhance a poor credit history as reported through traditional credit providers.

A twelve-month (12) mortgage or rental payment history is required for all properties owned or rented in the most recent twelve (12) months and must be verified using:

- Copies of the Borrower's cancelled checks for last twelve (12) months; or
- A Verification of Mortgage or Verification of Rent.

In order of importance, the following obligations can be used to develop alternative credit sources:

- Housing payments (mortgage or rental); and
- Utilities (if not included in housing payment), such as electricity, gas, water, or cable and telephone service payments.

If four (4) credit references cannot be obtained from the credit sources listed above, then the references listed below should be supplemented in order to obtain the requisite number of credit references.

- Medical insurance coverage payments (excluding payroll deductions);
- Automobile insurance payments;
- Life insurance policy payments (excluding payroll deductions);
- Homeowner's (or renter's) insurance payments;
- Local store payments (department, furniture, appliance);
- Rental payments or loan payments related to durable goods (including automobiles);
- Medical bill payments;

⁵⁵ MPF Announcement 2017-63 (10/31/17)
MPF Announcement 2016-30 (12/22/16)

- School tuition payments;
- Child care payments (if paid to an individual, must be verified with cancelled checks); and/or
- Payments on a loan obtained from an individual (repayment terms must be documented in a written agreement and verified with cancelled checks).

For all credit sources, acceptable documentation (e.g. verification of credit, cancelled checks, or bills marked paid by the creditor) must be obtained indicating that payments are made in a consistent, continual nature.

5.5.6 Credit Inquiries (12/22/16)⁵⁶

If there are any credit inquiries on the credit report from the last ninety (90) days, the inquirer must provide a detailed explanation that specifically addresses both the purpose and outcome of each credit inquiry within the last ninety (90) days.

If a new account has been established, the terms, balance and monthly payment must be obtained and verified.

5.5.7 Delinquent Payments

Late payments are not considered significant when they have occurred only sporadically and if all of the following exist:

- The late payments were not recent;
- The late payments did not extend beyond one month;
- The number and size of delinquent accounts is not large in relation to the overall credit;
- The credit history does not show multiple revolving accounts with high balances-to-limits or high overall utilization of revolving credit; and
- All other credit has been paid as agreed.

Histories displaying evidence of late charges being imposed on mortgage related debts, even when not shown on a credit report as being thirty (30) days delinquent, will require a satisfactory explanation and may preclude Borrowers from obtaining new financing. Sporadic 30-day delinquent payments on non-mortgage related trade lines that have not occurred within the past twelve (12) months do not need an explanation if all other credit is paid as agreed.

5.5.8 Revolving Accounts

⁵⁶ MPF Announcement 2016-30 (12/22/16)

In the absence of a stated payment on a revolving account, or a copy of the monthly statement indicating the required payment, 5% of the outstanding balance must be used to calculate the debt-to-income ratio.

5.5.9 Authorized User Accounts

A Borrower listed as an authorized user of a credit account is only acceptable if:

- Another Borrower in the Mortgage Loan transaction is the owner of the credit account;
- The Borrower's spouse is the owner of the credit account; or
- The Borrower can provide written documentation (e.g. canceled checks, payment receipts, etc.) that he or she has been the actual and sole payer of the monthly payment on the account for at least the twelve (12) months preceding the date of the Loan Application.

If there is written documentation of the Borrower's monthly payments as an authorized user, then the payment history (particularly any late payments that are indicated) must be considered in the credit analysis, and the monthly payment obligation must be included in the debt-to-income ratio.

5.5.10 Consumer Credit Counseling (12/22/16)⁵⁷

Consumer credit counseling services are not required, although they may be beneficial for some Borrowers.

5.5.11 Reestablishing Credit (9/1/16)⁵⁸

A Borrower must provide a written explanation for any adverse credit events. The explanation should include a period that matches the time of the delinquency.

Acceptable re-established credit following a major credit incident, such as bankruptcy or a foreclosure-related action, is defined as:

- A minimum of four (4) accounts with at least one traditional credit reference on the credit report and one housing-related reference;
- At least three (3) of the four (4) accounts must have been opened and active for the most recent twenty-four (24) months;
- For installment and revolving accounts, no more than two (2) 30-day late payments during past twenty-four (24) months;
- For housing-related payments, no late payments since the adverse credit event;
- No new bankruptcies, foreclosures, unpaid judgments, or collections; and

⁵⁷ MPF Announcement 2016-30 (12/22/16)

⁵⁸ PFI Notice 2016-12 (9/1/16)

- All payments on the credit report must be current at the time of the Loan Application.

Additional consideration should be given to Borrowers demonstrating stable income and a savings history. For Borrowers who have been through credit counseling, twelve (12) months of re-established credit from the conclusion of the counseling is required.

5.6 Credit Scores (12/22/16)⁵⁹

A current credit score is required for each Borrower. The three major credit repositories offer a product that scores each consumer's credit history using the Fair Isaac model. Trademark names of scores derived from the Fair Isaac model include the Experian "Fair Isaac Credit Score" (FICO), Trans Union "Empirical Score" and Equifax "Beacon Score." All are acceptable and are referred to as the credit score.

The term "Underwriting Representative FICO Score" refers to the overall credit score applicable to a specific Mortgage Loan transaction, as determined using the "middle, lower, then lowest" credit score selection methodology.

5.6.1 FICO Scores

FICO (credit) scores are an objective and consistent measure of credit risk. Credit scores should not be used as a substitute for underwriting judgment. The Originator is responsible for determining that each score received was based on credit reports that are sufficient and accurate.

Credit scores based on the Fair Isaac model may be obtained from any of the three major credit repositories:

- Equifax Credit Information Services;
- Experian Information Systems and Services; and
- Trans Union Credit Information Company.

The lowest primary credit score of all of the Borrowers' primary credit scores must be used if there is more than one Borrower on the Loan Application.

5.6.2 Minimum Credit Score

Whether the loan is underwritten manually or using an AUS, the minimum FICO score is the greater of a score required in other sections of this Guide or 620.

Exceptions to the minimum FICO score requirement(s) are:

- The Borrower has an unusable FICO score. If unable to obtain a FICO score, the PFI may determine Borrower eligibility for established credit or non-established credit; or

⁵⁹ MPF Announcement 2016-30 (12/22/16)

- The Borrower lacks traditional credit and therefore a FICO score is unobtainable.

For High-Balance Mortgage Loans, in addition to the credit score requirements in this Guide, each Borrower must have a valid FICO score based on an established credit history. The use of alternative credit references is not allowed in lieu of a valid FICO score. The lowest primary credit score for all Borrowers must meet the required minimums.

5.6.3 Credit Score Selection (12/11/18) ⁶⁰

The following criteria should be used to determine each individual Borrower's credit score:

- If there are three valid credit scores for a Borrower, the middle score of the three scores is used;
- If there are three valid credit scores for a Borrower, but two of the scores are the same, the duplicate score is used;
- If there are two valid scores for a Borrower, the lower of the two scores is used; and
- If there is one valid score for a Borrower, that score is used.

The credit score determined for each individual Borrower must be input in the Loan Presentment Form (OG3).

After selecting the appropriate credit score for each Borrower, the Underwriting Representative FICO Score must then be determined as follows:

- If there is more than one Borrower, the lowest selected middle credit score among all Borrowers is the Underwriting Score; or
- When there is only one Borrower, the selected credit score for that Borrower is also the Underwriting Representative FICO Score.

If the loan was underwritten using Fannie Mae's DU or Freddie Mac's Loan Product Advisor, the system generated score must be reflected on the loan submission form (FNMA 1008/FHLMC 1077). Additionally, the original credit report must be included in the Mortgage Loan File showing the score.

5.6.4 Unobtainable Credit Score

If a FICO score is unobtainable due to a lack of traditional credit history, Borrower eligibility should be determined in accordance with the requirements of Selling Guide Chapter [5.4.5](#) for non-established credit.

If a FICO score cannot be obtained, See Selling Guide Chapter [11.1.4](#) and Loan Presentment Request (Form OG3) Instructions for data delivery in lieu of a FICO score.

⁶⁰ MPF Announcement 208-60 (12/11/18)

5.7 Significant Adverse Credit Events (4/20/17)⁶¹

A Borrower who has previously had an adverse credit event such as a bankruptcy, short sale, deed-in-lieu, or foreclosure is acceptable as long as the Borrower meets the guidelines outlined in the below table. The PFI must also review the Borrower's adverse credit event and determine the cause and significance of the event, verify that a sufficient waiting period has passed since the date of the adverse event, and confirm that the Borrower has re-established an acceptable credit history. The waiting period begins on the completion, discharge or dismissal date of the adverse credit event and ends on the disbursement date the new loan.

If an adverse credit event is not accurately reported or if the PFI is unable to clearly identify an adverse event on a Borrower's credit report, the PFI must obtain the appropriate documentation to verify the adverse event. The documentation must confirm the completion date of any prior short sale, deed-in-lieu, foreclosure, or date of the charge-off of a mortgage account. For bankruptcies the documentation must identify the bankruptcy discharge or dismissal date, identify any debts that were not satisfied by the bankruptcy, and confirm that any debts that were not satisfied by the bankruptcy are paid in full or have an established repayment schedule.

Table 5 - 2		
Derogatory Event	Waiting Period Requirements	Waiting Period with Extenuating Circumstances*
Ch. 7 or 11 Bankruptcy	4 years	2 years
Ch. 13 Bankruptcy	2 years from discharge date 4 years from dismissal date	2 years from discharge date 2 years from dismissal date
Multiple bankruptcy filings	5 years if more than one filing within the past 7 years	3 years from the most recent discharge or dismissal date

⁶¹MPF Announcement 2017-18 (4/20/17)
MPF Announcement 2016-30 (12/22/16)

Table 5 - 2		
Derogatory Event	Waiting Period Requirements	Waiting Period with Extenuating Circumstances*
Foreclosure	7 years	3 years Additional requirements after 3 years up to 7 years: <ul style="list-style-type: none"> • 90% maximum LTV ratios • Purchase, principal residence • Limited cash-out refi, all occupancy types <i>Note: The purchase of second homes cash-out refinances (any occupancy type) are not permitted until a 7-year waiting period has elapsed.</i>
Deed-in-Lieu or Pre-foreclosure/Short	4 years	2 years

* 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 adverse credit issue and should demonstrate that the Borrower had no other reasonable option than to default on his/her financial obligations. Examples of extenuating circumstances include loss of employment, serious long-term illness and medical bills that are not covered by insurance.

5.8 Liabilities (12/11/18) ⁶²

If a current liability is not reflected on the credit report, it must be verified by acceptable documentation.

If a current liability appears on the credit report but is not on the application, the Borrower should provide a reasonable explanation for the undisclosed debt. Documentation may be required to support the Borrower's explanation.

All of the Borrower's obligations outstanding at the time of Closing must be included in the determination of the Borrower's ability to repay the Mortgage Loan and the calculation of the total

⁶² MPF Announcement 2018-60 (12/11/18)

debt ratio. The total debt ratio reported for Loan Presentment and any applicable AUS must reflect all the Borrower's obligations.

Any liability incurred after the application but prior to Closing not considered when underwriting a Mortgage Loan that, when taken into account, renders the loan ineligible under the MPF Program, will result in the loan being subject to repurchase.

5.8.1 Revolving Accounts

The monthly payment on every revolving and open-end account with a balance, regardless of the apparent number of payments remaining, must be included in the Borrower's long-term debt-to-income ratio calculation.

If an account is to be paid off by the Borrower at or prior to Closing, the outstanding balance is not required to be included in the debt-to-income ratio. However, if the account is not paid in full at or prior to Closing, then the revolving account or line of credit must be included in the debt-to-income ratio.

When the revolving account is required to be included in the Borrower's monthly debt obligations, the minimum monthly payment for the revolving account must be used, which may be found on the credit report or may be verified by the creditor. If no minimum monthly payment is given, then the greater of five percent (5%) of the outstanding balance or ten dollars (\$10) must be used.

5.8.2 Installment Debt (10/31/17)⁶³

Installment debts and garnishments with ten (10) or more remaining monthly payments must be included in the debt-to-income ratio. Installment debts and garnishments with fewer than ten (10) remaining monthly payments are not required to be included in the debt-to-income ratio, unless the debt affects the Borrower's ability to repay the Mortgage Loan.

Note: lease payments must always be included in the debt-to-income ratio regardless of the number of remaining monthly payments.

5.8.3 Business Debt

A business debt is a financial obligation of a business and may be the sole responsibility of the business, or personally secured by the business owner, which makes that person liable for the debt.

If the Borrower is personally liable for a business debt, whether the debt is reflected on the Borrower's personal credit report or not, the Borrower is personally liable and the debt must be included in the debt-to-income ratio.

⁶³ MPF Announcement 2017-63 (10/31/17)

If the Borrower can provide twelve (12) months' proof of payment/canceled checks drawn against a business account, this debt need not be included in the debt-to-income ratio.

5.8.4 Student Loans (3/16/17)⁶⁴

Student loans deferred to a period beyond twelve (12) months from Closing are not required to be included in the Borrower's total monthly debt calculation.

Student loans must be included in the Borrower's total monthly debt calculation if ten (10) or more monthly payments remain. However, student loans with fewer than ten (10) remaining monthly payments must be included in the total monthly debt calculation if the payments affect the Borrower's ability to repay the loan.

When the monthly student loan payment is not provided on the credit report, documentation supporting the required payment must be provided. If documentation of the payment cannot be provided, then the monthly payment must be based on 1% of the outstanding balance of the student loan.

5.8.5 Past Due, Collections and Charge-Off Accounts

Single events of a past judgment, tax lien, collection, charge-off, or repossession of \$250 or more, and multiple events with past due amounts totaling more than \$1,000 must be paid in full at or prior to Closing.

If an AUS is used, and requires that the amount be paid, the AUS rule supersedes these requirements.

5.8.6 Loans Secured by Retirement Accounts (12/22/16)⁶⁵

Payments on loans secured by the Borrower's 401(k) or SIP (Savings Investment Plan) are not included in long-term debt because they are voluntary payments; however, these payments should be considered in terms of their possible impact on cash flow and debt ratios. The Borrower should indicate plans for debt repayment if the inclusion of a 401(k) or SIP loan payment in the monthly debts would result in a very high total debt-to-income ratio or negative cash flow.

Only the balance of the asset that exceeds the loan amount may be used to satisfy any reserve requirements.

5.8.7 Open-End Lines of Credit (HELOCs)

The monthly payment on every HELOC with a balance, regardless of the apparent number of payments remaining, must be included in the Borrower's total debt calculation.

⁶⁴ MPF Announcement 2017-12 (3/16/17)

⁶⁵ MPF Announcement 2016-30 (12/22/16)

The monthly HELOC payment may be found on the credit report or may be verified by the creditor. If no minimum monthly payment is given, then the greater of five percent (5%) of the outstanding balance or ten dollars (\$10) must be used.

5.8.8 Deferred Payment Accounts (12/22/16)⁶⁶

Some debts may have deferred payments or be in a period of forbearance. These debts must be included in the qualifying ratios if there are ten (10) or more months of payments remaining. If there are fewer than ten (10) monthly payments remaining, the debt is not required to be included in the total monthly debt calculation, unless the debt affects the Borrower's ability to repay the Mortgage Loan.

Payments that are deferred more than twelve (12) months from the Closing date are not required to be included in the Borrower's total monthly debt calculation if the Borrower can provide documentation of the deferment.

When payments on an installment debt are not given on the credit report or are listed as deferred, documentation supporting the required payment must be provided. If documentation of the payment cannot be provided, then the monthly payment must be based on 2% of the outstanding balance.

5.8.9 Contingent Liabilities (7/24/17)⁶⁷

Contingent liabilities are debts (including, but not limited to, auto loans, student loans, or mortgages) that the borrower is not currently required to pay but may be required to pay in the future (e.g., court-ordered payments, a previous residence sold through assumption of mortgage with no release of liability).

A contingent liability may be disregarded if the Borrower provides conclusive evidence from the creditor that there is no possibility that the creditor will pursue debt collection against the Borrower should the other party on the debt default.

5.8.10 Co-Signed Loans

The monthly payment on a co-signed loan may be excluded from long-term debt only with evidence of timely payments being made for the previous twelve (12) months by the primary obligor.

5.8.11 Assumption with No Release of Liability

When a Borrower remains obligated on an assumed mortgage that is secured by property that (i) has been sold or traded within the last twelve (12) months without a release of liability; or (ii) is to be sold on assumption without a release of liability being obtained, the assumed mortgage need not be considered a contingent liability and included in the total monthly debt if:

⁶⁶ MPF Announcement 2016-30 (12/22/16)

⁶⁷ MPF Announcement 2017-37 (7/24/17)

- The servicer of the assumed mortgage provides a payment history showing that the mortgage has been current during the previous twelve (12) months; or
- The LTV of the assumed mortgage is seventy-five percent (75%) or less of the lower of (1) the appraised value of the property, as established by an Appraisal that meets the requirements of Selling Guide Chapter [7](#); or (2) the sales price on the final Settlement Statement from the sale of the property.

5.8.12 Court Order

If the obligation to make payments on a debt has been assigned to another person by court order, such as a divorce decree, and transfer of ownership of any related property has taken place, the payment may be excluded from long-term debt. The following documents are required:

- A copy of the court order; and
- For mortgage debt, a copy of the recorded documents transferring ownership of the property (e.g.: Quit Claim Deed).

If a transfer of ownership has not taken place, late payments associated with the loan repayment of the debt owing on the property should be taken into account when reviewing the Borrower's credit profile.

5.8.13 Lease Payments

The monthly payment associated with a rental or auto lease must be included in the total monthly obligations, regardless of the number of payments remaining until the end of the lease term. If the lease is near the end of its term, the new lease payment should be determined and included in the total monthly debt.

5.8.14 Housing Payment History

Housing payment history verification is required for all mortgages not reported on the credit report.

- All private mortgages must be seasoned for twelve (12) months. The history must be documented by providing canceled checks;
- All mortgage tradelines must be updated within thirty (30) days of application; and
- Rental history must be verified.

5.8.15 Tax Debt and Tax Liens

All outstanding debt owed to a state or the IRS for income or property tax must be paid off, at or prior to Closing, regardless of whether or not the debt has become an actual lien.

All state and IRS tax liens on the subject property and other properties are required to be paid whether or not they currently affect title.

No payment plans or subordination is allowed.

Documentation of the satisfaction of these liabilities, along with verification of funds sufficient to satisfy these obligations must be obtained.

5.8.16 Balloon Loan Payments (12/22/16)⁶⁸

Balloon-payment notes that come due within twelve (12) months of Closing must be included in the total debt ratio.

5.9 Verification of Employment (12/22/16)⁶⁹

The employment income of all Borrowers who will be obligated for the mortgage debt must be verified for at least the most recent two (2) years, unless otherwise indicated in the Guides. If the Borrower indicates that they were in school or the military for the most recent two (2) years, the Borrower must supply supporting documentation, such as college transcripts or military discharge paperwork.

The Borrower must provide a written explanation for any employment gaps of thirty (30) days or more.

Depending on the type of employment, various documentation requirements may be applied, based on full documentation or alternative documentation, and whether the Borrower is salaried, commissioned, or self-employed, etc.

In lieu of a verbal or written Verification of Employment (VOE) for military personnel, the Originator may either obtain a Military Leave and Earnings Statement dated within thirty (30) calendar days prior to the Note date or a verification of employment through the Defense Manpower Data Center.

Employment and income for a salaried employee must be verified by obtaining all of the following documentation:

- The Borrower's W-2 forms for the past two (2) years, complete and legible;
- Paystubs covering a 30-day period. If paystubs are not available, then a written VOE must be obtained; and
- A verbal VOE.

A Wage and Income Transcript from the IRS is an acceptable substitute for actual W-2 forms.

⁶⁸ MPF Announcement 2016-30 (12/22/16)

⁶⁹ MPF Announcement 2016-30 (12/22/16)
PFI Notice 2016-12 (9/1/16)

5.9.1 Verbal Verification of Employment (12/11/18)⁷⁰

A verbal VOE is required for all Borrowers, no more than ten (10) business days prior to Closing for employment income and within one hundred twenty (120) calendar days prior to Closing for self-employed income. This policy applies to all income types with the exception of passive income.

The verbal VOE for employment income must be documented on Exhibit R or an equivalent form that includes the following:

- Name and title of the person who completed the verification for the employer;
- Employer's phone number;
- Source of the phone number; Applicant's name;
- Applicant's dates of employment;
- Applicant's current employment status;
- How applicant is related to the owner of the business, if applicable;
- Applicant's percentage of ownership in the business, if applicable;
- Name and title of the person who confirmed the employment for the Originator; Name of the Originator; and
- Date of the call.

For self-employed Borrowers, the Originator must verify the existence of the Borrower's business. Acceptable verification of the existence of the business includes, but is not limited to, the following:

- Third Party Verification, such as:
 - CPA;
 - Regulatory Agency; or
 - Licensing Bureau.
- Phone listing found via internet, phone book, or directory assistance.

The source of the verification of the existence of the business must be documented, as well as the name and title of the Originator's employee who obtained the verification.

5.9.2 Written Verification of Employment (9/1/16)⁷¹

⁷⁰ MPF Announcement 2017-62 (10/27/17)

MPF Announcement 2017-12 (3/16/17)

MPF Announcement 2018-60 (12/11/18)

⁷¹ PFI Notice 2016-12 (9/1/16)

When a written VOE is required, it must contain the following information:

- Dates of employment;
- Position;
- Prospect of continued employment, when available;
- Base pay amount and frequency; for employees paid on an hourly basis, the verification must state the hourly wages, including the number of hours worked each week; and
- Additional salary information which itemizes bonus, overtime, tip, gratuity, or commission income, if applicable.

If the employer completes the VOE form but does not indicate whether the employment will continue, the employment may be considered as likely to continue.

If a written VOE is used, it must be mailed or e-mailed directly to the employer, to the attention of the personnel department. Verifications of employment should never be mailed to a particular person's attention. If the Borrower indicates this is necessary, the file must contain verification that the employer was independently contacted and verified. The return address on the verification must be the lender's address. Hand-carrying verifications is strictly prohibited.

5.9.3 VOE Provided by a Third-Party Employment Verification Vendor

Employment and income verification may be received directly from a third-party employment verification vendor. These VOEs are acceptable if:

- The Borrower provided proper authorization for the use of this verification method;
- The date of the completed verification is no more than 120 days old at Closing.

If necessary, the Originator must supplement these verifications by obtaining any missing information from the Borrower or his employer.

5.9.4 Self-Employment Confirmation (3/16/17)⁷²

Verification of the existence of a self-employed Borrower's business must be performed within one hundred twenty days (120) days of the Note date and must meet at least one of the following:

- Verification of the existence of the Borrower's business from a third party, such as a CPA, regulatory agency, or the applicable licensing bureau;
- Verification of the listing and address for the Borrower's business using a telephone book, the Internet, or directory assistance; or

⁷² MPF Announcement 2017-12 (3/16/17)

- Verification from the Secretary of State website.

If contact is made orally with a third party, the source of the information must be documented, with the name and title of the Originator employee performing the verification.

5.9.5 Paystubs

The paystub must clearly identify the following:

- Borrower as the employee;
- Borrower's gross earnings for the most recent pay period and year-to-date earnings;
- If the Borrower is paid hourly, the number of hours for the pay period must be noted on the pay stub;
- Paystubs must be dated no earlier than thirty (30) days prior to the initial Loan Application Date; and
- Paystubs must be computer-generated (not handwritten). If the employer does not provide an acceptable computer-generated pay stub, the most recent year's income tax return is required.

Paystubs that are issued electronically, via e-mail or downloaded from the internet are acceptable and must include the following:

- Internet Uniform Resource Locator (URL internet address) identifying the source of the information;
- Date and time printed; and
- Documents downloaded directly from the Internet to a Word document or Excel spreadsheet are not acceptable.

5.9.6 W-2 Forms

W-2 forms must clearly identify the Borrower as the employee, and must be the employee's copy provided by the employer.

5.9.7 Tax Return (12/22/16)⁷³

This section addresses the standards that apply when using Income Tax Returns to verify income.

Additional information may be requested such as a business license, business tax returns, a profit and loss statement and/or balance sheet, if it is necessary to further support the determination of the stability of the Borrower's income.

Personal Income Tax Returns must be:

⁷³ MPF Announcement 2016-30 (12/22/16)

- Complete with all schedules and W-2 Forms, IRS Forms 1099, K-1 schedules, etc.;
- Signed and dated; and
- The Borrower's copy filed with the IRS.

Business Income Tax Returns must be:

- Complete with all schedules;
- Signed and dated; and
- The Borrower's copy filed with the IRS.

If tax returns are not signed and dated by the Borrower, one of the following must be obtained:

- Documentation confirming that the tax returns were filed electronically;
- A completed IRS Form 4506-T (signed by the Borrower) for the year in question; or
- IRS transcripts that validate the tax return.

Tax returns that are amended and filed by the Borrower after the Loan Application Date are not allowed. Tax returns that are amended and filed by the Borrower prior to the Loan Application Date with the IRS are acceptable in the following circumstances:

- Both the original filed return and the amended return are obtained; and/or
- If the return was amended sixty (60) days or less prior to the application, evidence of payment must also be provided, if applicable.

The original tax return and the amended tax return must be carefully compared for consistency to determine whether the use of the amended return is warranted. Any discrepancies between the tax transcripts and the tax returns must be explained and documented in the Mortgage Loan File.

Tax returns amended solely for the purpose of qualifying are not acceptable.

Back tax years must be filed prior to the Loan Application Date.

5.9.8 4506-T (4/20/17)⁷⁴

A signed IRS 4506-T form is required for all loans, regardless of income type, unless the Borrower's income has been validated by the DU validation service. When all of a Borrower's income is validated by the DU validation service, the PFI is not required to obtain a signed IRS Form 4506-T for that

⁷⁴ MPF Announcement 2017-18 (4/20/17)
MPF Announcement 2017-12 (3/16/17)
MPF Announcement 2016-30 (12/22/16)

Borrower. Borrowers that have not had their income validated through the DU validation service are still required to sign an IRS 4506-T form at application and/or again at closing. If tax transcripts are not obtained during the origination process, an updated 4506-T is required at Closing, which must show the MPF Program vendor Covius Real Estate Services, LLC in Section 5 (see Exhibit T-X for an example of a completed 4506-T). A 4506-T is required to be signed for business tax returns if used in underwriting.

When the Originator requests tax transcripts prior to Closing, the transcripts must be returned/mailed directly to the Originator's underwriting or processing staff.

Transcripts must match the tax returns exactly.

The following table shows the minimum transcript information to request from the IRS under four typical income documentation scenarios:

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

If a second home Borrower owns five (5) to ten (10) financed properties, and the rental income is reflected on the Borrower's tax returns, tax transcripts must be obtained to validate the accuracy of the tax returns prior to closing. If the five (5) to ten (10) financed properties were acquired since the Borrower's last tax return was filed (and therefore not reported as rental income), tax transcripts are not required.

Although tax transcripts are not always required to underwrite the loan, if the loan is selected for post-closing quality control review, tax transcripts will be obtained and verified.

When tax transcripts are obtained prior to Closing, the level of income documentation selected for Loan Presentment should be: Documentation Type 20 = "24 months or more income/employment verification & tax transcripts acquired using IRS Form 4506-T" (See OG3 Instructions for additional information to complete a Loan Presentment). In order to use this Documentation Type Code, the transcripts must validate the income documentation used to calculate the Borrower's income.

The IRS tax return transcripts are not to be used to calculate the Borrower's income. They are only to be used to validate the income documentation provided by the Borrower that was used as income verification during the underwriting process.

5.10 Income Analysis (12/22/16)⁷⁵

The income of all Borrowers who will be obligated for the Mortgage Loan debt must be analyzed to determine whether their income level can be reasonably expected to continue at least the first three (3) years from the Note date. Income that does not have a defined expiration date should be considered as likely to continue.

5.10.1 Stable Monthly Income (12/22/16)⁷⁶

Considerations in determining stable monthly income are the type of income received, the length of time received and whether the income is likely to continue. In addition, for salaried Borrowers, considerations in determining stable monthly income are the length of time employed in the current position and in a current profession. Borrowers who change jobs frequently within the same line of work but who advance in income and benefits are considered to have stable income.

5.10.2 Returning to Work After an Extended Absence (12/22/16)⁷⁷

Income from a Borrower returning to work after an extended absence of six (6) months or more may be considered in qualifying if the following requirements are met:

⁷⁵ MPF Announcement 2016-30 (12/22/16)

⁷⁶ MPF Announcement 2016-30 (12/22/16)

⁷⁷ MPF Announcement 2016-30 (12/22/16)

- The Borrower has been employed in the current job for six (6) months or longer;
- The Borrower can document a two (2) year work history prior to the absence using:
 - The Borrower's W-2 forms for the past two (2) years, complete and legible;
 - Paystubs covering a 30-day period. If paystubs are not available, then a written VOE must be obtained; and
 - A verbal VOE.

A Wage and Income Transcript from the IRS is an acceptable substitute for actual W-2 forms.

5.10.3 Calculating Income

Borrowers receiving a fixed regular annual income paid either monthly, semimonthly, biweekly, weekly or by the hour, are known as wage earners. All receive regular compensation in the form of a paycheck with income reported at year end to the IRS on form W-2.

Borrowers who are re-entering the workforce after an extended leave must have a minimum of six months employment with evidence of a two-year previous employment history.

The following table shows to how to determine the Borrower's monthly income:

Table 5 - 3	
Pay Interval	Calculation
Hourly:	Hourly rate X # hours X 52 weeks divided by 12
Weekly:	Weekly base X 52 weeks divided by 12
Biweekly:	Biweekly base X 26 weeks divided by 12
Semimonthly:	Semimonthly base X 24 weeks divided by 12
Monthly:	Monthly base as shown on paystub
Annually:	Annual rate of pay divided by 12

5.10.4 Unacceptable Types of Income

The following are unacceptable sources of income:

- Income based on trailing spouse income;
- Draw income;
- VA education benefits;
- Income derived from illegal activity;
- Taxable income not listed on tax returns;
- Any income that cannot be documented and/or verified;

- Passive income from partnerships and S corporations;
- Income that is not stable; and
- Grants.

5.11 Wage and Salary Income

Stable salary or wage income from employment can be reasonably expected to continue if the Borrower's employer verifies current employment and income, and does not indicate that employment has been, or is set to be terminated. The income cannot be used if a verification of current employment includes an affirmative statement that the employment is likely to cease, such as a statement that indicates the Borrower has given (or been given) notice of employment suspension or termination.

5.11.1 Primary Employment Less than 40-Hour Work Week

When a Borrower's primary employment is less than a typical 40-hour work week, the Originator should evaluate the stability of that income as regular, on-going primary employment. This is not considered part-time income.

5.12 Bonus, Overtime, and Commission Income

This section addresses the requirements for using bonus, commission, and overtime income to qualify the Borrower.

5.12.1 Bonus and Overtime Income (12/22/16)⁷⁸

Bonus and/or overtime income can be used if the Borrower has received bonus or overtime income for the past twelve (12) to twenty-four (24) months and the income is likely to continue. If the employer completes the VOE form but does not indicate whether the bonus income is likely to continue, the income may be considered as likely to continue. However, if the employer indicates the income is likely to cease, then the income may not be used to qualify the Borrower.

When calculating stable or increasing bonus or overtime income, an average of the last two (2) years, as documented in the tax returns, should be used as income. Bonus or overtime income received for less than two (2) years is acceptable, provided the Originator can justify and document in writing the reason for using the income for qualifying purposes.

If either type of income shows a continual decline, the Originator must document in writing a sound rationalization for including the income when qualifying the Borrower.

⁷⁸ MPF Announcement 2016-30 (12/22/16)

A period of more than two (2) years must be used in calculating the average overtime and bonus income if the income varies significantly from year to year.

5.12.2 Commission Income (7/31/19)⁷⁹

Commission income fluctuates from year to year. An average of the last two (2) years should be calculated to determine the commission income to qualify.

Commission income that has been received for twelve (12) to twenty-four (24) months may be considered acceptable if other compensating factors exist to offset the short employment history. Commission income earned for less than twelve (12) months is ineligible, unless the Borrower's compensation was changed from salary to commission within a similar position with the same employer.

One of the following must be obtained to document commission income:

- a completed Written Verification of Employment, or
- the Borrower's most recent paystubs and IRS w-2 forms covering the most recent two-year period.

If there is a decline in commission income, this is not considered stable and the worst case scenario must be used.

5.12.3 Automobile Allowance (7/31/19)⁸⁰

Automobile allowance income may be used for qualifying a Borrower, if the Borrower has received payments for at least two years. The full amount of the allowance must be added to the Borrower's monthly income, and the full amount of the lease or financing expenditure must be added to the Borrower's monthly debt obligations. To determine the amount of gross income, the following documentation must be obtained:

- Borrower's paystub or checks from the Borrower's employer; and
- Verification from the employer that the payments will continue.

If the Borrower uses the standard per-mile rate to calculate automobile expenses, the portion that the IRS considers depreciation may be added toward the income.

⁷⁹MPF Announcement 2019-39 (7/31/19)
MPF Announcement 2017-63 (10/31/17)

MPF Announcement 2016-30 (12/22/16)
⁸⁰MPF Announcement 2019-39 (7/31/19)
MPF Announcement 2016-30 (12/22/16)

5.13 Part-Time and Seasonal Income

Part-time or seasonal income may be considered stable if it has been received uninterrupted for the previous two years, is documented in the tax returns, and the employer indicates this income is likely to continue.

Part time income received for less than two (2) years, but no less than twelve (12) months may be included as qualifying income, provided that the Originator justifies and documents the strong likelihood that the income is likely to continue at a similar rate.

5.14 Self-Employment Income (10/31/17)⁸¹

A self-employed Borrower is an individual who has twenty-five percent (25%) or greater ownership interest in a business or receives a 1099 statement to document income.

The Borrower must have at least two (2) consecutive years of self-employment in the same business entity in the same location, and ongoing, stable income. Income from a Borrower who has been self-employed between one (1) and two (2) years may be considered if the Borrower has at least two (2) years of documented previous, successful employment in the same line of work in which the Borrower is now self-employed. A combination of one (1) year of employment and formal education or training in the same line of work is also acceptable. If the Borrower has been self-employed for less than one (1) year, the income may not be used in qualifying.

A stable trend in earnings must be established. Significant decreases in income cannot be averaged using a previous higher income level.

Significant increases could affect the stability of the Borrower's income and require a satisfactory explanation and documentation that the increase is stable and likely to continue.

To determine a self-employed Borrower's income, an Income Analysis Form (Form 1084/Fannie Mae, Form 91/Freddie Mac) or equivalent must be completed and included in the Mortgage Loan File.

Income must be averaged as determined by the income documentation type.

The Originator is not required to analyze self-employment income or loss when the self-employment income is a secondary and a separate income source. Where such self-employment income is not analyzed, the Originator must qualify the Borrower using their primary source of income and other income that is not derived from self-employment. Additionally, the Originator is not required to

⁸¹ MPF Announcement 2017-63 (10/31/17)
MPF Announcement 2016-30 (12/22/16)

analyze self-employment income or loss for a co-Borrower when the co-Borrower is not using the income in qualifying.

5.14.1 Self-Employment Income Documentation Requirements (10/31/17)⁸²

When self-employment income is used in qualifying, the Originator must document the effect the business income or loss has on the Borrower's income.

For sole proprietorships, the most recent two (2) years of signed federal tax returns, with all applicable tax schedules and year-to-date profit and loss (P&L) statements and balance sheets must be obtained to document self-employment income.

For a corporation, limited liability company, "S" corporation, or a partnership, the most recent two (2) years of the Borrower's signed federal business income tax returns, with all applicable tax schedules and year-to-date P&L statements and balance sheets must be obtained to document self-employment income.

If the income on the P&L is to be used to qualify the Borrower, the P&L must be reviewed or prepared by the Borrower's accountant.

If the Borrower owns a twenty-five percent (25%) or greater interest in a corporation or partnership, business tax returns must also be furnished.

In addition to the documentation of self-employed income, the existence of the self-employed Borrower's business must be verified within thirty (30) Business Days prior to Closing.

Acceptable verification of the existence of the business includes, but is not limited to, the following:

- Third Party Verification, such as:
 - CPA;
 - Regulatory Agency; or
 - Licensing Bureau.
- Phone listing and address for the Borrower's Business can be verified using a telephone book, the Internet, or directory assistance.

The source of the verification must be documented, as well as the name and title of the Originator's employee who obtained the verification.

5.14.2 Business Structures of Self-Employed Borrowers

⁸² MPF Announcement 2017-63 (10/31/17)

5.14.2.1 Sole Proprietorship

A sole proprietorship is an unincorporated business that is individually owned and managed. The individual has unlimited personal liability for all debts of the business. If the business fails, the Borrower will have to replace his income, as well as satisfy the outstanding obligations of the business.

Since no distinction is made between the owner's personal assets and the assets used in the business, creditors may take either (or both) to satisfy the Borrower's business obligations.

The income, expenses, and taxable profits of a sole proprietorship are reported on the Profit and Loss from Business (Schedule C) on the owner's Individual Federal Tax Return.

The individual tax return must be evaluated to determine if there is a sufficient cash flow to sustain the business and cover the mortgage payments. In addition, the business must have sufficient funds to support any withdrawals the Borrower may make to cover the mortgage payments.

5.14.2.2 Partnership or Limited Liability Company (LLC)

A partnership is an arrangement between two or more individuals who have pooled their assets and skills to form a business and who will share profits and losses. A partnership may be a general partnership or a limited partnership.

An LLC is a hybrid business structure which offers its member-owners the tax efficiencies of a partnership and the limited liability advantages of a corporation.

The partnership or LLC must report its profit or loss on the U.S. Partnership Return of Income (IRS form 1065). Each partner's or member-owner's share of the profit or loss is reported on the Partner's Share of Income, Credits, Deductions, etc. (Schedule K-1, IRS form 1065). Each partner or member-owner uses the information from Schedule K-1 to report his share of the limited liability company's net profit or loss on his Federal Income Tax Return.

IRS form 1065 must be evaluated to determine the overall viability of the business. The Originator must determine whether withdrawal of cash from the partnership will affect the financial condition of the partnership.

Depreciation and depletion may be added back to the qualifying income in proportion to the Borrower's share of the partnership's income.

Total obligations payable by the partnership in less than one (1) year must be proportionately deducted from the Borrower's income.

5.14.2.3 Corporations

A corporation is a state-chartered legal entity that exists separately and distinctly from its owners, who are stockholders or shareholders. It is the most flexible form of business organization for purposes of obtaining capital. A corporation can sue, be sued, hold, convey or receive property, enter into contracts under its own name, and does not dissolve when its ownership changes.

Corporations must report income and losses on the Corporation Income Tax Return (IRS form 1120), and pay taxes on the income.

In order to determine a Borrower's self-employed income from a corporation the adjusted business income must be determined and multiplied by the borrower's percentage of ownership. The table below describes the items found on IRS Form 1120 for which an adjustment must be made in order to determine adjusted business income.

Adjustment Item	Description
Fiscal vs. Calendar Year	If the corporation operates on a fiscal year that differs from the calendar year, an adjustment must be made to associate corporate income to the income on the Borrower's Form 1040.
Depreciation and Depletion	Add the corporation's depreciation and depletion back to the after-tax income
Taxable Income	Taxable income is the corporation's net income before federal income taxes. Reduce taxable income by the tax liability.
Cash Withdrawals	The withdrawal of cash from the corporation may have a negative impact on the corporation's ability to continue to operate. The PFI must analyze the cash withdrawal's effect on the overall financial condition of the corporation.

5.14.2.4 "S" Corporations

An "S" corporation is a legal entity that has a limited number of stockholders and elects not to be taxed as a regular corporation. Business gains and losses are passed on to the stockholders. Stockholders are taxed at their individual tax rates for their proportionate share of ordinary income, capital gains, and other taxable items.

The ordinary income for the "S" corporation is reported on the Income Tax Return for an "S" Corporation (IRS form 1120S), with each shareholder's share of the income reported on the Shareholder's Share of Income, Credits, Deductions, etc. (Schedule K-1). Because this income from the distribution of corporate earnings may or may not be distributed to the individual shareholders, it

must be determined whether the borrower actually received a cash distribution from the “S” corporation.

IRS form 1120S must be evaluated to determine the overall viability of the business. The originator must determine whether withdrawal of cash from the partnership will affect the financial condition of the partnership.

Depreciation and depletion may be added back to the qualifying income in proportion to the Borrower’s share of the partnership’s income.

Total obligations payable by the partnership in less than one (1) year must be proportionately deducted from the Borrower’s income.

5.15 Tax-Exempt Income

If income is tax-exempt, it may be adjusted upward ("grossed up"), no higher than the appropriate tax rate, using the Borrower’s tax rate from the prior year if the Borrower supplies evidence of his / her tax rate with documents such as signed federal tax returns. If the Borrower is not required to file a federal tax return, the tax-exempt income may be grossed up by a maximum of twenty-five percent (25%) if it is likely to continue to remain tax exempt. Additional allowances for dependents are not acceptable.

The amount, source, and stability of any non-taxable income that was grossed up must be documented.

The following types of income are examples of income that may be tax-exempt:

- Some portion of Social Security income;
- Some federal government employee retirement income;
- Railroad retirement benefits;
- Some state government retirement income;
- Certain types of disability and public assistance payments;
- Child support;
- Military allowances; and
- Other income that is documented as being exempt from Federal income taxes.

5.16 Other Types of Income

This section addresses how other types of income not derived from wages or salaries may be used to qualify the Borrower.

5.16.1 Alimony, Child Support, Maintenance (12/22/16)⁸³

When a Borrower has received full, regular, and timely payments for child support or alimony for twelve (12) months with a three (3) year continuance from the Note date, the income will be considered stable. Child support may be “grossed up” under the same provisions as non-taxable income.

This income must be supported by a divorce decree or separation agreement with evidence of receipt such as deposit slips, court records, bank statements, or tax returns to show twelve (12) months’ receipt of this income.

Income received for less than twelve (12) but more than six (6) months may be used to qualify the Borrower for the Mortgage Loan provided the Originator can adequately document the payer’s ability and willingness to make timely payments. If full or partial payments are received for less than six (6) months or made on an inconsistent or sporadic basis, the income is not acceptable for qualifying the Borrower.

5.16.2 Boarder Income

A boarder is a non-Borrower who currently lives in the Borrower's Primary Residence — not in a rental unit — in exchange for regular, timely rent payments. Boarder income may be used to qualify if:

- A history of generating boarder income for two (2) years can be established by signed federal tax returns;
- The income is expected to continue; and
- Documentation supports the boarder's address being the same as the Borrower's address.

If the rent paid by the boarder is not reported on the Borrower’s tax returns, the income may not be used to qualify the Borrower.

5.16.3 Disability Income

This section does not apply to disability income received from the Social Security Administration (SSA) (see Social Security Income for disability income received from the SSA).

Long term disability income must be verified by the Borrower’s disability policy or benefits statement obtained from the benefits payer (insurance company, employer, or other qualified disinterested party) to determine the Borrower’s eligibility for the disability benefits, the amount and frequency of payments, and if there is a contractually established termination or modification date. Long term

⁸³ MPF Announcement 2016-30 (12/22/16)

disability must be expected to continue (must not have a defined expiration date). A re-evaluation date is not considered a defined expiration date.

5.16.4 Employer-Paid Mortgage Interest Subsidy (12/22/16)⁸⁴

In an employment relocation situation, an employer may provide assistance by paying all or part of the Note rate differential between the employee's present Mortgage Loan payment and new Mortgage Loan payment. This subsidy is considered gross income and may be used as qualifying income (rather than to offset the Mortgage payment), provided the subsidy will continue for a minimum of three (3) years from the Note date. This subsidy must be verified with documentation from the employer indicating the amount, duration, and frequency of payments.

5.16.5 Employment by a Relative or Transaction Participant (12/22/16)⁸⁵

If the Borrower is employed by a relative, a closely-held family business, the Mortgaged Property seller, real estate agent, or any party to the real estate transaction, the following documentation must be obtained:

- Borrower's signed and completed personal federal income tax returns for the most recent two-year period; and
- Paystubs with W-2 forms.

Current income reported on the paystub may be used if it is consistent with W-2 earnings reported on the tax returns. If the tax returns do not include W-2 earnings or income is substantially lower than the current paystub, further investigation is needed to determine whether income is stable.

The Borrower's personal tax returns must be used to verify that the Borrower is not an owner of the business. If this is not evident from the personal tax returns, the Borrower must provide a signed copy of the partnership or corporate tax return showing the ownership percentages, verifying that the Borrower is not an owner of the business.

5.16.6 Employment Offers or Contracts

A Mortgage Loan may close prior to the Borrower beginning new employment and receiving income if the Borrower will begin the new job within sixty (60) days of Closing. However, the Mortgage Loan is not eligible for delivery under the MPF Program until the Borrower begins employment and has received income.

The Mortgage Loan File must contain:

- Documentation of the Borrower's past income and employment history;

⁸⁴ MPF Announcement 2016-30 (12/22/16)

⁸⁵ MPF Announcement 2016-30 (12/22/16)

- The Borrower's new guaranteed, non-revocable employment contract or offer;
- A paystub, obtained and dated prior to the Funding Date, that verifies the level of income used to qualify the Borrower; and
- Verification of sufficient income or cash reserves to support the Mortgage Loan payment and any other obligations between Closing and the start of employment.

5.16.7 Foreign Income (12/22/16)⁸⁶

Foreign Income is acceptable only if income can be verified on U.S. personal tax returns for the last two (2) years. The Originator must verify the income using the standard documentation required for the source and type of income.

Foreign income should be paid in U.S. currency; however, income paid in foreign currency may be considered on a case-by-case basis if it is converted into U.S. currency.

Foreign income must be documented on statements translated to English.

5.16.8 Foster Care Income (12/22/16)⁸⁷

Foster care income received from a county, state, or federal government agency is acceptable, provided that the following requirements are met:

- Letters are obtained from the organization providing the foster care income; and
- The Borrower has received this income for at least two (2) years. If the Borrower does not have a two (2) year history of receiving this income but has received the income for at least twelve (12) months, then the income may not represent more than 30% of the qualifying income for the loan.

5.16.9 Interest and Dividend Income

Interest and dividend income may be used if documented by signed federal tax returns for the past two (2) years and proof of continuance for the next three (3) years from the Note date.

An average of the past two (2) years, as documented in the tax returns, may be used as stable income.

Any funds from interest and dividends that are used for down payment or closing costs must be subtracted before calculating the projected interest or dividend income.

5.16.10 Military Income/VA Benefits

⁸⁶ MPF Announcement 2016-30 (12/22/16)

⁸⁷ MPF Announcement 2016-30 (12/22/16)

In addition to base pay, income from military entitlement (such as flight or hazard pay, rations, clothing allowance, quarters allowance, and proficiency pay) is recognized as part of a Borrower's monthly income. The probability of the continued receipt of these additional forms of military pay must be verified in writing.

Military income paid to military reservists while they are satisfying their reserve obligations is acceptable if it meets the income stability and continuation requirements for a second or part-time job and is verified by the VOE allowed for military personnel.

Direct compensation for service-related disabilities from the Department of Veterans Affairs (VA) is eligible income, provided the documentation is provided by the VA. VA education benefits used to offset education expenses are not an acceptable form of income.

5.16.11 Mortgage Credit Certificates

Certain states and municipalities offer Mortgage Credit Certificate (MCC) programs. These programs typically grant first-time homebuyers a federal income tax credit.

For first time home buyers that have applied for a Mortgage Loan to purchase their Primary Residence, the applicable amount of income tax credit must be added to the Borrower's monthly income (the Mortgage Loan payment cannot be reduced by the amount of the income tax credit) using this formula:

$$((\text{Mortgage Amount}) \times (\text{Note Rate}) \times (\text{MCC \%})) / 12 = \text{Amount added to Borrower's monthly income.}$$

A copy of the MCC and the calculation of the adjustment to the Borrower's income must be retained in the Mortgage Loan File.

For refinance transactions, the MCC may remain in place as long as verification is received from the MCC issuer that the MCC applies to the new Mortgage Loan. A copy of the reissue certification must be maintained in the Mortgage Loan File.

5.16.12 Notes Receivable, Installment Sales, and Land Contracts (12/22/16)⁸⁸

Notes receivable, installment sales, and/or land contracts may be considered qualifying income if the Mortgage Loan File contains a copy of the note or contract and evidence that the Borrower is entitled to receive payments on the note and has received payments on a regular monthly basis for the most recent twelve (12) months. Notes receivable income must be expected to continue for at least the next three (3) years from the Note date.

⁸⁸ MPF Announcement 2016-30 (12/22/16)

5.16.13 Public Assistance Income (12/22/16)⁸⁹

Public assistance income must be verified by the appropriate state or federal government agency with letters or exhibits from the paying agency that state the amount, frequency and duration of the benefit payments. If the income does not have a defined expiration date, it should be considered as likely to continue for three (3) years from the Note Date.

A monthly homeownership subsidy received directly by the Borrower may be used as qualifying income if the Borrower is receiving subsidies under a housing choice voucher homeownership option from a public housing agency. The income may be treated as tax-exempt income.

5.16.14 Retirement, Government Annuity, and Pension Income (12/22/16)⁹⁰

The Originator must not ask the Borrower about any future, possible retirement, unless the Borrower volunteers such information.

Retirement or pension income is an acceptable source of stable income as long as the Borrower's regular receipt of payment is confirmed.

If the Borrower does not have a history of draws on the employment-related asset, then the income may only be considered if the following requirements are met:

- The LTV/TLTV does not exceed 70%;
- The transaction is a purchase or limited cash-out (cash-out refinance transactions are ineligible);
- The total "net documented assets" must be divided by 360 months, regardless of the Borrower's age or the Mortgage Loan's term; and
- The Originator must verify that the asset is liquid and available to the Borrower without penalty.

Retirement income must be verified by letters from the organization, Employer Letter, Award Letter, IRS W-2, 1099, or signed federal tax returns for proof of receipt.

If any retirement income, such as employer pension or 401(k) will cease within the first full three (3) years from the Note date, such income may not be used in qualifying the Borrower. There must be a likelihood of continuance for a minimum of three (3) years from the Note date.

5.16.15 Royalty Income

Royalty income may be used for qualifying purposes, provided the following requirements are met:

⁸⁹ MPF Announcement 2016-30 (12/22/16)

⁹⁰ MPF Announcement 2016-30 (12/22/16)

- A copy of the royalty agreement is obtained which states the amount, frequency, and duration of the royalty payments;
- A copy of the Borrower's most recent federal tax returns are obtained, which must include the IRS Form 1040, Schedule E; and
- The Borrower can verify receipt of royalty income for at least twelve (12) months;
- The income is expected to continue for at least three (3) years from the Note date.

5.16.16 Social Security Income

Social Security income can be verified with the Social Security Awards letter from the Social Security Administration (SSA). Nontaxable Social Security income may be grossed up by 25%.

If the SSA benefit verification letter does not indicate a defined expiration date, the income will be considered eligible and likely to continue for three (3) years from the Note date.

Retirement or long-term disability Social Security income will not have a defined expiration date and must be expected to continue. Pending or current re-evaluation of medical eligibility for benefit payments is not considered an indication that the benefit payments are not likely to continue.

Social Security income that has a defined expiration date must have a remaining term of at least three (3) years from the Note date.

The Originator may not request any additional information from the Borrower or the Borrower's physician regarding the nature of the disability.

5.16.17 Temporary Leave Income (12/22/16)⁹¹

Temporary leave from work is generally short in duration, for reasons of maternity or paternity leave, short-term medical disability or other temporary leave types that are acceptable by law or the Borrower's employer.

Originators must not ask the Borrower about possible, future maternity leave, unless the Borrower volunteers such information.

Temporary leave income must be verified in accordance with Applicable Laws, including fair lending laws.

5.16.18 Tip Income

Tip income may be included as qualifying income if the Borrower has received the income for the last two (2) years, as verified on a VOE, or on recent paystubs and W-2 forms from the past two (2) years.

⁹¹ MPF Announcement 2016-30 (12/22/16)

If the amount received fluctuates, the income trend must be evaluated to determine the amount most likely to continue for the next three (3) years from the Note date.

In some cases, the full amount of the tip income earned by the Borrower may not be reported by the employer on the VOE, paystub and W-2 form, and the Borrower may report additional tip income to the IRS using Form 4137 (Social Security and Medicare Tax on Unreported Tip Income), when filing tax returns.

5.16.19 Trust Income

Trust income may be considered qualifying income if documented with the amount, frequency and duration of payments. A copy of the trust agreement or a statement from the trustee confirming the amount, frequency and duration of payments is required.

It must be verified that trust income will continue for at least three (3) years from the Note date.

5.16.20 Unemployment Income

Unemployment income must be documented for two (2) years, and must be expected to continue.

5.16.21 Upcoming Increases in Income

Projected or hypothetical income may be used for qualifying purposes when the Borrower is scheduled to receive an increase in income from their employer, such as a cost-of-living adjustment, a performance raise, or will receive a bonus. In order for this income to be considered for qualifying purposes, written verification must be obtained from the employer of the following:

- The amount of the cost-of-living adjustment, performance raise, or bonus; and
- That the increase in income will begin and/or the bonus will be received by Borrower within sixty (60) days of Closing.

5.16.22 Rental Income from the Borrower's Two- to Four-Unit Primary Residence (5/1/19)⁹²

Stable rental income from the unit(s) in the Borrower's 2- to 4-Unit Primary Residence that are not occupied by the Borrower may be used to qualify the Borrower but cannot be used to directly offset the Mortgage Loan's PITIA.

The stability of the rental income must be documented with:

- A current lease(s) or agreement(s) to lease;

⁹² MPF Announcement 2019-26 (5/1/19)
PFI Notice 2016-12 (9/1/16)

- A rental history from the previous twenty-four (24) months with gaps less than three (3) months; or
- A rental history from the previous twenty-four (24) months with gaps greater than three (3) months that are explained. Explanations may include student housing, seasonal rentals, military renters, or property rehabilitation.

The amount of the rental income must be verified with:

- IRS Form 1040 Schedule E; and
- Current lease(s) or agreement(s) to lease.

For refinance transactions where the Mortgaged Property was acquired after the most recent federal income tax filing, a copy of the current lease(s) or agreement(s) to lease must be used to document income.

If tax returns are used to verify rental income, the rental income (or loss) will be the income (or loss) before depreciation, mortgage interest, taxes and property insurance.

If the current lease(s) or agreement(s) is used to verify rental income, no more than seventy-five percent (75%) of the gross rental income supported by the Appraisal or the property value used to obtain a DU Appraisal Waiver offer being relied on to originate the Mortgage Loan, may be considered as income unless the Borrower's most recent signed federal tax return clearly supports the use of a higher percentage of rental income.

Any net rental income should be added to the Borrower's total income, and any net rental loss should be added to the Borrower's total monthly debt when calculating the total debt ratio.

5.16.23 Rental Income from an Existing Investment Property (12/22/16)⁹³

Stable rental income from an existing investment property owned by the Borrower may be used to qualify the Borrower but cannot be used to directly offset the Mortgage Loan's PITIA.

The stability of the rental income must be documented with:

- A current lease or an agreement to lease;
- A rental history from the previous twenty-four (24) months with gaps less than three (3) months; or

⁹³ MPF Announcement 2016-30 (12/22/16)
PFI Notice 2016-12 (9/1/16)

- A rental history from the previous twenty-four (24) months with gaps greater than three (3) months that are explained. Explanations may include student housing, seasonal rentals, military renters, or property rehabilitation.

The amount of the rental income must be verified with:

- IRS Form 1040 Schedule E; and
- Current lease(s) or agreement(s) to lease.

Depending upon the length of time the property has been owned, income must be documented with either leases or tax returns, in accordance with the requirements for rental income in a two- to four-unit Primary Residence.

If tax returns are used to verify rental income, the rental income (or loss) will be the income (or loss) before depreciation, mortgage interest, taxes, and property insurance.

If the current lease(s) or agreement(s) is used to verify rental income, no more than seventy-five percent (75%) of the gross rental income supported by the current lease(s) may be considered as income unless the Borrower's most recent signed federal tax return clearly supports the use of a higher percentage of rental income.

Any monthly net rental income should be added to the Borrower's total income, and any monthly net rental loss must be added to the Borrower's total monthly debt when calculating the total debt ratio.

A separate schedule of real estate is not required for rental properties as long as all properties are documented on the Uniform Residential Loan Application.

5.16.24 Rental Income from a Primary Residence Converted into an Investment Property (12/22/16)⁹⁴

If the Borrower is purchasing a Primary Residence and is retaining the current Primary Residence as an investment property, rental income earned from the current Primary Residence may be considered for qualification purposes only if the Borrower is relocating with a new employer or being transferred by the current employer, to a location not within a reasonable and locally-recognized commuting distance. Rental income cannot be used to directly offset the Mortgage Loan's PITIA.

⁹⁴ MPF Announcement 2016-30 (12/22/16)
PFI Notice 2016-12 (9/1/16)

In order for rental income from a Primary Residence converted into an investment property to be used to qualify the Borrower, there must be at least 30% equity in the property. The equity must be calculated by dividing the total amount of all of the outstanding liens on the current Primary Residence by the property's value. The Originator must determine the value of the current Primary Residence by obtaining an appraisal (interior or exterior-only inspection) with an effective date that is no more than six (6) months prior to the Note date and that meets the same standards listed in the appraisal independence requirements in the Guides. The Originator cannot use a value supplied by the Borrower or any other interested party.

The Originator must confirm that the current Primary Residence will be leased by obtaining:

- A copy of a fully executed lease agreement of at least one (1) year's duration after the Note date;
- Evidence the Borrower has received a security deposit from the tenant (such as a copy of the check written to the Borrower);
- A copy of the Borrower's bank statement showing the deposit of the security funds;
- Evidence the Borrower has received the first month's rent from the tenant (such as a copy of the check written to the Borrower); and
- A copy of the Borrower's bank statement showing the deposit of the rent funds.

Net rental income must be calculated according to the following requirements after the Originator obtains the above documentation:

- For a one unit property: 75% of the gross rental income may be used to qualify;
- For a two to four unit property: 75% of the gross rental income for the unit previously occupied by the Borrower may be used to qualify. This net rental income should be added to the net rental income that was calculated for the remaining units that were not previously occupied by the Borrower.

5.16.25 Rental Income from a Second Home (9/1/16)⁹⁵

Rental income from a second home may not be used for Borrower qualification. Examples include, but are not limited to, rental income from private lease agreements, timesharing, or rental pool agreements.

5.16.26 Parsonage or Housing Income (7/24/17)⁹⁶

⁹⁵ PFI Notice 2016-12 (9/1/16)

⁹⁶ MPF Announcement 2017-37 (7/24/17)

Parsonage or housing allowance may be added to income but may not be used to offset the monthly housing payment when there is acceptable documentation that verifies the allowance has been received for the most recent 12 months and is likely to continue for the next three years.

5.17 Qualifying Ratios

Debt ratios are calculations used to determine whether the Borrower will be able to meet the expenses involved in home ownership. There are two ratios used to assess the Borrower's eligibility—housing-to-income ratio and debt-to-income ratio.

5.17.1 Housing Expense Ratios

The Borrower's monthly housing expense is needed in order to calculate the debt-to-income ratio. Monthly housing expense includes the following:

- Principal and interest for the mortgage that is secured by the Borrower's Primary Residence;
- Monthly amounts for:
 - Subordinate financing on the subject property;
 - Hazard insurance;
 - Real estate taxes;
 - Mortgage insurance premiums; and/or
 - Assessments
- When applicable:
 - Homeowners association dues;
 - Optional credit insurance;
 - Leasehold payments;
 - Special assessments;
 - Flood insurance fees; and/or
 - Tax abatements.

The housing-to-income ratio is calculated by dividing the sum of all monthly housing expenses by the total of stable monthly income of all borrowers.

$$\text{monthly housing expense ratio} = \frac{\text{monthly housing expense}}{\text{total monthly income}}$$

5.17.2 Calculating Monthly Real Estate Tax Payment

The calculation of real estate taxes must be based on at least the current assessed value. The real estate taxes are generally listed in the title commitment. However, the future real estate taxes must be estimated if the property is new construction. In this case, a reasonable estimate of the real estate taxes based on the value of the land and completed improvements and the local real estate tax rate is required. Historical real estate taxes on the unimproved land may not be used to qualify the Borrower.

5.17.3 Debt-to-Income Ratios (10/31/17)⁹⁷

The debt-to-income ratio is the sum of the Borrower's monthly housing expenses plus the following items, divided by the Borrower's stable monthly income:

- Payments on revolving debt;
- Installment debt with more than ten (10) months remaining;
- Leases;
- Monthly PITIA and operating expenses for any additional properties owned by the Borrower, including second homes and investment properties, that are not income-producing;
- Rental loss, if any, from an investment property;
- Ongoing contributions to a pooled savings arrangement should be considered a debt;
- Current real estate taxes, property insurance premiums, and HOA dues, if applicable, on properties owned free and clear; and/or
- Child support, alimony, and separate maintenance payments with more than ten (10) months remaining.

The maximum allowable debt-to-income ratios are listed in the following table:

Underwriting Method	Maximum Debt-to-Income Ratio
Manually underwritten	43%
Loan Product Advisor Accept	Allowable by AUS
DU Approve	Allowable by AUS

⁹⁷ MPF Announcement 2017-63 (10/31/17)
MPF Announcement 2016-30 (12/22/16)
MPF Announcement 2016-17 (11/29/16)
PFI Notice 2016-12 (9/1/16)

A Mortgage Loan with a debt-to-income ratio of 43.01% is considered in excess of 43% and is not eligible for delivery if manually underwritten.

5.17.4 Loan-to-Value Ratios

Refer to the MPF Program eligibility grid for maximum LTV and TLTV ratios.

5.18 Assets and Reserves (12/22/16)⁹⁸

All down payment funds, cash to close, and reserves must be documented per the AUS findings or meet the MPF Program Requirements. When assets are used for income and closings costs or reserves, the amount needed for closing costs and reserves must be subtracted before the remaining amount can be used toward income.

Asset documentation must be examined for signs of fabrication or alteration. Analyzing the documentation to calculate interest, and reviewing deposits against income levels and sources are necessary to validate the documents.

5.18.1 Down Payment Requirements (12/22/16)⁹⁹

The minimum Borrower contribution for each transaction is described in the following table.

Property Type	LTV/TLTV Ratio	Minimum Borrower Contribution Requirements
One- to four-unit Primary Residence or one-unit second home	80% or less	No minimum contribution from the Borrower's own funds is required.
One-unit Primary Residence	More than 80%	No minimum contribution from the Borrower's own funds is required.
Two- to four-unit Primary Residence or one-unit second home	More than 80%	A minimum contribution of 5% must come from the Borrower's own funds.

5.18.2 Reserves

Reserves are an indication of the Borrower's capacity to demonstrate a savings pattern. Reserves are those liquid assets that are available to the Borrower after the Mortgage Loan closes. Liquid reserves include cash and other assets that are easily converted to cash. Reserves must come from the Borrower's own funds and must be documented and verified.

⁹⁸ MPF Announcement 2016-30 (12/22/16)

⁹⁹ MPF Announcement 2016-30 (12/22/16)

For second home occupancy types, a minimum of two (2) months PITIA cash reserves are required. The reserve requirements may not be waived.

Reserves are measured by the number of months of monthly housing expense that they represent, including:

- Principal and interest;
- Hazard, flood, and mortgage insurance premiums, if applicable;
- Real estate taxes;
- Ground rent;
- Special assessments;
- Homeowners association dues (excluding any utility charges that apply to the individual unit); and
- Subordinate financing payments on mortgages secured by the Mortgaged Property.

For Mortgage Loans underwritten using DU or Loan Product Advisor, the automated findings will determine the reserve requirements based on the overall risk assessment of the loan.

Reserves, in the form of cash, stock, bonds or other liquid financial assets, should be adequate to cover risk factors present in the Loan Application, such as, but not limited to, LTV, debt ratios, and income stability. Reserves used as a compensating factor or input to an AUS must be verified.

For cash reserves in the form of loans secured by financial assets (such as 401k loans, margin accounts, or CD loans) or non-cash reserves, see Selling Guide Chapter [5.19](#).

For retirement accounts that prohibit withdrawals as of the Closing date, none of the funds may be used as reserves. Examples of prohibited withdrawals include but are not limited to: restrictions due to Borrower not yet reaching retirement age, the retirement account is used as security for an outstanding loan or the account's trustee or management prohibits a withdrawal for any other reason.

For stock options or non-vested restricted stock, none of the funds may be used as reserves.

The documentation used to verify the value of all reserves must meet the documentation age requirements as stated in Selling Guide Chapter [5.1.3](#).

5.18.3 Prepaid Costs

Prepaid settlement costs that are normally paid by the Borrower are any of the following:

- Per diem interest charges from the date of disbursement through the end of the month;

- Real estate taxes covering any period after the date of settlement;
- Property insurance premiums and reserves toward future premiums; and/or
- Escrow accruals required for the renewal of the MI premium.

The property seller (or the Borrower's employer) may pay the following prepaids:

- Interest charges from date of disbursement through the end of the month;
- Real estate taxes covering any period after the date of settlement;
- Hazard insurance premiums and reserves toward future premiums; and/or
- The escrow accruals required for the renewal of the MI premiums.

The amount an interested party pays toward prepaid items must be included in total contribution limits. The amount that the Borrower's employer pays towards the prepaids is not included in total contribution limits.

5.19 Bank Statements (3/15/18)¹⁰⁰

Funds on deposit in savings accounts, checking accounts, certificate of deposits, and money market accounts may be used for the down payment, closing costs, and reserves. Accounts which do not allow the Borrower to have immediate access to the funds for these purposes are not acceptable assets.

Two (2) most recent monthly bank statements with all pages or a Verification of Deposit and one month's bank statement is the minimum documentation required for the borrower's assets. An explanation and supporting documentation are required for any significant change in an account balance or for any account opened within the last two (2) months.

Bank statements must be dated within 120 days of Closing. Bank statements must clearly identify:

- Name and address of the depository or investment institution;
- Name of account owners;
- At least the last four (4) digits of the account number;
- Time period covered by the statement;
- All deposits and withdrawal transactions for depository account or all purchase and sale transactions for a financial portfolio account; and

¹⁰⁰ MPF Announcement 2018-18 (3/15/18)

- Ending account balance.

If a supplemental statement is necessary, any bank-generated form (such as deposit or withdrawal slips) that shows a machine-printed account number, balance, and date is acceptable. Supplemental information must be on a bank form indicating the name of the Originator or on bank letterhead signed by a bank representative.

Bank statements may be online account or portfolio statements obtained by the Borrower, provided such are printed and the Internet Uniform Resource Locator (URL) address is included identifying the source of information as well as all of the other information listed above for standard bank statements.

5.19.1 Review of Bank Account Statements

Any indications of borrowed funds must be investigated. Indications of borrowed funds include the following:

- A recently opened account;
- A recently received large deposit (greater than 50% of the total monthly qualifying income for the loan); and/or
- An account balance that is considerably greater than the average balance over the previous few months.

When there is a recently opened account or a large increase in an existing account on a purchase transaction, the source of funds must be explained by the Borrower and verified.

If a large deposit is from another account that is verified in the Mortgage Loan file, that account must be verified after the withdrawal to assure that the assets are not counted twice. All large deposits must be sourced and verified. Unverified funds are not acceptable sources for the down payment, closing costs, and/or reserves.

Asset documentation must be examined for signs of fabrication or alteration. Analyzing the documentation to calculate interest, and reviewing deposits against income levels and sources are necessary to validate the documents.

5.19.2 Joint Accounts (10/31/17)¹⁰¹

Funds held in a joint checking or joint savings account are acceptable since the Borrower has access to all funds in the account at all times.

¹⁰¹ MPF Announcement 2017-63 (10/31/17)

5.20 Acceptable Sources of Assets

This section addresses various asset types.

5.20.1 Liquid Assets

The section addresses acceptable sources of liquid assets.

In addition to liquid assets, the following are considered to be cash assets at 100% of the verified amounts:

- A gift or grant from a municipality, nonprofit religious organization, nonprofit community organization, or the Borrower's employer;
- Group savings;
- Pooled funds;
- Proceeds from the sale of the Borrower's personal property; and
- Individual Development Account.

5.20.2 U.S. Savings Bond

U.S. Savings bonds should be valued at their purchase price unless redemption value can be determined and verified.

5.20.3 Pooled Funds (12/22/16)¹⁰²

Funds for the down payment may come from pooled savings if the Borrower can document regular contributions to the savings fund. Acceptable documentation includes:

- Confirmation of the arrangement from the person managing the pooled savings; and
- Account information for the Borrower's contributions.

For purposes of calculating the total debt ratio, ongoing contributions by the Borrower to a pooled savings arrangement should be considered a debt.

5.20.4 Sale of Personal Property

The following documentation is required to evidence the sale of personal assets for funds to close:

- For personal property previously liquidated, a bill of sale is required, evidencing the following:
 - The date of sale;
 - The description of the asset sold;

¹⁰² MPF Announcement 2016-30 (12/22/16)

- The sales price;
- The signatures of buyer and seller; and
- A copy of the check from the purchaser of the asset or the Borrower's bank statement verifying the deposit of proceeds from the sale.
- For personal property to be liquidated, documentation is required evidencing the following:
 - The existence of the asset and the Borrower's ownership of the asset (e.g., car title);
 - The value of the asset through a third-party source (e.g., appraisal or blue book); and
 - A letter of intent, contract, or other evidence that a buyer exists at the specified price.

Evidence of the actual sale, sufficient proceeds received from the sale, and proof that any outstanding liability owed against the asset was paid in full, is required to be obtained at Closing.

5.20.5 Trust Accounts

Funds disbursed from a trust account where the Borrower is the beneficiary are acceptable if the Borrower has immediate access to them and if trust assets survive for a minimum of thirty-six (36) months after the Note date. The trust manager or trustee must verify the value of the trust account and confirm the conditions under which the Borrower has access to the funds. When using trust income for qualifying, the effect of the withdrawal must be documented.

5.20.6 Retirement Accounts

IRA, SEP IRA, 401(k), KEOGH, 403(b), and other IRS qualified retirement plans may be verified with a copy of the most recent monthly or quarterly statement evidencing the Borrower as the owner and the value of the account.

When funds from these sources are used for the down payment or closing costs, the funds must be withdrawn and proof of withdrawal and receipt of funds must be provided.

When using retirement accounts as reserves, 100% of the vested value may be used.

For retirement accounts that prohibit withdrawals as of the Closing date, none of the funds may be used as reserves. Examples of prohibited withdrawals include but are not limited to: restrictions due to Borrower not yet reaching retirement age, the retirement account is used as security for an outstanding loan or the account's trustee or management prohibits a withdrawal for any other reason.

5.20.7 Stocks and Bonds

The value of stocks, bonds, or mutual funds must be documented by a current statement, a photocopy of the stock certificate accompanied by a current newspaper, an internet stock list or VOD.

Government bonds should be valued at their purchase price unless redemption value can be determined and verified.

Verification of liquidation and receipt of funds is required when the sale of stocks or bonds is used for down payment, closing costs, or other costs.

100% of the value of the asset is permitted when determining available reserves, including mutual funds and retirement accounts. If these are used for down payment and closing costs, no documentation of liquidation is required if the value of the asset is at least 20% more than the total funds needed.

Stock options and non-vested restricted stocks are not an eligible asset source for reserves.

5.20.8 Real Estate Proceeds (12/22/16)¹⁰³

To use proceeds from the sale of a property for closing costs or cash reserves, the following requirements must be met:

- The closing of the real estate transaction must take place prior to or simultaneous with the Closing; and
- The net proceeds to the Borrower must be verified with the executed Settlement Statement from the sale of the property, which should be retained in the Mortgage Loan File.

5.20.9 Use of Business Funds

Business funds can only be used for down payment and/or closing costs if the Borrower is self-employed. The Borrower's individual tax returns, and business returns if applicable, must be evaluated for that particular business. A business cash flow analysis must confirm that the withdrawal of funds for this transaction will not have a negative impact on the business. The Borrower must be authorized to withdraw funds from the account and the account must be verified in accordance with the requirements for verifying individual bank accounts.

5.20.10 Earnest Money (12/22/16)¹⁰⁴

If earnest money is equal to fifty percent (50%) or more of the down payment, verification of the source of the earnest money payment must be provided.

Earnest money deposits must be documented with the following:

- A copy of the canceled check; and

¹⁰³ MPF Announcement 2016-30 (12/22/16)

¹⁰⁴ MPF Announcement 2016-30 (12/22/16)

- Verification of sufficient funds on deposit in a depository account for the down payment, closing costs, etc.

5.20.11 Sweat Equity (12/22/16)¹⁰⁵

Sweat equity is credit given by the builder or seller for labor performed or material furnished by the Borrower on the Mortgaged Property. Sweat equity may be considered up to a maximum of five percent (5%), provided a minimum contribution of three percent (3%) of the funds invested in the transaction comes from the Borrower's own funds.

5.20.12 Trade Equity (9/1/16)¹⁰⁶

The Borrower's trade equity in his / her previously owned home is determined by subtracting any outstanding liens on the previously owned residence, plus any transfer costs, from the lesser of the appraised value of the previously owned residence or its trade price as shown in the trade contract. The net proceeds of the trade of the Borrower's previously owned home may be considered if the trade value is verified by:

- A current appraisal of the previously owned residence; and
- A copy of the trade contract.

5.20.13 Lease/Rent with Option to Buy (9/1/16)¹⁰⁷

In a "lease / rent with option to buy" agreement, only the portion of the actual lease / rent payment in excess of market rent is acceptable as the Borrower's own funds for down payment. The arrangement must be part of a pre-existing agreement, which is documented by a copy of the lease / rent agreement and verification of the rent paid. The appraiser must provide documentation of market rents for the Mortgaged Property.

5.20.14 Lot Value (9/1/16)¹⁰⁸

Either the acquisition cost or the current appraised value of the lot that a Borrower is building on may be applied toward down payment, depending upon the length of time the Borrower has owned the lot according to the construction-to-permanent guidelines.

5.20.15 Borrowed Funds (12/22/16)¹⁰⁹

¹⁰⁵ MPF Announcement 2016-30 (12/22/16)

¹⁰⁶ PFI Notice 2016-12 (9/1/16)

¹⁰⁷ PFI Notice 2016-12 (9/1/16)

¹⁰⁸ PFI Notice 2016-12 (9/1/16)

¹⁰⁹ MPF Announcement 2016-30 (12/22/16)

PFI Notice 2016-12 (9/1/16)

Borrowed funds from a loan secured by a verified Borrower asset are an acceptable source of the Borrower's own funds. The value of the asset must be commensurate with the Borrower's equity in the asset. Monthly payments for the loan must be included as a debt when calculating the Borrower's monthly debt-to-income ratio, unless the loan is secured by a financial asset.

5.20.16 Bridge Loan Financing (9/1/16)¹¹⁰

A bridge (or swing) loan is short term financing secured by the Borrower's previous residence, which is usually for sale. No cross collateralization between the Borrower's previous residence and the new Mortgaged Property may exist. By using funds from a bridge loan, the Borrower may close on a new home before selling the previous home.

The Borrower must be able to qualify carrying all debts involved, including the monthly and the balloon payment (if any) on the bridge loan and the payments on the new Mortgage Loan.

5.20.17 Cash on Hand (12/22/16)¹¹¹

Cash on hand is an acceptable source of the Borrower's own funds if the following requirements are met:

- The amount of cash on hand is consistent with the Borrower's income and employment;
- The Borrower has a history of paying cash; and
- The Borrower has a limited credit history with no checking or savings accounts.

5.21 Verification of Deposit (3/15/18)¹¹²

A Verification of Deposit (VOD) completed by the depository or investment institution should be obtained. Each VOD must provide the name and address of the depository or investment institution, as well as the following for each account listed:

- Names of account holders;
- At least the last four (4) digits of the account number;
- Type of account;
- Opening date;
- Account balance as of the date of the VOD;
- Average balance for the previous two months;

¹¹⁰ PFI Notice 2016-12 (9/1/16)

¹¹¹ MPF Announcement 2016-30 (12/22/16)

¹¹² MPF Announcement 2018-18 (3/15/18)

In cases where average balances are not available, the most recent two months' bank statements must be provided.

The VOD must be mailed or emailed directly to, and returned from, the institution. VODs should never be mailed to a particular person's attention. If the Borrower indicates this is necessary, the Mortgage Loan File must contain verification that an employee of the Originator independently contacted the depository and verified this requirement. The return address on the verification must be the Originator's address. The hand-carrying of verifications is strictly prohibited.

5.21.1 Direct Verification by a Third-Party Asset Verification Vender

Direct verification by a third-party asset verification vendor is acceptable if the following requirements are met:

- The Borrower provided proper authorization for the use of this verification method;
- The verified information provided conforms with information that would be provided on a VOD or bank statement; and
- The date of the completed verification is no more than 120 days old at Closing.

5.22 Unacceptable Sources of Assets

The following are unacceptable sources of assets:

- Cash on hand for which the source cannot be verified;
- Donated funds in any form, such as cash or bonds, donated by the seller, builder, or selling agent outside of approved financing contributions in the seller concession;
- Proceeds of a personal or unsecured loan, or a gift that must be repaid in full or in part;
- A cash advance on a revolving charge account or unsecured line of credit;
- Cash proceeds from a cash-out refinance on the Mortgaged Property;
- Restricted retirement funds—those with prohibitive withdrawal penalties or that are not permitted to be withdrawn;
- Salary advances; and
- Funds in a Custodial or "In Trust For" Account.

5.23 Gifts (12/22/16)¹¹³

¹¹³ MPF Announcement 2016-30 (12/22/16)

The Borrower may use funds obtained as a gift from a relative, established nonprofit organization, municipality, or employer to satisfy part of the cash requirement for closing, provided the minimum Borrower contribution for the loan type is met and provided that no part of the gift must be repaid.

For one-unit Primary Residences, all funds needed to complete the transaction may come from a gift.

For two- to four-unit Primary Residences and seconds homes with an LTV less than or equal to 80%, all funds needed to complete the transaction may come from a gift.

For two- to four-unit Primary Residences and second homes with an LTV greater than 80%, gift funds are only permitted if the Borrower makes a minimum contribution of 5% from their own funds.

Verification is required to document that sufficient funds to cover the gift are in the donor's account or have been transferred to the Borrower's account.

5.23.1 Personal Gifts (1/28/19)¹¹⁴

The donor of the gift must be a relative, domestic partner, or fiancé/fiancée of the Borrower. Examples of a relative are a spouse, child or dependent, or any other person related to the Borrower genetically, through marriage, adoption, or legal guardianship. A gift letter is required listing the donor's name, address (city, state and zip), phone number, relationship to the Borrower, and the dollar amount of the gift. The gift letter must be signed by the donor.

If the gift is from a relative, fiancé/fiancée, or domestic partner who has resided with the Borrower for at least the last twelve (12) months and intends to continue to reside with the Borrower, then the gift may be considered the Borrower's own funds, and, therefore, no gift letter is needed. The Originator must also verify that the occupancy requirements are met, which may include obtaining additional documentation or information.

When the gift funds are received prior to the initial verification of assets (i.e. bank statement balance includes gift funds), the Mortgage Loan File must contain the following documentation:

- Verification of funds in the Borrower's account; and
- Verification of the transfer of the gift funds from the donor to the borrower.

When the gift funds are received after the initial verification of assets, the Mortgage Loan File must contain the following documentation:

¹¹⁴ MPF Announcement 2019-11 (1/28/19)
MPF Announcement 2017-63 (10/31/17)
MPF Announcement 2017-18 (4/20/17)
MPF Announcement 2016-30 (12/22/16)
PFI Notice 2016-12 (9/1/16)

- Verification of the transfer of the gift funds from the donor to the Borrower; and
- A copy of the donor's withdrawal slip and Borrower's deposit slip, or by a copy of the donor's canceled check and evidence of deposit into Borrower's account.

When the gift funds are transferred at Closing, the Mortgage Loan File must contain the following documentation:

- Verification of the transfer of the gift funds from the donor to the Borrower; and
- Transfer of funds verified by a copy of the donor's check with proof it came from the donor's account, or wire transfer reflecting the donor as the remitter and one line of the settlement statement clearly indicating the exact amount of the gift funds received from the donor.

5.23.2 Gift or Grant from a Municipality, Nonprofit Organization, or Employer

A gift or grant from a municipality, nonprofit religious organization, nonprofit community organization, or the Borrower's employer must be evidenced by a copy of:

- The award letter sent to the Borrower; or
- The legal agreement that specifies the terms and conditions of the gift or grant.

An employer may provide financing to a transferred employee or a newly hired employee who is purchasing a Primary Residence at a new job location. The definition of employee includes military personnel. Employer financing must be made pursuant to an established corporate employee relocation program that is administered by the employer or its agent. The employer financing may consist of any of the following:

- A buydown or subsidy of the Note Rate;
- Funds to cover the down payment and/or closing costs;
- The funding of a below-market Note Rate or no-interest bridge loan; and/or
- Payment of the difference between the property tax and/or Note obligation for the employee's previous Primary Residence and the employee's new Primary Residence.

If the gift or grant is from the Borrower's employer, the employer's formal gift program must be verified. Examples of acceptable documentation include, but are not limited to the following:

- Copy of gift program guidelines from employee handbook; and
- Letter from employer's human resources department.

The Mortgage Loan File must contain the following evidence of the transfer of the funds:

- The award letter or the legal agreement verifying all of the following:

- That repayment of the gift or grant is not required;
- How the funds will be transferred (e.g., to Borrower, closing agent, lender, etc.); and
- The fact that there will be no lien placed against the property as a result of the gift or grant.

5.23.3 Gift of Equity (10/31/17)¹¹⁵

Where all or part of the down payment was supplied by a gift from the property seller, the following conditions must be met:

- The property seller must be a relative of the Borrower;
- A gift letter must be obtained which is signed by the donor and which indicates (1) the dollar amount and date of the gift; (2) the donor's name, address, telephone number, and relationship to the Borrower; and (3) the donor's statement that no repayment is required; and
- The gift of equity must be reflected on the final Settlement Statement.

5.24 Contributions

Any portion of the fees and services, or any other item related to the transaction that would normally be paid by the Borrower but are paid by the interested party, are considered contributions.

Because excessive contributions can negatively impact the transaction, contributions are limited. A contribution amount that exceeds the limit is considered a sales concession.

5.24.1 Interested Party Contributions (IPCs)

IPCs are payments of costs that would normally be made by the Borrower, but are being made by another party who has a financial interest in the transaction. Interested parties may be the seller, builder, real estate agent or broker or other affiliate who may benefit from the sale. IPCs may not be applied to the Borrower's down payment, to meet financial reserve requirements, or to meet minimum Borrower contribution requirements.

The maximum allowable IPCs are based on the lesser of the purchase price or appraised value, as follows:

Occupancy Type	LTV/TLTV	Max Contribution
Primary Residence or Second Home	> 90%	3%
	> 75 ≤ 90%	6%
	≤ 75%	9%

IPCs in excess of these limits must be considered as seller or sales concessions.

¹¹⁵ MPF Announcement 2017-63 (10/31/17)

5.24.2 Sales Concessions (12/22/16)¹¹⁶

Sales concessions must be deducted from the sales price to reflect the amount of contribution that exceeds the maximum allowable IPCs, and the maximum LTV/TLTV ratios must be recalculated using the reduced sales price or appraised value.

The following are examples of sales concessions:

- Non-real estate items such as moving expenses, furniture, and decorator allowances;
- Contributions that exceed the allowable limits for IPCs are also considered sales concessions; and
- Personal property or “giveaways” (such as furniture, decorator items, automobiles, club membership, etc.).

5.24.3 Payment Abatements (12/22/16)¹¹⁷

A payment abatement is where an interested party pays or reimburses the Borrower in whole or in part for one or more monthly mortgage payments. The monthly payments may include principal, interest, taxes, insurance, and assessments. Homeowners association fees paid for by an interested party in an amount equal to or greater than twelve (12) months are considered a payment abatement. Homeowners association fees paid for by an interested party in an amount less than twelve (12) months are considered an IPC.

Any mortgage loan with payment abatements of any type is not eligible for delivery under the MPF Program.

¹¹⁶ MPF Announcement 2016-30 (12/22/16)

¹¹⁷ MPF Announcement 2016-30 (12/22/16)

CHAPTER 6. PROPERTY REQUIREMENTS

6.1 Property Standards

This section addresses eligible property types and general property requirements.

6.1.1 Eligible Property Types (12/22/16)¹¹⁸

Eligible property types are 1–4 units including condos, PUDs and manufactured homes (subject to restrictions, including restrictions imposed by the Servicer under Servicing Released option), located in any of the fifty (50) United States, the District of Columbia, Puerto Rico, Guam or the Virgin Islands.

Modular, panelized or prefabricated homes are not considered manufactured housing and may be delivered under the MPF Program as standard single-family dwellings.

6.1.2 Multiple Parcels (12/22/16)¹¹⁹

When the Mortgaged Property consists of more than one parcel, the appraiser must consider all parcels in the Appraisal, and the site description must accurately describe the land and any improvements on each parcel.

A Mortgaged Property consisting of more than one parcel is eligible if the following conditions are met:

- The parcels must be adjoining;
- Only one parcel contains a residence (the adjoining parcel(s) may contain a non-residential structure such as a garage);
- All parcels must be zoned residential; and
- The Mortgage Loan must be a valid first lien on all parcels.

6.1.3 Mixed-Use Properties

Mixed-use properties are dwellings that have a business use in addition to residential use. Examples of mixed-use properties are homes that have a space set aside for a day-care facility or a beauty salon.

Mixed-use properties are acceptable if the following requirements are met:

- The property must be an owner-occupied, single-family Primary Residence, or second home;

¹¹⁸ MPF Announcement 2016-30 (12/22/16)

¹¹⁹ MPF Announcement 2016-30 (12/22/16)

- The mixed use of the property must be a legal, permissible use of the property under the local zoning requirements;
- The Borrower must be both the owner and the operator of the business;
- The property must be primarily residential in nature, and the business use must be compatible with use of the property as a Primary Residence; and
- The market value of the property must be primarily a function of its residential characteristics, rather than the business use or any special business-use modifications that were made.

6.1.4 Rural Property (12/22/16)¹²⁰

Rural properties should meet the following requirements:

- Be primarily residential in nature;
- Be a sufficient distance from undesirable influences that may affect value;
- Be accessible by public highways or private roads that have recorded easements and shared maintenance agreements; and
- Have adequate sewage, water, and utilities available and in service.

6.1.4.1 Appraisal Requirements (7/24/17)¹²¹

Recent comps are required to establish marketability. There may be a shortage (or absence) of recent comparable sales in the immediate vicinity of a property that is in a rural location. The use of comps located more than one (1) mile from the Mortgaged Property is allowed to support the Mortgaged Property value, provided use of such comps is addressed by the appraiser.

Rural properties should not contain excess acreage as compared to like properties within that market. The appraiser must appraise and accurately describe the entire site and include all improvements contained on the Mortgage Property regardless of the total acreage the property contains. The site size described in the Appraisal should correspond to the legal description provided in the Security Instrument, the final title policy, public records and survey. The underwriter should review the sales comparison analysis approach to determine if the comparables support the acreage and rural location of the subject property.

Properties with outbuildings must be given special consideration in the underwriting and Appraisal review. Properties with minimal outbuildings that are of relatively insignificant value in relation to the total appraised value of the Mortgaged Property (such as a small barn or stable) are acceptable if the appraiser demonstrates through the use of comparable sales that the improvements represent

¹²⁰ MPF Announcement 2016-30 (12/22/16)

¹²¹ MPF Announcement 2017-37 (7/24/17)

MPF Announcement 2016-30 (12/22/16)

typical residential improvements for the location and property type, for which an active, viable residential market exists. Any adjustments should be properly addressed by the appraiser and typical for the area.

Properties with significant outbuildings (such as a large barn, a storage area or facilities for farm-type animals, or a silo) may indicate that the Mortgaged Property is agricultural in nature. In such cases, the Originator must review the Appraisal to determine whether the improvements are residential or agricultural in nature, regardless of whether the appraiser assigns any value to the outbuildings.

6.2 Occupancy Status

Only Mortgage Loans secured by properties that are Primary Residences or second homes are eligible for delivery under the MPF Program.

6.2.1 Primary Residence (10/31/17)¹²²

The following criteria must be considered to determine whether a Mortgaged Property is a Primary Residence:

- It is occupied by the owner for the major portion of the year;
- It is in a location relatively convenient to the owner's principal place of employment;
- It is the address of record for such activities as federal income tax reporting, mail delivery, and similar functions;
- It possesses the physical characteristics to accommodate the owner's immediate dependent family; and
- The Borrower states an intent to occupy the property as a Primary Residence.

The following tables lists instances where the Borrower does not intend to occupy the property, but the property is still considered a Primary Residence:

Borrower Classification	Occupancy Requirements
Multiple Borrowers	Only one Borrower is required to occupy the property, provided the non-occupant co-Borrower requirements in Chapter 3 are met.
Parents or legal guardians providing housing for a physically handicapped or developmentally disabled adult child	Permitted when the child cannot work or has insufficient income to qualify for the Mortgage Loan on their own. In this instance, the parent/legal guardian is considered the owner and occupant.

¹²² MPF Announcement 2017-63 (10/31/17)

Borrower Classification	Occupancy Requirements
Adult children providing housing for parents	Permitted when the parent cannot work or has insufficient income to qualify for the Mortgage Loan on their own. In this instance, the child is considered the owner and occupant.

6.2.2 Second Home (12/22/16)¹²³

Eligible second homes are one-unit properties, including condominiums and PUDs, that the Borrower will occupy for a portion of the year. If the second home is in a condominium or PUD project, the Borrower may only own one unit in the project. Second homes that are two-four (2–4) unit properties are not eligible.

The property must be suitable for year-round use, have full kitchen facilities with standard-sized appliances, separate rooms for living and sleeping, and no lockout bedrooms. While there is no specific mileage requirements regarding the distance between a second home and primary residence, a second home should generally not be in the same local market as the Borrower's primary residence. However, there can be exceptions, such as properties that are located in a recreational area but also part of a metropolitan area, or properties that are used to minimize the commute to work. The property must not be part of a timesharing or rental pool agreement.

6.3 Property Condition (5/1/19)¹²⁴

The Mortgaged Property must be in acceptable condition (as indicated by the Appraisal, if an Appraisal is obtained, or pursuant to Guide requirements if an Appraisal Waiver is obtained) at the time of Closing, including, but not limited to the following:

- Property must be habitable;
- All appliances, plumbing, electrical, etc. must be functional and in good working condition;
- The kitchen must be functional;
- All utilities must be turned on and in good working order; and
- All bathrooms must be complete and functional.

¹²³ MPF Announcement 2016-30 (12/22/16)

¹²⁴ MPF Announcement 2019-26 (5/1/19)

6.4 Escrow for Completion/Postponed Improvements (12/22/16)¹²⁵

Most improvements on the Mortgaged Property must be completed prior to Closing. The improvements must be unimpaired by fire, windstorm or other perils. Certain exceptions are allowed and are detailed in this section.

6.4.1 Requirements for New or Proposed Constructions

Where the Mortgaged Property is newly constructed and improvements that do not affect the livability of the property or the Borrower's ability to obtain a certificate of occupancy (if common and customary to the area) from the applicable government authority cannot be completed for justifiable reasons, such as inclement weather or shortages of building materials, the Mortgage Loan may be delivered before those improvements are completed if:

- An adequate cash escrow for the postponed improvements is established;
- The terms of the postponed improvements must be included as part of the sales contract for the Mortgaged Property, and cannot be part of a third party contract;
- The certificate of occupancy is verified in writing by the appraiser;
- The value of the incomplete improvements is less than or equal to ten percent (10%) of the value of the completed Mortgaged Property; and
- Mortgage and title insurance are not impaired or negatively impacted during the escrow period.

An executed escrow agreement must state how the escrow account will be managed and how funds from the escrow account will be disbursed. The escrow holdbacks may be held and managed by the title company. Release of the escrow holdbacks require evidence and a certificate of completion by the appraiser that is signed off by the PFI.

The improvements must be completed within 180 days of the Note date. Once the improvements are complete, the Mortgaged Property must be inspected by the original appraiser, if available, or another qualified appraiser. The appraiser must provide an Appraisal Update and/or Completion Report (FNMA Form 1004D / FHLMC Form 442) accompanied by photographs of the completed improvements, which must be included in the Mortgage Loan File.

6.4.2 Requirements for Existing Construction (5/1/19)¹²⁶

Where the Mortgaged Property is existing, and not newly constructed, the Originator must review the Appraisal, if one was obtained, to ensure that there are no minor conditions and deferred maintenance projects that affect the safety, soundness, or structural integrity of the Mortgaged

¹²⁵ MPF Announcement 2016-30 (12/22/16)

¹²⁶ MPF Announcement 2019-26 (5/1/19)

Property. If minor conditions are noted by the appraiser, but they do not affect the safety, soundness, or structural integrity of the property, then the Appraisal may be completed “as is”. Such minor conditions must be represented in the appraiser’s opinion of the property’s value but do not need to be completed prior to delivering the Mortgage Loan.

An escrow account may be established for completion of the minor conditions. The Mortgage Loan may be delivered prior to disbursement of the escrow funds and prior to completion of the work, provided that the Originator ensures the minor conditions do not compromise the safety, soundness, or structural integrity of the Mortgaged Property.

6.5 Title (12/11/18)¹²⁷

Title to the Mortgaged Property must be held as fee simple or leasehold estate by a borrower who is natural persons, an inter vivos trust that meets Guide eligibility requirements (see Chapter 3.1.5 for eligibility requirements), or an Illinois Land Trust that meets Guide eligibility requirements (see Chapter 3.1.5 for eligibility requirements).

6.5.1 Fee Simple

Fee simple is the greatest possible interest a person can have in real estate. When the title is held as fee simple, the Borrower is recorded as the owner of the Mortgaged Property subject only to liens for taxes and special assessments that are not currently due and payable and other matters permitted in Selling Guide Chapter [6.1](#).

6.5.2 Leasehold Estate (9/1/16)¹²⁸

A leasehold arrangement is one in which there is a separate owner of the land and the improvements on the land. The landowner grants a lease to the owner of the improvements that gives the right to use the land in exchange for a rental payment. The ownership interest in the improvements with the rights granted in the lease to use the land is called the leasehold estate. The rent due under the lease is called the leasehold payment.

In order for a Mortgaged Property that is a leasehold estate to be eligible for sale through the MPF Program, the leasehold estate and the improvements must constitute real property, be subject to the mortgage lien and be insured by the PFI’s title policy. The lease or sublease must be valid, in good standing, and in full force. The leasehold estate must be assignable and/or transferable. All rents must be current. In addition, the use of leasehold or ground rent estates for residential property must be an accepted practice in the area where the Mortgaged Property is located and such property

¹²⁷ MPF Announcement 2018-60 (12/11/18)

¹²⁸ PFI Notice 2016-12 (9/1/16)

must be readily marketable. If the lease is not typical for the market, then the appraiser must fully explain the effect on marketability.

Government Mortgage Loans must comply with the leasehold requirements of the applicable Government Agency.

6.5.2.1 Ground Lease Requirements (12/22/16)¹²⁹

If the land is subject to a leasehold interest, the terms must be typical and customary for the market. If it is not typical for the market, the effect on marketability must be fully explained. The leasehold term must be as long as the term of the Mortgage Loan. The FNMA/FHLMC 461 (Ground Lease Analysis) is required for each leasehold Mortgage Loan and must be retained in the Mortgage Loan File. A separate FHLMC Form 461 is required for each leasehold Mortgage Loan originated which arises from resale of units in such developments.

For subleasehold mortgages, the amount of the sublease payments must be at least equal to the amount of the lease payments. The sublease payments must be due no less frequently than the lease payments.

In addition, the lease must meet the following requirements:

- The lease and any sublease are recorded in the appropriate public land records;
- The lease is a lease of the fee or a sublease executed by both the fee owner and the sublessor;
- The instrument creating the lease, sublease or conveyance reserving ground rents is in a form commonly acceptable to mortgage lenders in the area where the mortgage property is located;
- The lease must not contain provisions for termination in the event of damage to or destruction of the mortgaged residence so long as the leasehold mortgage exists; and
- An increase in the lease payments, or sublease payments, during the term of the mortgage is permitted only if the increase is a specified amount at a defined, scheduled date or time interval. During this period, increases based on the cost of living index or other indices or reappraisal are acceptable if the amount of such increases is subject to a maximum limitation.

The lease must have the following provisions to protect the interests of the MPF Bank:

- The lease must provide for the right of the MPF Bank to cure a default for the lessee's account within the time permitted to the lessee plus reasonable additional time. The lease must provide for a new lease of the same priority to be given to the MPF Bank if the lease terminates

¹²⁹ MPF Announcement 2016-30 (12/22/16)
PFI Notice 2016-12 (9/1/16)

because of default which could not be cured by the MPF Bank, or provide for no termination for noncurable default as long as no default in rent exists;

- A provision exists in the lease for payment to the MPF Bank of a condemnation award to which the lessee is entitled. This payment must not be less than the total award minus the value of the land considered as unimproved;
- The lease must provide that in the case of a partial condemnation, the lessee will rebuild and restore the improvements on the mortgaged property, unless the MPF Bank consents to the distribution of the proceeds instead. The proceeds must be applied first to the reduction of the leasehold mortgage debt;
- The lease must contain a provision for the MPF Bank's right to acquire the lease in its own name or in the name of a nominee upon foreclosure or assignment in lieu of foreclosure;
- The lease must provide for the MPF Bank's right to exercise any renewal options that may exist; and
- If the MPF Bank or MPF Provider determines, with evidence of the ground lease analysis, that the mortgage loan is not a suitable investment due to underwriting considerations, the PFI will purchase the leasehold mortgage loan from the MPF Bank.

The lease must include the following provisions to address the rights of the lessor and lessee:

- The lease must permit mortgaging of the leasehold estate;
- The lease must permit Assignments of the leasehold estate without the lessor's consent;
- The lease must provide for release of an assigning lessee; and
- The lease must provide for written notice from the lessor, notifying the MPF Provider of default by the lessee as a condition of the validity of the notice of default.

6.6 Legal Description

A legal description is a written and / or graphically depicted, geographical description of the Mortgaged Property, whereby the description is recognized by law as sufficient to locate and identify the property precisely without need of oral testimony. The legal description of a Mortgaged Property must be consistent on all documents relating to the Mortgage Loan including: Security Instrument, title policy, survey, mortgage insurance policy or property insurance policies.

The legal description of the Mortgaged Property must be stated in the Security Instrument and the title insurance policy or other evidence of title.

6.6.1 Conventional Mortgage Loans

This section addresses the forms of legal description that are acceptable for Conventional Mortgage Loans.

6.6.1.1 Metes and Bounds

The method of metes and bounds is the descriptive form which identifies and defines the distances and directions of the boundaries of a land parcel, usually one which is irregular in shape. A metes and bounds legal description must comply with the following requirements:

- The beginning point should be established by a monument located at the beginning point or by reference to a nearby monument;
- The varying sides of the Mortgaged Property must be described by the distances and bearings of each. In place of bearings, the interior angle of adjoining sides is acceptable if the beginning point is on a dedicated public street line or a fixed line on other property, or if the course of the first side can be otherwise properly fixed;
- The legal description should be a single perimeter description of the entire plot. Division into sub-parcels must be avoided unless the process would serve a beneficial purpose of the mortgage;
- Division is necessary. However, if the plot is located on two sides of a public way. It is also customary in many areas to describe an easement relevant to a fee parcel by using a separate parcel description;
- The distances, bearings and angles should be taken from a recent instrument survey or recently recertified instrument survey by a licensed civil engineer or registered surveyor; and
- Curved courses should be described by data including the length of arc, the radius of circle for the arc, and the chord distance and bearing. When a survey course is part of a dedicated public street or road line, the course may be described by indicating the distance and direction the course takes along the street line from the end of the previous course, if commonly accepted by private institutional mortgage investors in the regional area where the Mortgaged Property is located.

6.6.1.2 Lot and Block

The form of lot and block uses a description composed of lots and/or blocks with a reference to a recorded map or plat that already shows the lots or blocks. This form is often used when describing a land parcel, or lot, within a subdivision.

When all of the lots or blocks in the description do not appear on the same recorded map or plat, a reference to the location of the apparently identical sides of lots or blocks in different recorded maps or plats, fixed in both maps or plats by the same monuments is acceptable.

6.6.1.3 Other Acceptable Legal Description Forms

A description of a land parcel which is bounded on all sides by dedicated streets or alleys and which refers just to the dedicated streets or alleys is acceptable.

A description of registered property is acceptable if in the form required by a local Torrens Act.

6.7 Other Requirements

6.7.1 Ownership History/Chain of Title

There must be a clear chain of title on all Mortgaged Properties. All Mortgage Loan Files must contain a 24-month title history (chain of title) provided by the closing attorney/title company. As a best practice, the current owner should have held title (deed recorded) for at least ninety (90) days at the time of Borrower's application.

6.7.2 Property Flipping (5/1/19)¹³⁰

"Property flipping" or a "flip" is generally defined as a purchase transaction for a property that has recently been acquired by the property seller and is being sold for a quick profit.

The following red flags may indicate a property flip and should be further investigated:

- Subject property being re-sold with a large price increase after being recently renovated;
- Property seller is an LLC (Limited Liability Company);
- Inconsistencies exist between the owner as listed on the Appraisal, if an Appraisal is obtained, the vested owner as listed on the title commitment, and the seller as listed on the sales contract;
- Comparable sales in the Appraisal, if an appraisal is obtained, do not appear to be the best available comparable sales;
- Comparable sales have transferred multiple times within twelve (12) months, or the Appraisal, if an Appraisal is obtained, reflects excessive adjustments;
- Title commitment reflects multiple deeds necessary to effect transfer of title;
- Title commitment, sales contract and/or the Appraisal report, if an Appraisal is obtained, lists the owner only as "owner of record";
- Seller holds second mortgage; or
- Title search reveals several changes in ownership over the course of a few months.

6.7.3 Properties Subject to Age Restrictions

¹³⁰ MPF Announcement 2019-26 (5/1/19)
MPF Announcement 2018-18 (3/15/18)

If a housing development has an age restriction, it must comply with the Fair Housing Act exemptions.

6.7.4 Properties Subject to Resale Restrictions (Income) (5/1/19)¹³¹

Income-based restrictions (inclusionary zoning) may be imposed by a state or local government in order to ensure that a certain number or a certain percentage of properties in a designated area are dedicated to low or moderate income families.

Properties subject to these restrictions are eligible if all requirements are met and if the restrictions comply with all federal, state, and local laws and regulations. Requirements must be met regarding right of first refusal, resale controls, public land records, etc. The Appraisal must include at least three (3) comparables with similar resale restrictions. Appraisal Waivers are not acceptable for these loans.

6.7.5 Private Transfer Fee Covenants

A private transfer fee, typically imposed by a recorded or unrecorded private transfer fee covenant, is a payment required of a transferee or transferor in connection with, or as a result of, a transfer of title to real estate. Private transfer fees do not include fees, charges, payments, or other obligations that:

- Are imposed by or payable to the federal government or a state or local government; or
- Defray the actual costs of the transfer of the property, including transfer of membership in the relevant homeowners association.

A Mortgage Loan secured by a Mortgaged Property encumbered by a private transfer fee covenant is eligible for sale under the MPF Program, if the Originator ensures that the covenant is in compliance with all Applicable Laws and that the covenant:

- Was created before February 8, 2011; or
- Was created after February 8, 2011 and:
 - Requires the payment of a private transfer fee only to a homeowners association; and
 - Limits the use of the private transfer fee exclusively to purposes which provide a direct benefit to the Mortgaged Property, including: supporting the maintenance and improvements to the Mortgaged Property; the acquisition, improvement, administration, and maintenance of property owned by the homeowners association; cultural, educational, charitable, recreational, environmental, conservation or other similar activities that conducted in or on the community formed by the properties subject to the same covenant or property adjacent

¹³¹ MPF Announcement 2019-26 (5/1/19)

to that community, or on other property that is used primarily by residents of that community.

6.8 Manufactured Housing

Mortgage Loans for manufactured homes are eligible for delivery under Servicing Retained option if all of the requirements in the Selling Guide are met. For eligibility of delivery under Servicing Released Option, PFIs should refer to the applicable Servicer's manual.

6.8.1 Eligibility and General Requirements (12/22/16)¹³²

A manufactured home is a structure that is transportable in one or more sections. Manufactured homes are designed and constructed to the Federal Manufactured Construction and Safety Standards and must be labeled as such.

All eligible manufactured homes must comply with the following additional requirements:

- Be a double-wide or larger;
- Be a one-unit Primary Residence with the dwelling and land legally classified together as real estate for tax purposes;
- Be built and remain on a permanent chassis that supports the complete unit of walls, floors and roof;
- Be designed to be used as a dwelling and anchored to a pre-built permanent foundation appropriate for the soil conditions that satisfies the manufacturer's requirements and all federal, state, county, and local building codes and regulations;
- Not have been previously installed or occupied at any other site or location, except from the manufacturer or the dealer's lot as a new unit;
- Have the appearance and functionality of a site-built home;
- Conform to all applicable use restrictions and be zoned for residential use only; and
- Be permanently connected to a septic tanks, sewage system, or public sewer in accordance with local, state, and federal requirements.

In addition, the Mortgage Loan for the manufactured home must cover both the manufactured unit and its site, and shall have a term of not more than 30 years from the date amortization begins.

6.8.2 Ineligible Manufactured Homes

¹³² MPF Announcement 2016-30 (12/22/16)

Mortgage Loans secured by manufactured housing with any of the following characteristics are ineligible:

- Subordinate financing;
- Modified loans (including extensions, loan assumptions, and transfers of equity);
- Land-in-lieu of down payment (i.e. equity established based on ownership of land);
- Leasehold estates;
- Low-side overrides (i.e. underwriting exceptions on loans that were previously rejected by the Originator);
- Second homes;
- Site Condominiums;
- Expedited Refinances; and
- Temporary buydowns.

6.8.3 Purchase Transactions (12/22/16)¹³³

In addition to the standard MPF Program purchase transaction requirements, manufactured homes underwritten as purchase transactions must meet the following requirements:

- For newly built manufactured homes, the purchase price may include documented costs for delivery, set-up, site development, installation, and permanent utility connections; and
- For construction-permanent loans, the transaction must be completed with dual closings.
- For newly built manufactured homes, the LTV is based on the lowest of:
 - The purchase price of the manufactured home plus the lowest purchase price at which the land was sold in the last twelve (12) months if the land was purchased less than (12) months prior to the Application Date;
 - The purchase price of the manufactured home plus the current appraised value of the land if the land was purchased more than twelve (12) months prior to the Application Date; or
 - The current appraised value of the manufactured home and the land.
- For existing manufactured homes (affixed to a permanent foundation prior to the Loan Application Date), the LTV is based on the lowest of:
 - The purchase price of the manufactured home and the land;
 - The current appraised value of the manufactured home and the land; or

¹³³ MPF Announcement 2016-30 (12/22/16)

- If the manufactured home was affixed to the foundation less than twelve (12) months prior to the Loan Application Date, the lowest price at which the manufactured home was sold during that twelve (12) month period plus the lower of:
 - The current appraised value of the land; or
 - The lowest price at which the land was sold during that twelve (12) month period.

For all LTVs, at least five percent (5%) of the down payment must come from the occupant Borrower's own funds.

6.8.4 Limited Cash-Out Transactions

In addition to the standard MPF Program limited cash-out requirements, if the manufactured home and land are encumbered by separate mortgages, both mortgages must be paid off.

The LTV is based on the lower of:

- The current appraised value of the home and land; or
- If the Borrower has owned the manufactured home for less than twelve (12) months prior to the Application Date and:
 - The manufactured home and land are secured by separate mortgages: the lowest price at which the manufactured home was previously sold during the twelve (12) month period preceding the Application Date plus the lower of the current appraised value of the land or the lowest purchase price at which the land was sold during the twelve (12) month period preceding the Application Date; or
 - The manufactured home and land are secured by a single mortgage: the price at which the manufactured home and land were previously sold during the twelve (12)-month period preceding the Application Date.

6.8.5 Cash-Out Refinance Transactions

In addition to the standard MPF Program cash-out requirements, manufactured homes must meet the following requirements:

- If the manufactured home and land are encumbered by separate mortgages, both mortgages must be paid off;
- The Borrower must have owned the manufactured home and land for at least twelve (12) months prior to the Loan Application Date; and
- The LTV is based on the current appraised value of the manufactured home and land.

6.8.6 Age of Home Requirements

A manufactured home must be built after June 15, 1976. Manufactured houses built before June 15, 1976, are ineligible for financing under the MPF Program.

6.8.7 Site

The manufactured unit must not have been installed or occupied previously at any other site or location. Manufactured units may be moved only from the manufacturer's or dealer's lot to the site on which the unit will be installed. If a permanent foundation is to be constructed under an existing eligible unit, the unit may be jacked up in order to install a new foundation.

The maximum lot size permitted is ten (10) acres. The land value should be no greater than thirty-five percent (35%) of the overall property value.

6.8.8 HUD Certification Label (5/1/19)¹³⁴

All manufactured homes must have an affixed HUD certification label, also known as a HUD "tag" or "seal" located on the outside of the home. If the home is a multi-wide unit, each unit must have a label. In some instances, the units may not be sequentially numbered. The appraiser should verify the location and wording on the Certification Label and the Data Plate, and evidence this on the Appraisal report and list the manufactured unit's label number(s) on the Appraisal report.

If the labels are missing from the home, appraisers must notify the Originator and condition the Appraisal for documentation verifying that HUD labels were issued to the manufactured home. In some states a manufactured home may not be re-sold if it is missing a label. As an alternative to the original HUD Certification Label, it may be possible to obtain a verification letter from the Institute for Building Technology and Safety (IBTS). A duplicate HUD Data Plate/Compliance Certificate may be available from IBTS or by contacting the In-Plant Primary Inspection Agency (IPIA) or the manufacturer. Information regarding a request of label verification and a list of IPIA offices can be found at HUD's Manufactured Housing website. Appraisal Waivers are not acceptable for these loans.

6.8.9 Structural Modifications or Additions

Additions or structural modifications may put the home at risk if changes were not performed in accordance with the Federal Manufactured Home Construction Safety Standards. Some states require a state agency (often this is the State Administrative Agency) to approve all modifications to manufactured homes once they leave the factory. The Originator is responsible for knowing the local regulations on this. If the area where the manufactured home is located has such requirements, then the Mortgaged Property must meet these requirements or it shall be deemed ineligible.

If additions have been made to the dwelling, certification must be provided from the local authority that governs manufactured housing, stating that the addition meets all applicable local and state

¹³⁴ MPF Announcement 2019-26 (5/1/19)

codes and specifications. If there is no local authority, then a licensed engineer within the subject state may certify the addition to the manufactured home. The report must indicate that structural changes or additions were made in accordance with the HUD Manufactured Home Construction and Safety Standards, and the report must be retained in the Mortgage Loan File.

6.8.10 Elevation Certificate

An elevation certificate is required if the manufactured home is located in a Special Flood Hazard Area (SFHA). The a finished grade elevation beneath the manufactured home or, if a basement is used, have the lowest finished exterior grade adjacent to the perimeter enclosure, shall be at or above the 100-year return frequency flood elevation—Flood Zones A or V.

6.8.11 Appraisal Requirements (5/1/19)¹³⁵

The sales comparison and cost approaches must be used for the valuation of manufactured housing. A Fannie Mae Form 1004C/Freddie Mac Form 70B: Manufactured Home Appraisal Report is required. Appraisal Waivers are not accepted for these loans. The appraiser must be experienced in appraising manufactured homes.

At least two (2) of the comparable sales in the Appraisal report must be manufactured homes. Comparables must include no more than one site-built home. The comparables and comments in the Appraisal must support marketability and value. The appraiser must not create comparable sales by combining vacant land sales with the contract purchase price of the manufactured home. If the appraiser is unable to develop an Appraisal based on at least two (2) comparable sales of similar manufactured homes, the Mortgage Loan is not eligible for delivery under the MPF Program. The value may not include furniture, freestanding appliances, insurance, warranties or other items of a personal nature.

For purchase Mortgage Loans, the appraiser must be provided with a complete copy of the executed contract for sale of the manufactured home and land. If the manufactured home and land are being purchased separately, the appraiser must be provided with the executed contract for each. For a new manufactured home, the manufactured home purchase agreement and a copy of the dealer's invoice must be provided to the appraiser. The appraiser must analyze and review the sales contract, agreements and the manufacturer's invoice, if applicable, and provide comments in the Appraisal. The serial number(s) from the HUD Data Plate or frame front cross member of each section of the manufactured home must be matched to the serial number(s) on the manufacturer's invoice to ensure the accuracy of the manufactured home information provided in the Appraisal.

6.8.12 Title and Lien Requirements (12/22/16)¹³⁶

¹³⁵ MPF Announcement 2019-26 (5/1/19)
MPF Announcement 2016-30 (12/22/16)

Mortgage Loans secured by manufactured housing must meet the following title and lien requirements:

- The Mortgage Loan must be secured by a perfected first lien in accordance with Applicable Laws on real estate that consists of the manufactured home and the land. The lien must be able to be foreclosed in a single real estate proceeding. Documentation evidencing perfection of the lien must be retained in the Mortgage Loan File;
- The manufactured home must meet the requirements of Applicable Laws that permit such property to be conveyed, financed, and encumbered in a single integrated transaction with the land;
- The Security Instrument must:
 - Describe the manufactured home by model year, manufacturer, model, dimensions and serial number;
 - State that the manufactured home is an improvement to the Mortgaged Property and an immovable fixture; and
 - Include the legal description of the land and any other information required by Applicable Laws to identify the manufactured home and document it as real estate.
- The Borrower and the Originator must sign an affidavit that acknowledges their intent for the manufactured home to be made a permanent part of the Mortgaged Property;
- The manufactured home and the land on which it is situated must be owned by the same Person(s) in fee simple. Leasehold estates are not permitted;
- The Mortgage Loan must be covered by a title insurance policy, including an ALTA 7.1 endorsement (or other equivalent endorsements permitted by Applicable Laws). Note that the endorsement does not ensure that the manufactured home has been properly converted to real estate. See Chapter [9.3](#) of the MPF Traditional Selling Guide for title insurance requirements; and
- An insured closing protection letter must be obtained for each Mortgage Loan that is secured by a manufactured home, unless prohibited under Applicable Law.

¹³⁶ MPF Announcement 2016-30 (12/22/16)

6.8.13 Master Commitment Requirements (12/22/16)¹³⁷

No more than 15% of the aggregate principal balance of each Master Commitment may consist of manufactured housing.

¹³⁷ MPF Announcement 2016-30 (12/22/16)

CHAPTER 7. APPRAISAL REQUIREMENTS (12/11/18)¹³⁸

7.1 Appraiser Independence (3/16/17)¹³⁹

All Appraisals must comply with Uniform Standards of Professional Appraisal Practice (USPAP), and all applicable federal, state or local requirements. In addition, appraisers, third parties, or affiliate originators used in conjunction with delivery of an Appraisal under the MPF Program shall adhere to the regulations and requirements established as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Home Valuation Code of Conduct, and Appraiser Independence Requirements. The Originator must have written policies and procedures with respect to the Appraiser Independence Requirements.

The appraiser must not have a direct or indirect interest, financial or otherwise, in the Mortgaged Property or in the transaction. The appraiser must be independent of the origination process. When the appraiser is employed by the Originator in any capacity, the appraiser's position or job duty cannot adversely affect the appraiser's ability to independently estimate the property's value, condition and characteristics. In addition, no employee, director, officer or agent of the Originator, or any other third party acting in any capacity shall influence or attempt to influence the appraiser and appraisal assignment through coercion, extortion, collusion, compensation, inducement, intimidation, bribery, or in any other manner. The appraiser cannot be employed by or affiliated with any interested party as defined in MPF Traditional Selling Guide Chapter [5.23.1](#). Selection criteria should ensure that the appraiser is independent of the transaction and is capable of rendering an unbiased opinion.

An Appraisal prepared by an individual who was selected or engaged by a Borrower, property seller, real estate agent, or other interested party is not acceptable. Re-addressed Appraisals or Appraisal reports that are altered by the appraiser to replace any references to the original client with the Originator's name are not acceptable.

The individuals engaged in the selection process of appraisers for a panel of approved appraisers or substantive appraisal review must be appropriately trained and qualified in the area of real estate appraisals. The Originator's production staff, any person who is compensated on a commission basis upon successful completion of a Mortgage Loan, and any person whose immediate supervisor is not independent of the production staff and process is prohibited from selecting, retaining, recommending, or influencing the selection of an appraiser for an appraisal assignment or for inclusion on a list of appraisers approved or forbidden from performing appraisals for the Originator.

¹³⁸ MPF announcement 2018-60 (12/11/18)

¹³⁹ MPF Announcement 2017-12 (3/16/17)
MPF Announcement 2016-30 (12/22/16)

These individuals shall not have any substantive communication on the valuation, ordering, or managing of an appraisal assignment with the appraiser or appraisal management company. If lines of independence cannot be achieved due to the Originator's small size and limited staff, the Originator must be able to clearly demonstrate that it has prudent safeguards to isolate its collateral evaluation process from influence or interference from its mortgage production staff.

Effective internal controls require that only qualified and adequately trained underwriters, who are not involved in the loan production process, review Appraisals. To maintain independence, the underwriter should not directly report to someone involved in loan production. The underwriting review should include confirming the independence of the appraiser in addition to a comprehensive technical review of the appraiser's analysis prior to making a final credit decision.

The MPF Bank may refuse to accept an Appraisal prepared by a specific appraiser or may notify a PFI that it will no longer accept Appraisals prepared by a given appraiser.

7.2 Appraisal Reports

This section addresses the Appraisal reports that are acceptable under the MPF Program. The following elements are required with all Appraisals:

- A street map that shows the location of the subject property and all comparable sales the appraiser used;
- A sketch of the building improvements or condominium unit with dimensions and calculations used to estimate for gross building area;
- Clear, descriptive photos that show the front and rear of the subject, and a street scene;
- Clear, descriptive photos that show the front of each comparable sale;
- Photos should include any improvements, amenities, conditions, and external influences that materially impact market value or marketability;
- Any other data necessary to provide an adequately supported opinion of market value; and
- Interior Appraisals should also include clear, descriptive photos that show the following:
 - The kitchen, all bathrooms, and the main living area;
 - Examples of physical deterioration, if present; and
 - Examples of recent updates such as restoration, remodeling, and renovation, if present.

7.2.1 FNMA 1004/FHLMC 70: Uniform Residential Appraisal Report (URAR) (12/22/16)¹⁴⁰

Uniform Residential Appraisal Report (FNMA 1004/FHLMC 70) is acceptable to use to appraise one-unit properties, including attached and detached units in PUD projects, and condominium projects that consist solely of detached dwellings.

When completing Form 1004, the appraiser must, at a minimum, do the following:

- Perform a visual inspection of the interior and exterior areas of the Mortgaged Property;
- Inspect the neighborhood;
- Inspect each of the comparable sales, at least from the street;
- Research, verify, and analyze data from reliable public and/or private sources; and
- Report his or her analysis, opinions, and conclusions.

7.2.2 FNMA 1004C/FHLMC 70B: Manufactured Home Appraisal Report

Manufactured Home Appraisal Report (FNMA 1004C/FHLMC 70B) is required for manufactured homes based on interior and exterior property inspections.

The appraiser must, at a minimum, do the following:

- Perform a visual inspection of the interior and exterior areas of the Mortgaged Property;
- Inspect the neighborhood;
- Inspect each of the comparable sales, at least from the street;
- Research, verify, and analyze data from reliable public and/or private sources; and
- Report his or her analysis, opinions, and conclusions.

7.2.3 FNMA 1073/FHLMC 465: Condominium Project (12/22/16)¹⁴¹

Individual Condominium Report (FNMA 1073/FHLMC 465) is used to appraise an attached unit in a condominium project based on an interior and exterior inspection of the Mortgaged Property.

The appraiser must, at a minimum, do the following:

- Perform a visual inspection of the interior and exterior areas of the Mortgaged Property;
- Inspect and analyze the condominium project;
- Inspect the neighborhood;

¹⁴⁰ MPF Announcement 2016-30 (12/22/16)

¹⁴¹ MPF Announcement 2016-30 (12/22/16)

- Inspect each of the comparable sales, at least from the street;
- Research, verify, and analyze data from reliable public and/or private sources; and
- Report his or her analysis, opinions, and conclusions.

7.2.4 FNMA 1025/FHLMC 72: Small Res. Income Property Appraisal Report

Small Res. Income Property Appraisal Report (FNMA 1025/FHLMC 72) is used for all 2–4-unit properties.

The appraiser must, at a minimum, do the following:

- Perform a visual inspection of the interior and exterior areas of the Mortgaged Property;
- Inspect the neighborhood;
- Inspect each of the comparable sales, at least from the street;
- Research, verify, and analyze data from reliable public and/or private sources; and
- Report his or her analysis, opinions, and conclusions.

7.2.5 FNMA 1004D: Appraisal Update and/or Completion Report

Appraisal Update and/or Completion Report (FNMA 1004D) is required for Appraisal updates and/or completion reports for all 1–4 unit Appraisal reports. At a minimum, when completing the Appraisal Update portion of the report, a photograph of the front of the Mortgaged Property must be included.

7.2.6 FNMA 2000/FHLMC 1032: One-Unit Residential Appraisal Field Review Report (12/22/16)¹⁴²

When a field review is required, the appraiser should use the FNMA 2000/FHLMC 1032 (One-Unit Residential Appraisal Field Review Report).

7.3 Appraisal Standards (10/31/17)¹⁴³

An Appraisal must be performed for each Mortgage Loan delivered under the MPF Program.

The Originator is required to document that all appraisers are state-licensed or state-certified in accordance with Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and all applicable state laws and that the state license or certification is active on the effective date of the Appraisal. The appraiser who personally inspected the Mortgaged Property must legibly input

¹⁴² MPF Announcement 2016-30 (12/22/16)

¹⁴³ MPF Announcement 2017-63 (10/31/17)
MPF Announcement 2017-12 (3/16/17)
PFI Notice 2016-12 (9/1/16)

their name, signature, the appraisal firm name, and the state license or certification number on the Appraisal.

When an appraiser trainee is used, the trainee must sign the left side of the appraiser certification section of the Appraisal. The supervising appraiser must sign the right side of the appraiser certification section of the Appraisal and ensure compliance with all Applicable Laws.

The Appraisal must be computer-generated (Adobe Format, PDF) on the current form applicable to the product and property type, with no blanks, alterations, or omissions. It must include the appropriate attachments or addenda, and color pictures are required. The Appraisal must present a complete and accurate evaluation of the Mortgaged Property that supports the appraised value.

There are three methods for determining market value: the sales comparison analysis, cost approach, and the income approach. The appraiser must reconcile the valuation methods required on the Appraisal form, stating the approach relied upon most heavily and the rationale for the value conclusion.

7.3.1 Appraisal Age (3/16/17)¹⁴⁴

The effective date of the Appraisal must be no more than 12 months prior to the Note date. (See Chapter 7.15 for appraisal age requirements for properties impacted by a major disaster). If the Appraisal is more than 120 days old on the Note date, then an Appraisal Update and/or Completion Report (FNMA Form 1004D/FHLMC 442) must be completed by the original appraiser or a qualified appraiser from the same firm approved by the Originator and must include an exterior inspection of the Mortgaged Property. If the appraiser indicates on the Appraisal Update and/or Completion Report that the Mortgaged Property has declined in value, then a new full Appraisal must be completed.

An Appraisal obtained during a previous mortgage transaction originated by the same Originator to the same Borrower may be used, provided the following requirements are met:

- The Appraisal age requirements above are met;
- The new transaction is a limited cash-out refinance; and
- The Originator ensures that the property has not undergone any significant remodeling, renovation, or deterioration that would materially affect the market value of the property.

7.4 Zoning Compliance (12/22/16)¹⁴⁵

¹⁴⁴ MPF Announcement 2017-12 (3/16/17)

¹⁴⁵ MPF Announcement 2016-30 (12/22/16)

The Mortgaged Property must be zoned as "residential". "Highest and best use as improved" must be the present use indicated on the Appraisal (any other indications of "highest and best use" are not acceptable) and the Mortgaged Property's use must be residential. In addition, the appraiser should provide a general statement with respect to what the zoning permits, regardless of zoning classification. The appraiser must explain any change in land use. Present improvements should conform to zoning regulations. If the zoning is not "residential" and the use a "legal conforming use", the Originator must further review the zoning compliance and determine eligibility as follows:

- If the Mortgaged Property is subject to certain land-use restrictions that create setback lines or other provisions that prevent the reconstruction if the improvements are damaged or destroyed, then the property is ineligible;
- If the Mortgaged Property is zoned "legal" but "non-conforming" due to neighboring land use, the Mortgaged Property may be eligible provided the Appraisal analysis addresses the adverse effect that the non-conforming use has on the value and marketability of the Mortgaged Property;
- If the Mortgaged Property is zoned "legal, but "non-conforming" due to density restrictions but allows for re-construction to current density in the event the Mortgaged Property is partially or fully destroyed, the Mortgaged Property is eligible provided the Mortgage Loan File includes either a copy of the applicable zoning regulations or a letter from the local zoning authority that authorizes reconstruction to current density;
- If the Mortgaged Property is zoned "legal", but "non-conforming" and cannot be rebuilt in the event of partial or full destruction, or if the property is "illegal," then the property is ineligible; or
- If the Mortgaged Property is not subject to zoning or is located in a rural area, the surrounding property should be compatible with residential usage.

7.5 Adverse Environmental Conditions

Properties with material environmental hazards and properties located in neighborhoods where material environmental hazards exist are not eligible.

An exception to this requirement is permitted if the following requirements are met:

- The appraiser is informed of the condition of the Mortgaged Property when the Appraisal is ordered;
- The conditions were evaluated and determined to have no impact on the investment quality of the Mortgage Loan;
- The Mortgage Loan File must contain a description of the conditions and their location relative to the Mortgaged Property, along with and the Originator's opinion on the investment quality of the Mortgage; and

- The Mortgage Loan File must contain evidence of the corrective action as required by an inspector or appraiser. Removal or remedy of such hazards, if required, must be completed prior to the Note date.

Environmental conditions that may have a negative effect on value and marketability — such as proximity to a hazardous waste site, contamination of the Mortgaged Property or a nearby site, the presence of radon gas or asbestos, etc. — must be disclosed to the Borrower and the appraiser. The Appraisal must identify and fully explain the effect these conditions have on the value, marketability and safety of the Mortgaged Property. Comparables should have similar environmental conditions and fully support the value and marketability of the Mortgaged Property.

7.6 Changes in Value

If an increase in value is due to remodeling or renovation of the Mortgaged Property, the appraiser must provide acceptable photos of all improvements to support the increase.

Additional information may be required from the seller to document an increase in value. A desk review, field review, or second Appraisal may be requested if deemed necessary.

7.7 Prior Sales Activity

The appraiser must provide and analyze prior sales activity or transfers for the last thirty six (36) months or the minimum period required by Applicable Law, whichever is greater, for the Mortgaged Property and last twelve (12) for the comparables. The effect on the value of the Mortgaged Property and comparables of prior sales and transfers must be described. Adverse value trends need to be identified and explained. If the information and analysis was not provided, the appraiser must explain why it was not performed.

7.8 Comparable Sales

This section provides requirements for selecting comparable sales.

7.8.1 General Requirements (12/22/16)¹⁴⁶

Appraisals must include at least three (3) comparable sales that have closed within six (6) months prior to the effective date of the Appraisal. In some markets, compliance with this requirement may be difficult or not possible due to the lack of market data. In this case, a detailed explanation is required. The appraiser is expected to include two (2) sales that are as similar as possible to the Mortgaged Property, in order to show recent market activity, including the following:

¹⁴⁶ MPF Announcement 2016-30 (12/22/16)

- At least three (3) comparables must be closed sales and must be included on the Appraisal grid. Current listings or pending sales may be used in addition to the three (3) closed sales to support the Appraisal data and value of the property;
- At least two (2) comparable sales should be located within one (1) mile of the Mortgaged Property (an exception is made for rural properties where comparables may be farther away). Any comparables greater than one (1) mile from the Mortgaged Property must be explained by the appraiser;
- Appraiser must provide data on market trends in the subject area;
- Appraiser must address declining property values, any over-supply, or marketing times over six months;
- Appraiser must address the impact on marketability and value of both favorable and unfavorable factors;
- Appraiser must evaluate any sales concessions for their effect on the marketability of the property;
- Appraiser must avoid using subjective, racial or stereotypical terms, phrases, or comments within the Appraisal report;
- Days on the market must be reported for the Mortgaged Property and each comparable sale and must support the average marketing time listed on page one of the Appraisal report;
- The appraiser must provide and analyze prior sales activity or transfers for the last thirty six (36) months or the minimum period required by Applicable Law, whichever is greater, for the Mortgaged Property and last twelve (12) for the comparables. The effect on the value of the Mortgaged Property and comparables of prior sales and transfers must be described. Adverse value trends need to be identified and explained. If the information and analysis was not provided, the appraiser must explain why it was not performed; and
- The final value of the Mortgaged Property must reflect the most reliable sales data, not an average of the three (3) comparables.

7.8.2 New Projects/New Subdivision Requirements (10/31/17)¹⁴⁷

The following are required for new construction:

- One (1) closed comparable is required from inside the subject development/project;
- At least one (1) closed comparable is required from outside the development/project and/or from outside the influence of the developer;

¹⁴⁷ MPF Announcement 2017-63 (10/31/17)
MPF Announcement 2016-30 (12/22/16)

- Additionally, if possible, a minimum of two (2) resale comparables should be provided to verify that current transactions have been exposed to the open market; and
- If resales cannot be obtained, the appraiser must address and adequately support the final valuation of the Mortgaged Property.

When there are no closed sales within a new project or subdivision, two pending sales from the project or subdivision may be used in place of one closed sale. In this instance, three closed comparables from outside the project or subdivision are also required.

An appraiser may need to rely on a builder in order to provide comparable sales data within the subject property's subdivision or project. In such a circumstance, the appraiser may rely on the builder's copy of the final settlement statement, signed by all parties, to verify the transaction of the comparable sale if the data is not yet available through typical data sources, such as public records or multiple listing services.

7.9 Marketability/ Predominant Value

The Mortgaged Property must be located in a market area of similarly priced homes. The relationship between appraised value and predominant value should be reasonable. A Mortgaged Property with a value significantly in excess of the predominant value may be ineligible. Typically, the Mortgaged Property value should not exceed 50% of the market area's predominant value.

7.10 Lot Size (Acreage) (12/22/16)¹⁴⁸

A Mortgaged Property should not contain excess acreage as compared to like properties within its market. The lot size described in the Appraisal should correspond to the legal description provided in the Security Instrument, the final title policy/attorney's opinion, public records and, if provided, the survey. The underwriter should review the sales comparison analysis approach to determine if the comparables support the acreage and location of the Mortgaged Property.

The appraiser and the underwriter must address the acreage issue and the residential nature must be the highest and best use of the Mortgaged Property. If the land value is higher than the area norm, the appraiser must adequately explain the impact.

7.11 Adjustments (7/24/17)¹⁴⁹

¹⁴⁸ MPF Announcement 2016-30 (12/22/16)

The size of the adjustments indicates the extent of differences between the comparables and the Mortgaged Property. Large adjustments must be fully explained by the appraiser. Large adjustments for site / view, design and appeal, quality of construction, age, or condition may be an indication that the comparables are not truly comparable.

Adjustments must be consistent for all comparables. Total gross adjustments for two (2) of the three comparables must not exceed twenty-five percent (25%) of the sales price. Individual line adjustments for two (2) of the three comparables must not exceed ten percent (10%) of the sales price.

One-directional adjustments need further explanation. Property value may be inflated when all of the comparables are significantly superior or inferior to the Mortgaged Property. When all of the adjustments are positive or all are negative, the valuation may be questionable.

See Chapter [6.1.4.1](#) for rural properties adjustment requirements.

7.12 Cost Approach

The cost approach method estimates value by determining the cost of reproducing the Mortgaged Property using current material prices, then subtracting estimated depreciation, and then adding the value of the site and site improvements. The cost approach method must be used for manufactured homes.

The site value and the proportion of the value of the site to the value of the residence must be in line with other values in the neighborhood. The cost per square foot should also be in line with other properties in the area.

The appraiser must make adjustments for any physical, functional, and external depreciation.

7.13 Income Approach

The income approach bases the value on the amount of income the Mortgaged Property could generate from rent. This approach may be used for two- to four-unit properties. The income

¹⁴⁹ MPF Announcement 2017-37 (7/24/17)

approach may not be the sole method used to determine the value of the Mortgaged Property. Comparable sales must be used to support the value determination.

7.14 Improvements/Comments Section (12/22/16)¹⁵⁰

In this section of the Appraisal, the Originator should look for those physical features most like other similarly sized dwellings in the market area. Construction components and special features should be similar to the other properties in the marketplace. Certain characteristics that are not similar, for example, a room list that is not typical or amenities that do not meet market expectations, may negatively affect market appeal. The appraiser must comment on the effects the nonconformity has on value and marketability.

Curable structural factors may be acceptable under certain conditions when properly justified.

Condition of improvements

The property improvements should be at least in average condition and not negatively affect either the livability or marketability of the property. Minor cosmetic deficiencies are not a major concern. The condition of the major components such as the roof, foundation, plumbing, electrical, and heating, may be an issue.

The comparables should support a market demand for similar properties by reasonable proximity to the subject rather than being located in a different section of the city or town.

Additional Features(including Energy Efficiency Improvements)

The appraiser should describe all additional features of a property. Over-improvements and limited market appeal features (e.g. gold fixtures and extensive sound systems) should be adjusted to reflect market demand rather than cost.

Additional builder options on newly constructed properties should be reviewed carefully. For example, if the subject has \$5,000 in options, such as upgraded wall coverings, carpeting and built-ins, the appraiser must be careful that the costs of these items are truly reflected in the resale market. Often the options do not recapture dollar-for-dollar cost in market value. At least one comparable sale should have options or extras similar to the subject's. Furniture, fixtures and other personal property cannot be included in the market value of a property and are considered sales concessions.

¹⁵⁰ MPF Announcement 2016-30 (12/22/16)
PFI Notice 2016-12 (9/1/16)

Homes with energy efficiency improvements are eligible under the MPF Program when marketability can be justified through comparable sales and any additional cost is supported by the market. The Originator should underwrite these properties based on the evaluation of the individual loan and not require special documentation or ratio guidelines for energy-efficient properties.

Off-site Improvements

Private road maintenance should be identified. Further explanation may be necessary if the condition or adequacy of a private road is not typical.

7.15 Properties Located in Major Disaster Areas (5/1/19)¹⁵¹

A Major Disaster area is defined as a county, municipality or parish, that has been identified as a Declared Disaster area by the Federal Emergency Management Agency (FEMA) (see www.fema.gov). Where a mortgage loan that is being delivered into the MPF Program is secured by a property located in a Major Disaster area it must meet all MPF Program requirements, including the requirements in this section.

The appraiser of these types of properties and underwriter of mortgage loans secured by these types of properties must make additional considerations when completing or reviewing an appraisal report. Although the definition of a Major Disaster area in this Guide does not include state or locally declared disasters, Originators should use their knowledge of particular geographic areas to determine when to submit a request to their MPF Bank and/or the Master Servicer (as applicable) to apply the Major Disaster related requirements of the Guides to loans affected by natural disasters that are not Major Disasters, or when they encounter a particular situation they wish to address that does not meet MPF Program Major Disaster related requirements.

The PFI is required to ensure that, on the date the Mortgage Loan is delivered into the MPF Program:

- The Mortgage Loan meets all the MPF Program requirements;
- No proceeding is pending for condemnation of all or any portion of the Mortgaged Property;
- The Appraisal for the subject property is dated no more than 180 days before the note date.
- There are no adverse circumstances involving the Mortgage Loan, the Mortgaged Property or the credit worthiness of the Borrower that would reduce the value or marketability of the Mortgage Loan or Mortgaged Property;

¹⁵¹ MPF Announcement 2019-26 (5/1/19)
MPF Announcement 2019-11 (1/28/19)
PFI Notice 2016-12 (9/1/16)
MPF Announcement 2018-39 (8/13/18)

- The PFI must be able to make all loan delivery related representations and warranties.

Property Appraisals in Major Disaster Areas

When determining the value and marketability of a property located in a Major Disaster area, the appraiser must consider neighborhood characteristics using post-Major Disaster area comparable sales to support the value opinion. If there are limited post-Major Disaster area comparable sales available, the appraiser may need to utilize pre-Major Disaster area comparable sales to supplement the post-Major Disaster Area comparables. If the appraiser cannot arrive at an accurate assessment of market value as derived through analysis of both the property and neighborhood characteristics, the mortgage loan is not eligible for delivery under the MPF Program. The MPF Program will not recognize limiting conditions beyond those that are standard to industry appraisal forms.

When an Appraisal Waiver is offered on a property located in a Major Disaster area, PFIs may only exercise the offer if it is more than 120 days after the disaster ended. PFIs must still ensure the Mortgage Loan meets all other Guide requirements, including Appraisal Waiver requirements.

If the DU Appraisal Waiver offer contains a message that identifies the property as being located in an area that may have been impacted by a recent disaster, the PFI may continue to use the Appraisal Waiver if it takes prudent and reasonable actions to determine whether the condition of the property has been materially impacted by the disaster, and if it complies with the property eligibility requirements that pertain to properties affected by a disaster in the Guides.

'As-Is' Versus 'As-Repaired' Appraisals

Properties located in Major Disaster areas must be appraised based on exterior and interior inspections. If no conditions exist that affect the habitability or structural integrity of the property, the Appraisal can be based on the 'as-is' condition of the property.

If conditions exist that the appraiser determines do affect the habitability or structural integrity of the property, the property must be appraised subject to completion of certain alterations or repairs ('as repaired'). The Originator must obtain a completion report from the appraiser indicating that all repairs have been completed prior to the Mortgage Loan being delivered under the MPF Program. In the event that such repairs which do not affect the habitability or structural integrity cannot be completed prior to delivery of the Mortgage Loan, an escrow for completion can be established.

Appraisals with Supplemental Statements or Limiting Conditions

If the appraiser cannot arrive at an accurate assessment of market value as derived from a thorough analysis of property and neighborhood characteristics, the mortgage loan is not eligible for delivery under the MPF Program.

Properties Damaged After Date of Appraisal

A PFI delivering a mortgage loan into the MPF Program that is secured by a property that is, at the time of delivery, located in a Major Disaster area, but for which the appraisal is dated prior to the declaration of the disaster, the PFI must take prudent and reasonable actions to determine whether the condition of the property has materially changed since the effective date of the Appraisal. This would include determining if an inspection or new Appraisal of the property is required to support its representations and warranties.

7.16 Reconciliation Section (3/16/17)¹⁵²

In the reconciliation section of the Appraisal, the final value used for the “Certification of Appraisal and final value” must reflect the most reliable sales data, not an average of the three (3) comparables.

If the PFI considers an Appraisal report deficient, it should address the deficiencies as follows:

- Contact the appraiser to address deficiencies contained in the Appraisal report;
- Obtain a desk review or a field review of the original Appraisal report; or
- Obtain a new Appraisal report on the Mortgaged Property.

It is not acceptable for the PFI to arbitrarily change the opinion of market value from an Appraisal report, regardless of how the PFI arrives at such conclusions (such as averaging the two opinions of market value, etc.) in order to arrive at a final value.

The PFI may return the Appraisal report to the appraiser who completed the assignment, identifying the deficiencies found, and provide justification for the request that the appraiser address the deficiencies.

If the Appraiser fails to address the deficiencies, a desk or field review of the original Appraisal report may be requested or a new Appraisal may be completed. If a review Appraisal is requested, the appraiser completing the review must be licensed in the state in which the Mortgaged Property is located and possess the knowledge and experience to appraise the Mortgaged Property with respect to both the property type and geographical location. If a new Appraisal is completed, the new Appraisal must be based on the same level of inspection required for the original Appraisal report.

¹⁵² MPF Announcement 2017-12 (3/16/17)
MPF Announcement 2016-30 (12/22/16)

The property value indicated in the review or new Appraisal must be used. Use of the value from the original appraiser is not acceptable.

The Mortgage Loan File must be documented when addressing any Appraisal deficiency with the underwriter's actions and determination to accept final property value and eligibility. In the event an Originator has a reasonable basis to believe an appraiser or appraisal management company is violating Applicable Laws, or is otherwise engaging in unethical conduct, it shall promptly refer the matter to the applicable state appraiser certifying and licensing agency or other relevant regulatory body in accordance with the Applicable Laws or applicable regulatory agency requirements.

7.17 Restrictions

Reasonable local, state, or federal restrictions on the maximum number of occupants permitted to occupy a dwelling unit are acceptable as long as such limitations are applied to all occupants and do not discriminate on the basis of race, age, color, religion, gender, national origin, handicap, or familial status.

If any occupancy restrictions are noted in the purchase contract, Appraisal, title commitment, or in the project covenants/restrictions that appear not to apply to all occupants, careful analysis must be made to determine whether the loan is eligible.

7.18 Race or Racial Distribution

Any mortgage supported by an Appraisal that discloses race or the racial distribution of a neighborhood is ineligible.

7.19 Neighborhood (12/22/16)¹⁵³

The neighborhood of the property must be acceptable as collateral for a Mortgage Loan under the MPF Program. The appraiser must take all data, influences and factors into consideration including regulations, laws and taxes that are imposed on properties. Factors that affect the marketability of the neighborhood (such as proximity to employment and amenities and appeal to market) should be described. Analysis should include economic trends, location influences and neighborhood amenities. Market conditions and trends should be supported by statistical information.

7.20 Drainage/Flood Hazard (12/22/16)¹⁵⁴

¹⁵³ MPF Announcement 2016-30 (12/22/16)

¹⁵⁴ MPF Announcement 2016-30 (12/22/16)

Drainage problems or the existence of a flood hazard condition should be addressed by the appraiser. Such conditions or major problems may require physical correction or flood insurance.

CHAPTER 8. OTHER PROPERTY TYPES

This chapter provides guidelines for evaluating condominium and planned unit development (PUD) project eligibility. The intent of the project review is to assess the marketability and long-term stability of the project. Current market conditions and comparable sales on the Appraisal, if an Appraisal is obtained, provide information on the Mortgaged Property's marketability.

The project guidelines and documentation requirements in this chapter are applied to Mortgaged Properties that are part of condominiums or PUDs in addition to the standard property appraisal review guidelines.

8.1 Planned Unit Development

A Planned Unit Development (PUD) is a parcel of land that contains common elements and improvements that are owned and maintained by a homeowners association, corporation or trust. The common elements are for the benefit and use of the individual homeowners within the PUD. The housing units may be attached or detached. The individual homeowners must own or have a leasehold interest in a parcel of land improved with a dwelling that is not shared in common with other unit owners.

The unit owners must have an automatic, non-severable interest in the homeowners association and pay mandatory assessments.

The pre-sale and owner occupancy requirements that apply to condominium projects do not apply to PUDs, provided that the appraiser does not indicate marketability problems. If the appraiser indicates marketability problems, a review of the project must be performed to determine whether there may be an adverse impact on the value or marketability of the Mortgaged Property.

Requirements for 1- to 4-unit properties apply to similar residential properties within a Planned Unit Development (PUD).

A PUD project is ineligible if:

- The project contains two- to four-unit properties;
- The project contains manufactured housing;
- The project contains space devoted to commercial use; or
- The project is a multi-dwelling unit PUD project that permits an owner to hold title to more than one dwelling unit with ownership of all his units evidenced by a single deed and mortgage are ineligible.

8.2 General Condominium Eligibility Requirements (9/1/16)¹⁵⁵

The following guidelines apply to all condominium projects. Project information may be reported by the appraiser, disclosed by the homeowners association or developer, shown on the purchase contract, or obtained through a review of the homeowners association certificate or other condominium documents. The homeowners association assessment must be based upon either the size of the unit or the ratio to the total number of units in the project. The assessment cannot be based on the sales price of the unit. The charges for interior and exterior maintenance must be included in the assessment as the responsibility of the homeowners association.

8.2.1 Single Entity Ownership

The maximum allowable number of units that may be sold to or owned by a single entity are as follows:

- Projects with 2– 4 units: 1 unit allowed;
- Projects with 5–20 units: 2 units allowed; and
- Projects with 21 or more units: 10% of total units allowed.

8.2.2 Commercial Use

Commercial use within the project may not exceed 25% of the total square footage for the project and should be compatible with residential use.

8.2.3 Right of First Refusal

Any right of first refusal in the condominium project's constituent documents may not impair the rights of a first mortgagee to:

- Foreclose or take title to a condominium unit pursuant to the remedies contained within the security instrument;
- Accept a deed in lieu of foreclosure in the event of default by a mortgagor; or
- Sell or lease a unit acquired by the mortgagee.

8.2.4 Mortgagee Rights

The condominium project's constituent documents must provide for a written notice to the mortgagee in the event of any of the following:

- Condemnation or casualty loss that affects a substantial part of the project or the unit secured by the mortgage;

¹⁵⁵ PFI Notice 2016-12 (9/1/16)

- The owner of the unit securing the mortgage becomes sixty (60) days or more delinquent on HOA dues;
- There is a lapse, cancellation, or substantial change in the insurance coverage for the HOA; and
- There is any proposal made requiring agreement from a certain percentage of mortgagees.

8.2.5 Adverse Environmental Factors

Any adverse environmental factors affecting the condominium project must be addressed by the appraiser.

Any factors affecting safety, habitability, or marketability of the unit or project will render the project ineligible.

8.2.6 Litigation

If the HOA is involved in any litigation, arbitration, mediation, or other dispute resolution process, additional details must be obtained from the HOA. This information should be verified with an attorney's letter, insurance information, structural report, and/or other documentation.

The following types of litigation generally pose little or no risk to the project and are acceptable:

- HOA is suing individual owners for unpaid dues or assessments;
- HOA is being sued for a "slip and fall" liability issue and the project has adequate liability insurance to cover the damages being sought by the plaintiff; and
- Other suits filed by the HOA that do not impact the value or livability of the project are generally acceptable.

The following types of litigation may impact the project's marketability and are generally not acceptable:

- HOA is suing the developer for structural defects or other property deficiencies that impact health and safety. However, the project may be acceptable if the defects have been corrected and the project is financially sound and marketable; and
- Suits filed against the HOA in which the damages exceed or are not covered by the HOA's insurance.

Projects involved in pending litigation (i.e., lawsuit has not yet been filed) may be approved when the risk to the project is assessed and it is determined that:

- HOA insurance will cover potential damages; or
- HOA is in a position to benefit from the lawsuit.

8.2.7 Delinquent HOA Dues

For condominium projects with more than four (4) units, no more than 15% of the unit owners may be delinquent by more than sixty (60) days on their HOA dues.

For two- to four-unit projects, no unit owners may be sixty (60) days or more delinquent on HOA dues.

8.2.8 Insurance

The entire condominium project insurance policy must be reviewed to ensure coverage complies with MPF Program Requirements. See Selling Guide Chapter [9](#).

Projects with a pooled insurance policy are ineligible.

8.2.9 Agreement for Professional Management

Any agreement or contract for services of the builder, developer, sponsor, or a professional management firm or the condominium project must not exceed three (3) years. Any such agreement or contract must provide for termination by either party without cause and without payment of a termination fee on ninety (90) days or less written notice.

8.2.10 Taxes, Assessments and Charges

If Applicable Laws mandate that liens for taxes, assessments, and charges become priority liens over the Security Instrument, the liens must relate only to the individual condominium unit and not to the entire condominium project.

8.2.11 Actions of Homeowners' Association

When condemnation or a major loss occurs to the units and/or common elements of a project, a written approval by two-thirds (2/3) majority of the individual unit owners or their first mortgagees shall be required for the homeowners association to take the following measures:

- Abandon or terminate the condominium project, intentionally or inadvertently;
- Partition or subdivide any condominium unit;
- Abandon, partition, subdivide, encumber, sell, or transfer the common elements by act or by omission. The granting of easements for public utilities or other public purposes consistent with the intended use of the common elements within the meaning of this provision;
- Use Insurance Proceeds for losses to any condominium property, whether individual units or common elements, for any purpose other than the repair, replacement, or reconstruction of the property; and/or

- Change the pro rata interest or obligations of any unit in order to levy assessments or charges, allocate distribution of Insurance Proceeds or condemnation awards, or to determine the pro rata share of ownership of each unit in the common elements.

8.2.12 Phasing or Add-Ons

Any proposal or plan subjecting the condominium project to phasing or add-ons must comply with the following limitations:

- The real property must be described in the declaration of condominium;
- A condominium unit owner's undivided interest in the common elements must be stated in the declaration of condominium, master deed, or a similar instrument which will become subject to the condominium project if the alternative percentage becomes effective. The conditions whereby a change in that percentage may take place are fully described in the declaration provisions; and
- No change in the percentage interests in the common elements may be effective pursuant to such phasing or add-on plan more than seven (7) years after the declaration of condominium becomes effective.

8.2.13 MPF Bank's Rights Confirmed

No provision of the condominium document may give a condominium unit owner or any other party priority over any rights of the PFI, Servicer, or the MPF Bank, pursuant to the Security Instrument in the event of payment to the unit owner of Insurance Proceeds or condemnation awards for major losses to the condominium unit and/or common elements.

8.2.14 Amenities

All amenities of the project, such as the parking areas, recreation areas, and service areas must be covered by the Security Instrument to at least the same extent as the common elements. If any amenities are not completed as of the Note date for a particular Mortgage Loan, the sales contract must provide for a completion date and the necessary recourse measures in lieu of default or delay by the seller.

8.2.15 Age of Project Eligibility Determination

The maximum age of the Originator's project eligibility determination as of the Funding Date is:

- One (1) year for existing condominium projects; or
- Six (6) months for a new condominium project.

8.3 Condominium Project Classification Standards

This section covers the requirements for established projects and new projects.

8.3.1 Established Condominium Projects

Established condominium projects must meet the following requirements:

- At least ninety percent (90%) of all units are sold and closed;
- If the Mortgaged Property is a second home, at least fifty percent (50%) of all units in the project must be conveyed to principal residence or second home purchasers;
- The homeowners association is under the control of the unit owners;
- Project is not subject to additional phasing or annexation;
- All units and amenities are completed; and
- All units that have been conveyed must be owned in fee simple, and all unit owners must have exclusive ownership in the rights to use the amenities and common elements. The amenities, common elements or facilities may not be subject to a lease between the unit owners or the homeowners association and another party.

8.3.2 New Condominium Projects

A new condominium project or an existing building that was recently or is being converted to a condominium project is considered a new or newly converted condominium project if less than ninety percent (90%) of all units are sold and closed. New or newly converted condominium projects must meet the following requirements:

- Minimum presale requirements:
 - At least fifty percent (50%) of all units (or the Mortgaged Property's legal phase*) must be conveyed to principal residence or second home purchasers;
 - For small condominium projects with 2-4 units, no more than one (1) unit in the project may be conveyed and occupied as an investment property;

*To consider a Mortgaged Property's legal phase in lieu of all units in the condominium project, the Mortgaged Property's legal phase must be "substantially" completed. A legal phase is considered "substantially" complete when:

- A certificate of occupancy or other substantially similar document has been issued by the applicable governmental agency for the project or Mortgaged Property's legal phase;
- All the units in the building that contains the Mortgaged Property are complete, subject to the installation of common and customary buyer selection items;

- If the legal phase contains more than one building or structure, each must be 100% complete. Note that for manually reviewed new condominium projects, a single building cannot contain more than one legal phase; and
- Any additional phases or add-ons meet the requirements the following requirements:
 1. The real property shall be described in the declaration of condominium;
 2. A condominium unit owner's undivided interest in the common elements must be stated in the declaration of condominium, master deed, or a similar instrument which will become subject to the condominium project if the alternative percentage becomes effective. The conditions whereby a change in that percentage may take place are fully described in the declaration provisions; and
 3. No change in the percentage interests in the common elements may be effective pursuant to such phasing or add-on plan more than seven (7) years after the declaration of condominium becomes effective.

For two- to four-unit condo projects, all units and common elements must be 100% complete and may not be subject to additional phasing.

If the condominium unit owners are in control of the homeowners association, there must be a sufficient number of occupying unit owners to competently manage the homeowners association and support the budget required to fund the homeowners association budget; and

All units that have been conveyed must be owned in fee simple, and all unit owners must have exclusive ownership in the rights to use the amenities and common elements. The amenities, common elements or facilities may not be subject to a lease between the unit owners or the homeowners association and another party.

No more than 30% of the units in the project may be subject to rent regulations (i.e. regulations that protect the tenant from eviction).

Two- to Four-Unit Projects

For new or newly converted condo projects consisting of two- to four-unit properties, the following restrictions apply:

- All units and common elements in the project must be 100% complete. The project may not be subject to any additional phasing; and
- All except (1) unit in the project must be conveyed or under contract for sale to Primary Residence or second home buyers.

8.4 Ineligible Projects

All attached or detached Planned Unit Developments (PUDs) and condominiums must include a review of the project ineligibility characteristics for eligibility verification.

The following project types are ineligible:

- Timeshare, fragmented, or segmented ownership projects
- New condominium projects where the seller is offering any of the following:
 - Contributions in excess of the maximum interested party contribution limits permitted in this Selling Guide;
 - Contributions or concessions that are not fully disclosed on the final Settlement Statement;
 - Payment abatements of any homeowners association dues; and
 - Concessions to financing terms, including but not limited to below market interest rates or payment abatements.
- Newly converted non-gut rehabilitation projects containing more than four attached units that have not been approved through Fannie Mae's Project Eligibility Review Servicer (PERS);
- Projects that split ownership of the property or restrict the owner's ability to occupy the unit;
- Projects with mandatory rental pooling agreements that require the unit owners to either rent their units or to give a management firm control over the occupancy of the units;
- Projects that include weekly and/or daily rentals or projects with units that are marketed for sale based on the availability of short term rental rates;
- Student housing projects;
- Multi-dwelling unit condominiums;
- Projects that include manufactured housing units;
- Common interest apartment (also known as a community apartment or own-your-own);
- Projects that have documents on file with the Securities and Exchange Commission, or projects where unit ownership is characterized or promoted as an investment opportunity;
- Legal nonconforming projects where the appropriate local zoning and/or local statutes do not permit the reconstruction of the current property improvements and current density in the event of partial or full destruction;
- Projects with required membership fees for use of recreational spaces owned by a party other than the HOA or master association;

- Houseboat condominium projects (or any projects with property that is not real estate);
- Projects that are continuing care facilities;
- A project with non-incidental business operations owned or operated by the homeowners association such as, but not limited to, a restaurant, spa, health club, etc.;
- Projects in which the condominium units are subject to ineligible Private Transfer Fee Covenants;
- Projects for which the project sponsor, homeowners association, or developer (if the project has not been turned over to the homeowners), is a party to current litigation, except for “minor” litigation that may have little or no impact on the safety, structural soundness, habitability, or functional use of the project. “Minor” litigation is defined as:
 - Non-monetary litigation involving neighbor disputes or rights of quiet enjoyment;
 - Litigation for which the claimed amount is known, the insurance carrier has agreed to provide the defense, and the amount is covered by the homeowners association’s insurance; or
 - Actions in the normal course of business to collect HOA dues and assessments;
- Condominium hotels
- Projects that have been converted from a resort, hotel, motel, lodge (or any other property type that was used for temporary living arrangements), unless the project is an established project, meets all requirements for gut rehabilitation projects and all units are residential dwelling units.

The following are characteristics within resort destination areas should be utilized to identify projects that are ineligible:

- Voluntary or mandatory revenue sharing agreements;
- Mandatory rental pool agreements;
- Occupancy restrictions mandated by the zoning;
- Timeshare, live/work, or segmented ownership projects;
- Transactions under which the Borrower will own more than one unit in the project;
- The project name includes “hotel,” “motel,” “inn,” “resort,” or “lodge”;
- The project shares facilities with a hotel or motel;
- The project is in an area zoned primarily for transient accommodations;
- The unit is in a building that functions like a traditional condominium, yet the project contains additional resort type amenities or other buildings with resort type amenities;
- The unit is fully furnished;

- The unit does not have a full kitchen;
- The unit is less than four hundred (400) square feet; and
- The project provides any of the following services:
 - Management desk;
 - Bellman;
 - Daily maid service;
 - Food service;
 - Telephone service;
 - Centralized utilities (e.g., central telephone or cable); and
 - Centralized key system not in negotiated terms.

8.5 Unpaid HOA Assessments

In the event that the PFI or the MPF Bank obtains title to a condominium unit, either through Foreclosure or pursuant to the remedies in the Security Instrument, the MPF Bank will not be liable for more than six (6) months of the unit's unpaid, regularly budgeted homeowners association assessments or charges accrued before the PFI's acquisition of the title. If the homeowners association has a priority lien for the costs of collecting unpaid assessments, the PFI will be responsible for those fees or costs related to that lien and for protecting the priority of the Mortgage lien.

8.6 Project Eligibility (10/31/17)¹⁵⁶

The Originator must use one of the methods in this section to determine if a condominium project is eligible. The Originator should use the Fannie Mae Condominium Project Questionnaire ([Full Form – 1076](#) or [Short Form – 1077](#)) or an equivalent for assistance in determining project eligibility and should retain the questionnaire in the Mortgage Loan File.

A project review is not required for PUDs and site condominiums that meet the PUD and site condominium policies in this Guide.

8.6.1 Limited Review (5/1/19)¹⁵⁷

¹⁵⁶ MPF Announcement 2017-63 (10/31/17)

MPF Announcement 2016-30 (12/22/16)

¹⁵⁷ MPF Announcement 2019-26 (5/1/19)

MPF Announcement 2018-60 (12/11/18)

A limited review may be conducted for an attached unit in an established project . Manually underwritten loans and loans underwritten through DU and Loan Product Advisor are eligible for a limited review.

To be eligible for a limited review, the following requirements must be met:

- The Appraisal, if an Appraisal was obtained, complies with all standard appraisal requirements in this Selling Guide;
- The insurance in force complies with all applicable insurance requirements;
- Attached units in established projects must meet the LTV/TLTV requirements below:

Limited Review of Attached Units in Established Projects Located Outside Florida	
Occupancy Status	Maximum LTV/TLTV
Primary Residence	80%
1 Unit Second Home	75%

Properties in Florida must comply with different LTV ratio requirements. See Selling Guide Chapter [8.6.5](#).

Originators are encouraged to use the Condominium Project Questionnaire – Short Form (Fannie Mae Form 1077/Freddie Mac Form 477) to assist with determining condominium project eligibility. If this form is used, it must be retained in the Mortgage Loan File.

If a project is ineligible for a limited review, then another review method must be used.

8.6.2 Full Review (5/1/19) ¹⁵⁸

The full review may be conducted for attached units in new and established condominium projects, provided that the following requirements are met:

- The Appraisal, if an Appraisal was obtained, complies with all applicable appraisal requirements in this Selling Guide;
- The insurance in force complies with all applicable insurance requirements in this Selling Guide;
- The HOA's budget must have sufficient funds to support the project, and at least ten percent (10%) of the HOA's total budget must be allocated toward a reserve fund for maintenance, repairs, and replacement of the common elements. (Projects with two- to four-units are exempt from this requirement);

¹⁵⁸ MPF Announcement 2019-26 (5/1/19)

The HOA budget requirement does not apply to two- to four-unit projects.

- The project must be on contiguous parcels of land. It is permissible for streets to divide the project;
- The unit owners must have exclusive ownership and use of the common elements and amenities;
- Parking spaces may be financed as part of the Mortgage Loan if the parking space and unit are on one deed as demonstrated by the legal description. The LTV and TLTV must reflect the value of the parking space and the unit; and
- If the project is a gut rehabilitation project (defined as a project where major components such as the roof, HVAC system, electrical, and plumbing were replaced) that was completed during the past three (3) years, then a licensed engineer's report must be obtained that indicates the structural integrity of the building and the condition of the major components are acceptable.

Newly converted non-gut rehabilitation projects with more than four (4) units must be reviewed using Fannie Mae's PERS process. Newly converted non-gut rehabilitation projects with less than four (4) units may be reviewed using the full review process.

Originators are encouraged to use the Condominium Project Questionnaire – Full Form (Fannie Mae Form 1076/Freddie Mac Form 476) to assist with determining condominium project eligibility. If this form is used, it must be retained in the Mortgage Loan File.

8.6.3 Fannie Mae's Project Eligibility Review Service (PERS)

The following projects must be submitted to Fannie Mae's PERS for review:

- New and newly converted condo projects with attached units located in Florida; and
- Newly converted non-gut rehabilitation projects with more than four (4) units. Note: The PERS process is optional for any projects not indicated above.

Projects that have been approved through PERS are eligible for delivery under the MPF Program if the following requirements are met:

- The project complies with MPF Program Requirements;
- The conditions of the Fannie Mae Review approval have not expired, been cancelled, or modified as of the Funding Date; and
- The Mortgage Loan File contains a copy of the Fannie Mae Review approval (Project Eligibility Review Service (PERS) or the FNMA Form 1028) or a screen print from the Fannie Mae accepted condominium project list documenting the unexpired, unmodified Fannie Mae Review approval.

8.6.4 Fannie Mae's Condo Project Manager (CPM)

The use of Fannie Mae's Condo Project Manager (CPM) is permitted, provided that the following requirements are met:

- The PFI delivering the Mortgage Loan requested and obtained the CPM project acceptance;
- The data entered into CPM is accurate and complete; and
- The Mortgage Loan File contains a copy of the unexpired CPM project acceptance certification that meets the following criteria:
 - For an established project, the certification date must be no more than (1) year old as of the Funding Date; and
 - For a new project, the certification date must be no more than six (6) months old as of the Funding Date.

8.6.5 Location-Specific Condominium Project Requirements (10/31/17)¹⁵⁹

This section covers specific requirements for projects located in Florida.

The following table is for manually underwritten loans only and indicates the maximum LTV ratios allowed for each project review type for condominiums in Florida. Loans underwritten using an AUS must follow the LTV ratio requirements of the applicable agency (Fannie Mae or Freddie Mac).

Attached Units in New and Newly Converted Condo Projects in Florida Must be approved through PERS Manual Underwriting	
Occupancy	Maximum LTV/TLTV
Primary Residence	75%
1 Unit Second Home	70%

Attached Units in Established Condo Projects in Florida Manual Underwriting	
Occupancy	Maximum LTV/TLTV

¹⁵⁹ MPF Announcement 2017-63 (10/31/17)

Attached Units in Established Condo Projects in Florida	
Manual Underwriting	
Primary Residence	75%
1 Unit Second Home	70%

8.6.6 Two- to Four-Unit Condominium Projects

A 2-4 unit condominium project consists of from two to four 1-unit dwellings that are separately owned with separate legal descriptions. To be eligible, the Originator must determine that there is a demonstrated marketability for such condominium projects in the subject market area, and the project must have been approved using a permitted review method.

The project must meet the following requirements:

- The project, including all common areas and any amenities, is complete;
- Homeowners own the condominium units in fee simple or leasehold, and the homeowners are the sole owners of and have exclusive rights to the use of the project's common elements; and
- No more than one (1) unit in the project has been conveyed and is occupied as an investment property

8.6.7 Site Condominiums (5/1/19)¹⁶⁰

New or established condominium projects composed of only detached one-unit dwellings (site condominiums) are eligible and do not require a project review if they meet the following requirements:

- The condominium project consists solely of detached one-unit dwellings where the unit owners own the land and improvements on the land;
- The project does not include manufactured housing units;
- The project has few or no common elements, such as project signs and minimal undeveloped green space;

¹⁶⁰ MPF Announcement 2019-26 (5/1/19)
 MPF Announcement 2018-60 (12/11/18)
 MPF Announcement 2017-63 (10/31/17)
 PFI Notice 2016-12 (9/1/16)

- The project does not own any common amenities (e.g. pool, fitness or recreational center, playground, laundry facility, clubhouse, etc.);
- The project does not own nor has responsibility for maintaining infrastructure such as roads, street signs, electricity, water, sewage, snow removal, or garbage disposal;
- The project has little to no engagement with an HOA, such as minimal or no dues or special assessments and no common element maintenance.
- The subject unit maintains the required property insurance coverage per Chapter 9;
- The Appraisal, if an Appraisal was obtained, specifically references the property as a "site condo" and verifies there is little to no difference in market value between this type of ownership and a single-family detached home; and
- The project complies with the requirements in this chapter regarding HOA assessment priority liens.

CHAPTER 9. INSURANCE REQUIREMENTS

9.1 Government Mortgage Insurance

Government Mortgage Loans must maintain the insurance or guaranty from the applicable Government Agency. If any premium is not paid to the Government Agency when due, or if the insurance or guarantee is canceled by the Government Agency for any reason, the MPF Bank may:

- Require repurchase of the Mortgage Loan; or
- Advance the premium on behalf of the PFI and debit the PFI's DDA for the amount of the advance.

9.2 Conventional Mortgage Insurance

This section addresses the mortgage insurance (MI) requirements for Conventional Loans, including acceptable insurers and coverage amounts.

9.2.1 General Mortgage Insurance Requirements (12/11/18)¹⁶¹

MI is required for every Conventional Mortgage that has an LTV ratio greater than 80%. LTV / TLTV ratio must always be rounded up to the next whole percentage. (For example, 80.01 percent must be rounded up to 81 percent.)

The MI coverage must be under the mortgage insurance company's master policy, and its associated endorsements and forms, that were effective October 1, 2014, or the most current master policy, endorsements, and forms issued thereafter. Self-insurance is not acceptable.

MI must be in full force as of the Mortgage Loan disbursement date and must remain in full force until the Mortgage Loan meets the MI cancellation requirements in accordance with the Guides.

The LTV calculation for mortgage insurance for properties located in the state of New York is based solely on the appraised value of the Mortgaged Property as of the Closing date.

Mortgage Insurance Payment Structures

The following MI payment structures are acceptable:

- Borrower-paid MI with a upfront single premium. paid at closing;
- Borrower-paid MI with monthly premiums paid from escrow; and

¹⁶¹ MPF Announcement 2016-30 (12/22/16)
MPF Announcement 2018-60 (12/11/18)

- Borrower-paid MI with a split premium (i.e. combination of upfront single premium paid at closing and monthly premium paid from escrow).

For Mortgage Loans secured by one-unit property types, the MI upfront single premium or the upfront portion of a split premium may be financed in the loan amount.

Solely for the purpose of determining the required minimum MI coverage level, the financed upfront single premium may be excluded from the purchase or refinance transaction loan amount in calculating the LTV ratio. However, for all other purposes, including Loan Presentment and loan eligibility determination, the financed upfront MI premium must be included in the loan amount for calculating LTV ratios. The LTV ratio, calculated using the purchase or refinance transaction loan amount plus the financed upfront MI premium, may not exceed 95% or a lesser LTV restriction published in the Guides.

The Originator must obtain a Financed MI Premium Endorsement to the mortgage insurance policy. This endorsement must indicate that the mortgage insurance will adjust its claim calculation so that the claim amount will include one hundred percent (100%) of the unamortized portion of the financed mortgage insurance premium.

Originator-paid MI is only permitted for single premium, life of loan, non-cancelable coverage.

9.2.2 Approved Mortgage Insurers (3/16/17)¹⁶²

MI must be provided by one of the approved mortgage insurers listed in Exhibit V who has been approved by the MPF Provider. However, each MPF Bank may make its own determination as to which mortgage insurers it will accept. The PFI should contact its MPF Bank to verify which insurers are approved for their district. If the PFI delivers a Mortgage Loan that is not insured by an approved mortgage insurance company, the Mortgage Loan may be subject to repurchase.

When the MPF Program removes a mortgage insurer from its approved list, the applicable insurance policy does not need to be replaced, provided that the amount and scope of coverage does not change, the insurer remains licensed in all pertinent jurisdictions, and the insurer meets the requirements for mortgage insurers in those jurisdictions. Coverage must run to the MPF Bank and nothing must have been done or not done that would impair the rights of the MPF Bank with respect to such coverage.

¹⁶² MPF Announcement 2017-12 (3/16/17)
MPF Announcement 2016-30 (12/22/16)
PFI Notice 2016-12 (9/1/16)

9.2.3 Mortgage Insurance Coverage (5/31/2019)¹⁶³

The following table indicates the minimum required MI coverage:

Standard Mortgage Insurance Coverage 1-4 Unit Primary Residences and 1 Unit Second Homes		
LTV	> 20 Year Term	≤ 20 Year Term
>97% to ≤100%*	35% Coverage	35% Coverage
>95% to ≤97%*	30% Coverage	30% Coverage
>90% to ≤ 95%	30% Coverage	25% Coverage
>85% to ≤ 90%	25% Coverage	12% Coverage
>80% to ≤ 85%	12% Coverage	6% Coverage

*Applicable to AHP loans only.

Standard Mortgage Insurance Coverage - Manufactured Homes		
LTV	> 20 Year Term	≤ 20 Year Term
>90% to ≤95%	Not Eligible	30% Coverage
>85% to ≤90%	30% Coverage	25% Coverage
>80% to ≤85%	17% Coverage	12% Coverage

9.2.4 Special Mortgage Insurance Requirements (9/1/16)¹⁶⁴

Mortgage Loans that qualify for reduced mortgage insurance coverage must be underwritten with an AUS and meet the requirements of the applicable AUS. The "custom" mortgage insurance coverage option from Loan Product Advisor and "lower-cost" mortgage insurance coverage option from DU are not eligible.

For AHP loans with LTVs from 95.01% to 97%, a minimum of thirty percent (30%) mortgage insurance coverage is required. For AHP loans with LTVs from 97.01% to 100%, a minimum of thirty-five percent (35%) mortgage insurance coverage is required.

¹⁶³ MPF Announcement 2019-31

MPF Announcement 2016-30 (12/22/16)

¹⁶⁴ PFI Notice 2016-12 (9/1/16)

9.3 Title Insurance

Each Mortgage Loan must have a paid-up mortgage title insurance policy or an attorney's title opinion or certificate prior to delivery under the MPF Program. This section addresses the requirements for the policy or attorney's title opinion and any permitted exceptions. For Government Loans, title insurance must comply with applicable Government Agency requirements.

9.3.1 General Title Insurance Requirements (3/16/17)¹⁶⁵

The title insurance must list any additional liens on the Mortgaged Property and indicate that they are subordinate to the lien of the Mortgage. The title insurance must be enforceable and protect the MPF Bank's rights.

The title insurance coverage must run to the named Mortgagee or the mortgagee of record. The title insurance must protect the Mortgagee up to at least the original Principal Balance of the Mortgage Loan.

The effective date of the policy must be as of or later than the date of recording the Security Instrument. If the Security Instrument must be rerecorded, for any reason, an endorsement must be obtained showing the rerecording information, with the first lien position maintained.

Unless the final title policy is issued at settlement, the title insurance binder or commitment must be retained in the Mortgage Loan File until the final title policy is issued. Once the final title policy is issued, it must be retained in the Mortgage Loan File. The preliminary binder and the final title policy must be issued by the same company.

9.3.2 Title Insurer Rating

The title insurer must be legally authorized to write title insurance in the jurisdiction of the Mortgaged Property and must have an acceptable rating from at least one of the independent rating agencies listed below. A title insurer's rating may be obtained from the insurer or directly from one of the rating agencies, but the rating must be independently verified with the applicable rating agency every six (6) months. Acceptable ratings include the following:

- A "Financial Stability Rating" of "S" or better or a "Statutory Accounting Rating" of "C" or better by Demotech, Inc.;
- A "BBB" or better rating from Duff and Phelps Credit Rating Company;
- A "C" or better rating from LACE Financial Corporation;
- A "Baa" or better rating from Moody's Investor Services; and

¹⁶⁵ MPF Announcement 2017-12 (3/16/17)

- A "BBB" or better rating from S&P Global Ratings.

The MPF Provider reserves the right to refuse to accept title insurance policies from any insurer by giving the PFI advance notice of the intent to do so. The PFI should contact the MPF Provider in circumstances which would justify alternative requirements.

9.3.3 ALTA Policy Form

The title insurance should be written on one of the following forms with all required endorsements.

- The 2006 American Land Title Association (ALTA) Loan Policy form. In states where the 2006 Loan Policy is not available for use, the 1992 American Land Title Association (ALTA) Loan Policy form is acceptable;
- The October 21, 2000 ALTA Short Form Residential Loan Policy form or most current form of such policy issued thereafter; or
- A form policy which provides coverage that is at least as broad as that provided by the 2006 ALTA Loan Policy Form.

The Environmental Protection Lien Endorsement (ALTA Form 8.1) or equivalent coverage must be included with every title insurance policy and may make an exception only for specific state statutes that provide for possible subsequent "superliens" that could take priority over the Mortgage Loan.

9.3.4 Title Endorsements (12/22/16)¹⁶⁶

The following special endorsement(s), or the equivalent, must be attached to the ALTA policy form, when applicable

- ALTA Endorsement Form 7.1-06 (manufactured home) if available, otherwise Form 7-06, or for policies other than 2006 ALTA Loan Policy, Form 7.1 if available, otherwise Form 7;
- ALTA Endorsement Form 9.3-06 (Restrictions, Encroachments, Minerals) if available, otherwise Form 9-06, or for policies other than 2006 ALTA Loan Policy, Form 9.3 if available, otherwise Form 9;
- ALTA Endorsement Form 13.1-06 (leasehold estate) or for policies other than 2006 ALTA Loan Policy, Form 13.1;
- An ALTA Form 4-06 endorsement (condominium unit), or for policies other than the 2006 ALTA Loan Policy, Form 4; and

¹⁶⁶ MPF Announcement 2016-30 (12/22/16)

- An ALTA Form 5-06 endorsement (PUD), or for policies other than the 2006 ALTA Loan Policy, Form 5.

9.3.5 Master Title Insurance Policy

Evidence of title insurance under a master title insurance policy is acceptable, provided that that master policy complies with all MPF Program title insurance guidelines and the following additional requirements:

- The scope of coverage given by the master policy must be equal to or greater than that provided by the ALTA policy form and all other MPF Program title requirements must be met;
- The PFI must obtain from the title insurer a fully executed master title insurance policy issued in the PFI's name as the insured and must provide a copy of the policy to its MPF Bank. The PFI agrees to assign its rights in this policy for the Mortgages Loan sold to the MPF Bank;
- The master policy must be approved by the applicable state or local authority where such approval is required; and
- The insurer will replace the title insurance certificate with a full individual ALTA form or similar policy upon ten (10) days' notice from the MPF Provider.

The MPF Provider reserves the right to refuse to accept the master title insurance policy of any title insurer.

9.4 Survey Standards

A current and accurate survey of the Mortgaged Property must be obtained. Upon request, the Originator must submit the survey to the title insurer or the attorney rendering a title opinion.

The survey provided must conform to the standards of the title insurance company or attorney and any Applicable Standards.

If the title insurance policy takes exception to survey matters other than those permitted in this chapter, the Originator must provide whatever information is required by the insurer to either remove the exception or must obtain an endorsement providing the insurance required. If it is not customary in a particular area to supply either the survey or an endorsement, the title policy must not have a survey exception.

If the Title Company will not issue a policy without coverage over a survey exception, the Mortgage Loan is not eligible for delivery under the MPF Program.

9.5 Opinion of Title (3/16/17)¹⁶⁷

An attorney's opinion of title is acceptable in place of a title insurance policy, provided that all of the following conditions are met:

- The opinion must be addressed to the Originator and all successors in interest;
- The attorney must be licensed to practice law in the same jurisdiction as the Mortgaged Property;
- The attorney must be insured against malpractice in rendering opinions of title in an amount commonly prevailing in the jurisdiction, taking into account the volume of opinions rendered by the attorney;
- An attorney's opinion of title, including any supplemental provisions and exceptions, is commonly accepted in place of a title insurance policy by private institutional mortgage lenders in the jurisdiction where the Mortgaged Property is located. If the attorney's opinion of title is commonly accepted in the Mortgaged Property's jurisdiction but does not meet the requirements of the Guides, the PFI is responsible for any losses arising from title or related matters that would have been covered if the attorney's opinion was compliant with the Guides.
- The Mortgage Loan must not be secured by a unit in a condominium or PUD, a dwelling on a leasehold estate, a manufactured home, properties subject to deed restrictions or restrictive agreements, or a Mortgage Loan executed using a Power of Attorney; and
- The opinion below must be included in lieu of a Environmental Protection Lien Endorsement (ALTA Form 8.1) with an exception for possible subsequent superliens that could take priority over the Mortgage only if the Mortgaged Property is located in a state whose Applicable Laws provide for such a superlien:

"There is (i) no environmental protection lien recorded in those records established under state statutes for the purpose of imparting constructive notice of matters relating to real property to purchasers for value and without knowledge, or filed in the records of the clerk of the United States district court for the district in which the land is located, nor (ii) are there any environmental protection liens provided for by any state statute in effect on the date of this opinion, which could achieve priority over the Mortgage except those listed below (any state statute that allows a lien for environmental protection that can attain priority over the lien of the insured Mortgage should be listed; if none, state 'none')."

The opinion must provide the exact statement, as follows: "We [I] agree to indemnify you and your successors in interest in the [Mortgage] [deed of trust] opined hereto, to the full extent of any loss

¹⁶⁷ MPF Announcement 2017-12 (3/16/17)
MPF Announcement 2016-30 (12/22/16)

attributable to a breach of our [my] duty to exercise reasonable care and skill in the examination of the title and the giving of this opinion."

The opinion must be retained in the Mortgage Loan File and must not be subject to any title exceptions other than those permitted under MPF Program Requirements. The opinion must not take exception to survey matters. The Originator must provide the necessary information as required by the attorney to remove the exception.

Mortgage Loans with a survey title exception are not eligible for delivery.

9.6 Acceptable Title Exceptions (12/22/16)¹⁶⁸

Exceptions to the title insurance policy or the attorney's opinion of title are acceptable so long as they do not substantially affect the marketability or use of the Mortgaged Property (including the areas outside the easement that are not occupied by improvements) and do not impair the exercise of rights of repair and maintenance. Examples of acceptable exceptions are:

- Easements for subsurface residential distribution including, but not limited to, lines and/or cables for gas, water, electric, telephone, and television;
- Easements for surface public utilities for local residential distribution so long as the location of the easements is fixed, ascertainable and the easement is accessible for repair;
- Encroachments on easements such as a garage, tool or garden shed, or some other structure which is not attached to the dwelling structure. Such encroachments require a title insurance policy endorsement insuring against loss suffered from a court order or decree requiring the removal of the encroachment;
- Mutual easement agreements of record that establish a joint driveway or a party wall are acceptable. The agreement must allow all present and future owners and their heirs, successors and assigns unlimited use and enjoyment of the driveway or party wall without any restriction by reason of the mutual easement owners' rights in common and duties for joint maintenance;
- Fence encroachments on either side of the property line. The definition of fence does not include retaining walls or other permanent structures;
- Rights of tenants in possession, as tenants only, under prior unrecorded leases;
- Improvements on adjoining property which encroach upon the Mortgaged Property are acceptable provided that the encroachment does not touch any improvements of the Mortgaged Property or impair the usage of the Mortgaged Property;

¹⁶⁸ MPF Announcement 2016-30 (12/22/16)

- Liens for real estate or ad valorem taxes and assessments are acceptable which specifically state that such liens are not yet due and payable;
- Rights of tenants in possession, as tenants only, under prior unrecorded leases; and
- Oil, gas, water or mineral rights that are commonly accepted by private institutional mortgage investors in the area where the Mortgaged Property is located, provided that the exercise of such rights will not damage the Mortgaged Property. The rights must meet one of the following conditions (which must be documented in the Mortgage Loan File):
 - There is no right of surface or subsurface entry within two-hundred (200) feet of the residential structure;
 - There is a comprehensive endorsement to the title insurance policy that insures the MPF Bank against damage or loss due to the exercise of such rights;
 - The Mortgage Property is insured by a homeowners insurance policy that also insures the MPF Bank against damage or loss due to the exercise of such rights; or
 - The PFI represents and warrants that it will either repurchase the Mortgage from the MPF Bank or indemnify the MPF Bank for any loss incurred by the MPF Bank that can be attributed to the exercise such rights if a comprehensive endorsement to the title insurance or homeowners insurance policy that affirmatively insures the MPF Bank against damage or loss due to the exercise of such rights is not available, but Applicable Laws where the Mortgaged Property is located provide for the payment of Miscellaneous Proceeds as defined in the Uniform Security Instrument. The decision to require either a repurchase of the Mortgage or an indemnification is solely that of the MPF Bank.

The following conditions must be met to permit exceptions for restrictive agreements or covenants of record related to cost, use, setback, minimum size and building materials, and architectural, aesthetic or similar matters (other than single-family-use restrictions on 2-4 unit properties):

- The restrictive agreements or covenants do not create or provide for any lien that would take precedence over the MPF Bank's Mortgage or provide for the elimination of the MPF Bank's Mortgage lien;
- The terms and provisions of the restrictive agreements or covenants are commonly acceptable to private institutional mortgage investors in the area where the Mortgaged Property is located; and
- An endorsement to the title insurance policy affirmatively insures that no violation of any such restrictive agreement or covenant exists and that any future violation shall not result in forfeiture or reversion of title.

The priority of the MPF Bank's lien on the Mortgaged Property shall remain in effect for any sum repaid and subsequently re-advanced under the terms of the Mortgage Loan.

9.6.1 Unexpired Redemption Periods

Many states give homeowners who have lost their homes due to foreclosure a “redemption period” that allows them to regain title if they meet financial obligations and other requirements within a certain period.

Title exceptions related to unexpired redemption periods are not permitted, unless all of the following requirements are met:

- The mortgagee title insurance policy contains a specific exception for the unexpired right of redemption and insures the mortgagee against all loss arising out of the exercise of any outstanding right of redemption;
- If any party exercises a right to redeem the Mortgaged Property, the Mortgage Loan must be paid off directly using the redemption proceeds with no requirement for any further action or claim for repayment;
- The MPF Bank must not incur any loss due to the exercise by any party of a right to redeem the Mortgaged Property; and
- The Mortgaged Property must be located in a state where it is “common and customary” to sell a 1-4 unit property during a redemption period.

It is highly recommended that the Originator provide a written disclosure to the Borrowers prior to Closing if the Mortgaged Property is subject to a redemption period.

9.7 Additional Title Insurance Requirements for Condominiums and PUDs

In addition to all other MPF Program title insurance guidelines, condominiums and PUDs must meet the additional requirements in this section.

Title Insurance Information

The title insurance policy must include the following information:

- The name of the project;
- The unit itself, as shown on a survey;
- The undivided interest in the common elements in a condominium project;
- The nonexclusive easement to use the common areas and facilities; and
- Any significant, limited, common elements or exclusive easements over the common areas.

If the unit owners hold title to the common areas of the development as tenants in common, the policy must reflect that ownership. The policy may describe limited common elements or exclusive easements specifically or by reference to the association documents.

Title Insurance Coverage

The title insurance policy must insure the following:

- The Mortgage is superior to any lien for unpaid common expense assessments. In jurisdictions that give these assessments a limited priority over a first or second Mortgage lien, the policy must provide assurance that those assessments have been paid through the effective date of the policy;
- Against any impairment or loss of title on the Mortgaged Property caused by any past, present, or future violations of any covenants, conditions, or restrictions of the master deed for the condominium project or PUD. It must specifically insure against any loss that results from a violation that existed as of the date of the policy;
- The Mortgage Loan is secured by a unit in a condominium project that has been created in compliance with the applicable enabling statutes;
- The owner of a PUD unit is a member of the homeowners association and that the membership is transferable;
- Assessments and liens for real estate taxes are only against an individual condominium unit and its undivided interest in the common elements, rather than against the project as a whole;
- The unit does not encroach on another unit or on any of the common elements, areas, or facilities. The policy must also insure that there is no encroachment on the unit by another unit or by any of the common elements, areas, or facilities.

If the HOA owns common elements, areas, or facilities separately (or holds them in a leasehold estate), a title policy is required for those areas. The title must be free and clear of any liens and encumbrances.

9.8 Property Insurance

Conventional Mortgage Loans must be covered by property insurance that complies with the requirements in this chapter. Government Mortgage Loans must comply with the property insurance requirements of the applicable Government Agency.

9.8.1 Insurer Requirements

All insurers (and reinsurers, if applicable) must be licensed or authorized to do business in the jurisdiction where the Mortgaged Property is located and must meet one of the following requirements:

1. The insurer meets any of the following ratings:
 - A.M. Best

- Financial Performance Index of 6 or higher per Insurance Reports—Property/Casualty or Key Rating Guide—Property/Casualty;
 - Rating of B/III or higher per Insurance Reports—Property/Casualty or Key Rating Guide—Property/Casualty; or
 - Rating of A/VIII or higher per Insurance Reports—International
 - Demotech, Inc.
 - Rating of a minimum of "A" per First Rate/P&C Financial Stability Ratings
 - S&P Global Ratings
 - Rating of BBBq per Insurer Solvency Review—Property/Casualty Edition;
 - Rating of BBB or higher per Insurer Solvency Review—Property/Casualty Edition; or
 - Rating of AAisi or higher per International Confidential Rating Service or International Solvency Report Service
2. An insurer whose coverage is guaranteed by another company (“reinsurer”) that meets all of the following requirements:
- The reinsurer has a minimum rating of:
 - A. M. Best — B/III or (for non-U.S. insurers) A/VIII, or
 - Standard & Poor's Global Ratings— BBB or AAisi
 - Both the insurer and the reinsurer execute an assumption of liability endorsement or equivalent endorsement that provides for:
 - One hundred percent (100%) reinsurance of the primary insurer's liability for any covered loss payable but unpaid by the insurer for reasons of insolvency;
 - The reinsurer to give ninety (90) days written notice to the policyholder and the Originator before canceling or terminating the guarantee; and
 - The above endorsements are attached to each property insurance policy accepted by the Originator on account of the endorsements.
3. The insurer is Lloyd’s of London
4. Insurance underwritten by any of the following is acceptable, provided it is the only insurance coverage available for the Mortgaged Property:
- A state’s Fair Access to Insurance Requirements (FAIR) plan; or
 - State insurance plans covering specific geographic areas.

5. A non-admitted insurance company whose current rating is at least one of the following:
 - A. M. Best – A
 - Standard & Poor’s Global Ratings– AA-
6. A carrier whose coverage is guaranteed under the National Flood Insurance Program (NFIP).

9.8.2 Property Insurance Coverage Requirements (12/22/16)¹⁶⁹

An All Risk Coverage property insurance policy is required for any properties maintaining an individually held insurance policy. If any hazards normally covered under the All Risk Coverage policy are limited or excluded, then a supplemental insurance policy for the limited/excluded hazard is required. Property insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, or any other perils that are normally included under an extended coverage endorsement are not acceptable. The MPF Program may require insurance covering losses from other hazards or risks as required.

The property insurance policy must meet the minimum amount required, which is the lower of:

- One hundred percent (100%) of the replacement cost of the insurable improvements; or
- The unpaid Principal Balance of the Mortgage Loan, provided that it is at least equal to 80% of the insurable value of the improvements or is the minimum amount required to compensate for damage or loss on a replacement cost basis.

Insurance contracts must state that no assessments may be assessed against the PFI or the MPF Bank, and that any assessment made against others may not become a superior lien on the Mortgaged Property.

9.8.3 Deductibles (12/22/16)¹⁷⁰

The maximum permitted deductible is five percent (5%) of the face amount of the insurance policy. This limit applies to each separate peril policy maintained and applies to any HO-6 policy. The deductible clause may apply to either fire, extended coverage or both.

This limit also applies to each blanket or master policy maintained by a PUD or condominium HOA and applies to each supplemental policy maintained. The HOA must have funds in its reserves specifically designated for the deductible.

9.8.4 Additional Insurance Requirements for Condos and PUDs (12/22/16)¹⁷¹

¹⁶⁹ MPF Announcement 2016-30 (12/22/16)

¹⁷⁰ MPF Announcement 2016-30 (12/22/16)

¹⁷¹ MPF Announcement 2016-30 (12/22/16)

The HOA for all condominium and PUD projects must maintain a blanket or master policy that provides for All Risk Coverage to protect the buildings, general and limited common elements, fixtures, machinery, equipment and supplies used for the service of the project, and common personal property owned by the HOA. Blanket All Risk Coverage for all units in the PUD is acceptable if called for in the PUD's legal documents. Blanket coverage for all units in a condo or PUD project must include coverage for fixtures, improvements, alterations, and equipment within the units. Self-insurance or an insurance policy covering unaffiliated condominium associations or projects is not permitted.

If the PUD project's blanket or master policy does not provide coverage for each unit, then the Borrower must maintain an individual property insurance policy.

If the condominium blanket or master policy does not cover the individual condominium units (including interior improvements), then the Borrower must maintain an HO-6 policy. The amount of coverage must be at least equal to 20% of the unit's appraised value. The HO-6 policy must provide replacement of improvements coverage for the unit, including any subsequent improvements added by the Borrower.

The blanket or master policy maintained by the condo or PUD HOA must provide coverage at least equal to one hundred percent (100%) of the insurable value of the project improvements, including all individual units.

The HOA must be the named insured on the blanket or master policy. An exception is made for condominium projects where the legal documents allow the policy to designate an authorized representative of the HOA, including the insurance trustee, as the named insured.

The blanket or master policy must require that the insurer provide written notice to the HOA and each Mortgagee at least ten (10) days prior to cancelling or reducing the insurance coverage.

The HOA must also obtain any additional coverage commonly required by private mortgage investors for developments with similar construction, location, and use.

The following special endorsements also are required for the condominium project:

- Agreed amount;
 - Cost of demolition;
 - An Inflation Guard Endorsement, when it can be obtained;
 - Building Ordinance or Law Endorsement;
 - Steam Boiler and Machinery Coverage Endorsement, if the project has central heating or cooling.
- (This endorsement should provide for the insurer's minimum liability per accident to at least

equal the lesser of two million dollars (\$2,000,000) or the insurable value of the building(s) housing the boiler or machinery.); and

- Special Condominium Endorsement, which must provide that any Insurance Trust Agreement will be recognized; the right of subrogation against unit owners will be waived; the insurance will not be prejudiced by any acts or omissions of individual unit owners that are not under the control of the owners' association; and the policy will be primary, even if a unit owner has other insurance that covers the same loss.

9.8.5 Mortgagee Clause for Property and Flood Insurance (12/22/16)¹⁷²

All insurance policies obtained must include the insurance industry's standard mortgagee clause and must name the Servicer as the Mortgagee. The Servicer's name should be followed by the phrase "its successors and assigns." This requirement does not apply to condominium and PUD master or blanket policies. The Mortgagee clause must provide that the insurer will notify the named Mortgagee at least ten (10) days prior to any reduction in coverage or cancellation of the policy.

The Named Insured clause for the condominium HOA's policy must contain language that is similar to the following:

"Association of Owners of the... Condominium for the use and benefit of the individual owners (designated by name, if required by law or the legal documents)."

In deed-of-trust jurisdictions, the Mortgagee should be designated as "(Name of Servicer), its successors and assigns, beneficiary."

When a mortgagee clause is not appropriate (e.g., in a separate comprehensive general liability policy), a certificate of insurance must be provided to the PFI. This certificate must contain the information required for certificates or other evidence of insurance as required with the PFI named as certificate holder.

9.8.6 Evidence of Insurance

Evidence of all required property insurance coverage must be maintained in the Mortgage Loan File. Evidence of insurance coverage must be in one of the following forms:

- The original policy and applicable endorsements, including the PUD or condominium HOA's master or blanket policy; or
- A certificate of insurance or evidence or declarations of insurance that meets the following requirements:
 - Named insured and Mortgagee (for PUD or condominium units, the named insured association, unit owner and unit owner Mortgagee);

¹⁷² MPF Announcement 2016-30 (12/22/16)

- Address of the Mortgaged Property;
- Type of coverage;
- Amount of coverage;
- Effective dates of coverage;
- Deductible amount and coverage to which each deductible applies;
- Any endorsement or optional coverage obtained and made part of the original policy;
- Insurer's agreement to provide written notice to the Mortgagee and Borrower (or applicable unit owner Mortgagee if for a PUD or condominium unit) at least ten (10) days prior to any reduction in coverage or cancellation of the policy; and
- Signature of an authorized representative of the insurer, if required by Applicable Law.

Data Files

In lieu of an original policy, the insurer may provide a data file. These data files are acceptable, provided they meet the following requirements:

- The data file contains sufficient information about the insurance policy, the property, and the Borrower to allow the Servicer to monitor and maintain property insurance in accordance with MPF Program Requirements;
- The Originator's errors and omissions insurance policy must provide coverage for electronic data transfers and provide full protection for the Originator and the MPF Bank against losses incurred as the result of erroneous data files or transfers;
- The insurance carrier must provide the Originator written confirmation that the data file is equivalent to a printed policy;
- The Servicer must have adequate procedures in place to mitigate risk exposure associated with not having an original hard copy of the policy. These procedures may include requiring the insurer to certify to the accuracy of the information; and
- The Servicer must be able to produce legible hard copies of the actual insurance policies and proof of premium payments if requested by the MPF Bank or the MPF Provider.

9.8.7 Insurance Premiums (12/22/16)¹⁷³

¹⁷³ MPF Announcement 2016-30 (12/22/16)

The initial property insurance premium for any policy the Borrower maintains must be paid in full by the Borrower at or prior to Closing. Any subsequent premiums must be paid when due by the Borrower or by the Servicer if the premium is escrowed.

9.9 Flood Insurance (12/22/16)¹⁷⁴

Flood insurance is required for the Mortgaged Property if a residential structure or any of the improvements are located in a Special Flood Hazard Area (SFHA) as determined by FEMA, or the Costal Barrier Resources System or Otherwise Protected Area. The flood insurance policy may be issued by the National Flood Insurance Program (NFIP) or a private insurer.

As required under Applicable Laws, premiums for flood insurance must be escrowed as part of the mortgage transaction. Borrowers may not elect to maintain and pay flood insurance premiums independent of the mortgage payment.

If flood insurance is required for the Mortgaged Property but the community does not participate in the NFIP, then the loan is ineligible.

Flood insurance is not required in the following circumstances:

- Non-residential detached structures on the Mortgaged Property are in the SFHA but the residential structure and improvements are not in the SFHA;
- The Borrower provides a Letter of Map Amendment (LOMA) from FEMA excluding the residential structure and improvements from the SFHA; or
- The Borrower provides a Letter of Map Revision (LOMR) from FEMA removing the community from the SFHA.

The use of the Standard Flood Hazard Determination form endorsed by FEMA is required when determining whether a Mortgaged Property is located within an SFHA.

9.9.1 Coverage Requirements for One- to Four-Unit Properties (7/12/19)¹⁷⁵

Flood insurance policies issued by a National Flood Insurance Program must be at least equal to the lowest of:

- 100% of the replacement cost of the insurable improvements;
- The maximum insurance available under the National Flood Insurance Program; or

¹⁷⁴ MPF Announcement 2016-30 (12/22/16)

¹⁷⁵ MPF Announcement 2019-36 (7/12/19)

MPF Announcement 2017-03 (1/30/17)

MPF Announcement 2016-30 (12/22/16)

- The unpaid Principal Balance of the Mortgage Loan.

Flood insurance policies issued by a private insurer must meet the following requirements:

- The terms and amount of coverage must be at least equal to that provided under an NFIP policy based on a review of the full policy issued by a private insurer; and
- The policy must be issued by a private insurer that meets the insurer rating requirements as detailed in Section 9.8.1 of this guide.

The minimum coverage requirements for one- to four-unit properties also apply to individual PUDs and detached condominium units.

Refer to the National Flood Insurance Program for current limits. The deductible for coverage on a single family property must not exceed the maximum deductible amount permitted under the NFIP.

9.9.2 Deductibles (12/22/16)¹⁷⁶

The deductible for master condo flood insurance or individual flood insurance policies must comply with NFIP requirements, unless Applicable Law mandates a higher maximum deductible. The maximum deductible applies to NFIP and private insurance policies. The HOA must have funds in its reserves specifically designated for the deductible.

9.9.3 Additional Flood Insurance Requirements for Condos (12/22/16)¹⁷⁷

Flood insurance requirements for townhomes, rowhouses, and site condominiums are the same as for one- to four-unit residences.

The HOA must maintain flood insurance coverage for detached common elements and property equal to 100% of their insurable value.

Units in a high-rise or vertical condominium must have a master flood insurance policy in place that is maintained by the HOA. Individual flood insurance dwelling policies are not required for high-rise or vertical condominiums. The HOA's flood insurance policy must provide coverage for the individual units in the building, as well as the common elements, building machinery, and equipment. A separate HOA endorsement is required if not part of the policy.

The master flood insurance policy must meet the following requirements:

- Building coverage must equal at least 100% of the insurable value of the common elements and property, including any machinery and equipment that are part of the building; or

¹⁷⁶ MPF Announcement 2016-30 (12/22/16)

¹⁷⁷ MPF Announcement 2016-30 (12/22/16)

- Contents coverage must equal at least 100% of the insurable value of all contents, including machinery and equipment that are not part of the building but are owned in common by the HOA members.

If the minimum coverage requirements for the master policy are met, but the master policy does not meet the minimum coverage requirements for one- to four-unit residences, then the unit owner may obtain a flood insurance policy to cover the difference.

9.9.4 Coastal Barrier Resources System or Otherwise Protected Area

Properties located in the Coastal Barrier Resources System or an Otherwise Protected Area must maintain flood insurance. If the community does not participate in the Coastal Barrier Resources System or Otherwise Protected Area, the Mortgage Loan is only eligible if the Mortgaged Property is not located in an SFHA but still maintains flood insurance coverage in accordance with MPF Program Requirements. The flood insurance coverage may be a private policy or an NFIP policy.

9.10 Liability Insurance (12/11/18)¹⁷⁸

The HOA for a PUD or condominium project must maintain a comprehensive general liability insurance policy covering the entire project including all common areas, public ways, commercial space that is owned by the HOA, even if they are leased to others, and any other areas that are under the supervision or control of the HOA. The commercial general liability insurance policy should provide coverage for bodily injury and property damage that result from the operation, maintenance, or use of the project's common areas and elements.

The amount of coverage should be at least one million dollars (\$1,000,000) for bodily injury and property damage for any single occurrence. The MPF Program may require more coverage if higher amounts are usually required by mortgage investors for similar projects in that area.

If the policy does not include "severability of interest" in its terms, a specific endorsement is required, precluding the insurer's denial of a unit owner's claim because of negligent acts of the homeowners association or of other unit owners.

The policy should provide for at least ten (10) days' written notice to the HOA before the insurer can cancel or substantially modify it.

9.11 Fidelity Insurance (12/22/16)¹⁷⁹

¹⁷⁸ MPF Announcement 2016-30 (12/22/16)

MPF Announcement 2018-60 (12/11/18)

¹⁷⁹ MPF Announcement 2016-30 (12/22/16)

All condominium projects and PUD projects consisting of more than twenty (20) units that contain only attached dwellings must have blanket fidelity insurance coverage for anyone who handles (or is responsible for) funds held or administered by the HOA, whether or not that individual receives compensation for services. The insurance policy should name the HOA as the insured and the premiums should be paid as a common expense by the HOA. The policy for a condominium project must include a provision that calls for ten (10) days' written notice to the HOA before the policy can be canceled or substantially modified for any reason.

A management agent that handles funds for the HOA should be covered by its own fidelity insurance policy, which must provide the same coverage required of the HOA. The management agent must furnish proof of such coverage to the HOA.

The fidelity insurance policy should cover the maximum funds that will be in the custody of the HOA or its management agent at any time while the policy is in force. Where the condominium or PUD project's legal documents require that it or its management agent adhere to at least one of the following financial controls, the minimum amount of fidelity insurance coverage only needs to be equal to the sum of three (3) months of assessments on all units in the project:

- Separate depository accounts are maintained by the HOA or management agent for the association's working account and the reserve account(s), each with appropriate access controls, and the HOA receives copies of the monthly account statements directly from the institution where the accounts are maintained;
- The management agent maintains separate records and depository accounts for each HOA using its services, and does not have authority to draw checks on, or to transfer funds from, the reserve account(s) of the owners' association; or
- Two or more members of the Board of Directors are required to sign any checks written on the reserve account(s).

In a state that has statutory fidelity insurance requirements, the MPF Program will accept the state's requirements in place of the MPF Program's.

CHAPTER 10. MORTGAGE LOAN DOCUMENT EXECUTION AND RETENTION

10.1 Mortgage Loan File Contents (3/16/17)¹⁸⁰

The Mortgage Loan File must be maintained in accordance MPF Program Requirements. All documents that demonstrate compliance with all Applicable Standards and MPF Program Requirements must be included in the Mortgage Loan File. All documents in the Mortgage Loan File must be legible.

10.1.1 Closing Documents (10/31/17)¹⁸¹

The following Closing documents must be retained in the Mortgage Loan File:

- A copy of the front and back of the Note showing all endorsements, any applicable addenda and allonges, and any related modification or Assumption/Release of Liability instrument;
- POA (if applicable) attached to the copy of the Note;
- The original Security Instrument, complete with recording notation and any applicable riders and addenda. In jurisdictions where Applicable Law or common practice requires the presentation of the original Security Instrument to obtain a release, a certified copy of the original Security Instrument complete with recording notation must be retained in the file;
- A copy of all Assignments of the Security Instrument with any applicable riders and any documents that modify the mortgage terms;
- The final, fully executed Settlement Statement detailing all costs to the home buyer and seller;
- Closing instructions;
- All disclosures required under Applicable Law;
- The following insurance documentation is required:
 - The original mortgage insurance certificate or proof of insurance from the MI company (if applicable);
 - Title policy;
 - Plat of survey or title insurance that provides coverage over "matters of survey";

¹⁸⁰ MPF Announcement 2017-12 (3/16/17)

¹⁸¹ MPF Announcement 2017-63 (10/31/17)

MPF Announcement 2017-12 (3/16/17)

MPF Announcement 2017-03 (1/30/17)

- Current, endorsed property insurance policy, or suitable evidence of insurance, obtained at Closing;
- Flood zone determination;
- Flood insurance policy (if required); and
- All flood insurance documents necessary to comply with Applicable Standards.

Until the final evidence of flood insurance is available and placed in the Mortgage Loan File, one of the following documents must be retained in the Mortgage Loan File:

- Completed and executed NFIP flood insurance agent's receipt marked "paid";
- Completed and executed NFIP flood insurance application with the final Settlement Statement indicating the flood insurance premium collected at Closing;
- Completed and executed NFIP General Change Endorsement Form showing the assignment of the current flood insurance policy from the property seller to the Borrower; or
- An NFIP Certification of Proof of Purchase of Flood Insurance, executed by the insurance agent.

If the flood insurer is not the NFIP, the insurer's equivalent of the applicable NFIP form is acceptable.

10.1.2 Underwriting Documents (5/1/19)¹⁸²

The following underwriting documentation must be retained in the Mortgage Loan File:

- The initial and final Uniform Residential Loan Application (most current version of the FNMA Form 1003 / FHLMC Form 65 as shown in Exhibit Y);
- A credit report meeting the requirements of this Selling Guide and which shows valid credit scores. For a Mortgage Loan originated in a jurisdiction that requires a Borrower's consent to obtain the Borrower's credit information (report), this consent must be included in the Mortgage Loan File, and must extend to the Originator's successors and assigns and/or to subsequent investors and Servicers;
- Verification of Employment and Income;
- Verification of all sources of cash or other equity or assets utilized for down payment, prepaid items, closing costs, financing costs, and reserves;

¹⁸² MPF Announcement 2019-26 (5/1/19)
MPF Announcement 2018-1 (1/4/18)
MPF Announcement 2017-12 (3/16/17)
MPF Announcement 2016-30 (12/22/16)

- An intelligible payment history for the Mortgage Loan is required beginning with the Closing date of the Mortgage Loan;
- Verification of the Borrower's housing payment history;
- A completed Uniform Underwriting and Transmittal Summary (most current version of FNMA Form 1008 / FHLMC Form 1077) is required for manually underwritten Mortgage Loans;
- A written explanation fully supporting the underwriting decision for any special or extenuating circumstances;
- The Uniform Residential Appraisal Report, if an Appraisal was obtained;
- Automated Underwriting System Certificate for loans underwritten with DU or Loan Product Advisor; and
- For Mortgage Loans with subordinate financing, the following documents must be retained in the Mortgage Loan File:
 - o A copy of the subordinate note;
 - o A copy of the subordinate security instrument; and
 - o A copy of the settlement statement or HELOC closing statement, as applicable.

10.1.3 Special Purpose Documents (5/1/19)¹⁸³

The following special purpose documents must be retained in the Mortgage Loan File, if applicable:

- For New York Consolidation, Extension, and Modification Agreements (CEMA) loans, the original previous Notes and the gap Note listed on Exhibit A of the FNMA/FHLMC Form 3172.
- A legible signed copy of the sales contract, or an equivalent document, is required for purchase transactions.
- The original buydown agreement and evidence of the total amount of Buydown Funds, property interested party contributions, and the calculation of the Principal and Interest Payments are required, if applicable.
- A Satisfactory Completion Certificate (FNMA Form 1004D / FHLMC Form 442), or equivalent, is required to be completed and maintained in the Mortgage Loan File when the Appraisal, if an Appraisal was obtained, is made subject to conditions.

¹⁸³ MPF Announcement 2019-26 (5/1/19)
MPF Announcement 2017-12 (3/16/17)
MPF Announcement 2017-03 (1/30/17)

- The legal opinion, if any, addressed to the Originator and the MPF Bank, unconditionally confirming the legal conclusions in the certification of compliance with the warranties of condominium or PUD projects.
- If the Mortgaged Property is dependent upon assurance of an adequate supply of water from a water or irrigation company that supplies water only to its shareholders, the Mortgage Loan File must contain a stock certificate, duly endorsed to the MPF Bank, entitling the property owner to an adequate supply of water.
- If the Mortgaged Property is secured by existing subordinate financing, the Mortgage Loan File must contain a copy of the executed note, trust deed, and subordination agreement.
- If the Mortgaged Property is secured by new subordinate financing, the Mortgage Loan File must contain a copy of the note executed at closing on the subordinate financing, if available.
- If the Mortgaged Property is on a leasehold estate, the Mortgage Loan File must contain a Ground Lease Analysis (FNMA/FHLMC 461).

10.1.4 Access to Records

Upon request, the PFI must deliver all Mortgage Loan records and documents to the MPF Bank or MPF Provider. Each Mortgage Loan File must be clearly identified. If the records have been microfilmed or otherwise condensed, the PFI must reproduce them at its own expense. The MPF Bank will not execute any trust receipts for documents it requests and will not participate in, or provide compensation for, their delivery.

10.2 Document Execution

This section details the requirements for executing certain Mortgage Loan documents.

10.2.1 Uniform Instruments and Notes (3/16/17)¹⁸⁴

Instruments (1-4 Family) for the jurisdiction where the Mortgaged Properties are located must be used for execution of the Security Instrument, riders, and Note.

The following riders are required, if applicable:

- Condominium or PUD rider - For units in a condominium or PUD;
- 1-4 Family rider – For two- to four-unit properties; and
- Second home rider – For Mortgage Loans secured by a second home.

¹⁸⁴ MPF Announcement 2017-12 (3/16/17)

No changes are permitted to the FNMA/FHLMC Uniform Instruments or to any Government Agency instruments, except in the following circumstances:

- Use of FNMA/FHLMC Uniform Instrument Riders;
- Modifications permitted by FNMA/FHLMC as authorized changes to Uniform Instruments, as required by the state where the Mortgaged Property is located;
- Modifications permitted by the applicable Government Agency; or
- Modifications where an Illinois Land Trust holds title to the Mortgaged Property.

The Originator may reproduce and use the current FNMA/FHLMC Uniform Instruments on their letterhead, by computer or as supplied by the MPF Provider. However, any such reproductions must remain unchanged and show the identification notation that the instrument is a FNMA/FHLMC Uniform Instrument.

The Originator must not take any action that violates the terms of any covenant in the Mortgage Loan documents. The PFI must enforce its rights under the Uniform Instruments based on instructions or guidance provided by the MPF Bank or MPF Provider.

10.2.1.1.1 Late Charges (12/22/16)¹⁸⁵

The monthly payment due date, amount of the late charge, and the grace period must be appropriately indicated on the Note.

Monthly payments must be due on the first (1st) calendar day of the month. Unless otherwise stated by Applicable Law, a late charge may be collected if the monthly payment is received after the end of the fifteenth (15th) calendar day of the month. The late charge amount collected may not exceed 5% of the late Principal and Interest payment. If Applicable Law does not allow a late charge as high as 5%, the maximum allowed late charge should be used.

If the Note provides for a shorter grace period or a late charge that exceeds the limits above, the Mortgage Loan is still eligible; however, the Servicer cannot collect a late charge in excess of 5% or collect a late charge on a monthly payment received prior to the end of the 15th calendar day of the month while the MPF Bank or any other investor under the MPF Program holds the Mortgage Loan.

10.2.1.2 Government Mortgage Loans

¹⁸⁵ MPF Announcement 2016-30 (12/22/16)

For Government Mortgage Loans, forms specified by the applicable Government Agency must be used. No modifications to any Security Instrument or Note is permitted other than as required by the applicable Government Agency or by law.

10.2.2 Master and Short Form Security Instruments

Certain states have statutes that allow originators to record a Master Form Security Instrument in a given county and then to record a Short Form Security Instrument for each subsequent mortgage loan originated and recorded in that county.

The state-specific Fannie Mae/Freddie Mac Uniform Master and Short Form Security Instruments are acceptable, provided that The Mortgaged Property is located in a state that permits the use of the Uniform FNMA/FHLMC Master and Short Form Security Instruments and the most current state specific FNMA/FHLMC Master and Short Form Security Instrument(s) are available for use.

10.2.3 Security Instrument Preparation

The Security Instrument must be properly executed, acknowledged and recorded in all places required to perfect a first lien security interest in the Mortgaged Property in favor of the Mortgagee.

These actions must be completed by the PFI at its own expense and include actions necessary to conform with the local practice and state law, or to fulfill a request from the MPF Bank, MPF Provider or Custodian. The PFI must inform the Custodian of any material changes to these requirements as they occur.

10.2.4 Assignment Preparation (3/16/17)¹⁸⁶

The Assignment must meet the following requirements:

- The Assignment must not contain any statement to the effect that the Assignment is “without recourse”. Any statement in the Assignment to the effect that the Assignment is made with recourse will in no way affect the PFI's delivery or repurchase obligations under the PFI Agreement;
- Must not be dated prior to the Note;
- Must include the date of the Security Instrument;
- Must include the Mortgaged Property's legal description or the property address; and
- The PFI must ensure the Assignments of the Security Instrument are prepared and completed for each applicable condition as follows:

¹⁸⁶ MPF Announcement 2017-12 (3/16/17)

- **Recordable But Unrecorded Assignments** - The PFI must prepare and execute an Assignment of the Security Instrument "in blank" in recordable form. The PFI must not record this Assignment;
- **Intervening Assignments** - If the PFI is not the original Mortgagee on the Security Instrument, the chain of Assignments must be complete and recorded from the original Mortgagee to the PFI. If the PFI concurrently or subsequently transfers the Servicing Rights, an Assignment must be completed to the new Servicer, thus keeping the chain complete; and
- **States without Recorded Assignments** - If a state does not accept or require Assignments for recordation, the PFI must provide a copy of an attorney's opinion maintained with the unrecorded Assignment, stating that the law in the state does not permit or require recordation of Assignments of the Security Instrument.

The MPF Provider or the MPF Bank reserves the right to require that the recordable Assignment be recorded at any time.

The PFI agrees to complete and record any Assignment necessary at its own expense to transfer the Security Instrument to the MPF Bank or its assignee, designee or transferee.

10.2.5 Note Preparation (3/16/17)¹⁸⁷

The Note must be prepared in accordance with the following requirements:

- The Note must be signed by any individual whose income or financial strength is used in the underwriting process;
- The Note Rate must be indicated in one-thousandth percent (.001%) increments. Examples of eligible Note Rates are: 5.000%, 5.001%, 4.999%, or 5.125%

Note Endorsement

The PFI must endorse the Note "in blank" as follows:

PAY TO THE ORDER OF
WITHOUT RECOURSE
(Name of PFI)
(Signature of authorized officer)
(Typed name and title of authorized officer)

¹⁸⁷ MPF Announcement 2017-12 (3/16/17)

This endorsement "without recourse" will in no way affect the PFI's obligations under the PFI Agreement.

The original payee on the Note may not delegate to an attorney-in-fact its authority to execute a Note endorsement. An authorized signer that is an employee of the original payee must execute the Note endorsement.

If the PFI is not the original payee on the Note, then the chain of endorsements must be proper and complete from the original payee shown on the Note to the PFI.

Use of an Allonge

An allonge to the Note may be used for the endorsement if the following requirements are met:

- If the allonge is dated, the endorsement must be dated on or after the Note date;
- The allonge must be permanently affixed to the Note;
- The allonge must identify the associated Note by referencing:
 - The Note date;
 - Borrower(s) name(s);
 - Note amount;
 - Mortgaged Property Address.
- The form of the allonge, and its use, complies with all Applicable Laws; and
- The use of the allonge does not impair the MPF Bank's or any other investors' rights or status as a "holder in due course".

10.2.6 Power of Attorney (05/31/2019) ¹⁸⁸

When the Borrower has designated an individual to act as attorney-in-fact by granting a Power of Attorney (POA), the POA must be notarized and dated on or before the Note date. The person acting as attorney-in-fact should not be employed by or affiliated with any party to the loan transaction other than the Borrower.

Except as otherwise required by applicable law, or unless they are the borrower's relative, none of the following persons connected to the transaction shall sign the security instrument or note as the attorney-in-fact or agent under a power of attorney:

- the lender;

¹⁸⁸ MPF Announcement 2019-31 (5/31/19)

- any affiliate of the lender;
- any employee of the lender or any other affiliate of the lender;
- the loan originator;
- the employer of the loan originator;
- any employee of the employer of the loan originator;
- the title insurance company providing the title insurance policy or any affiliate of such title insurance company (including, but not limited to, the title agency closing the loan), or any employee of either such title insurance company or any such affiliate; or
- any real estate agent with a financial interest in the transaction or any person affiliated with such real estate agent.

The borrowers relative, includes any person defined as a relative in this Guide, or a person who is a fiancé, fiancée, or domestic partner of the borrower.

The POA must specifically grant the attorney-in-fact the power to act in the transaction, either by specifically describing the applicable transaction or by generally describing the type of transaction. The original POA must be attached to and delivered with the Note, unless:

- PFI ensures it is recorded pursuant to applicable law, with the Security Instrument, in which case a certified copy of the POA must be attached to the Note; or
- The signatory used a general POA to sign the Note and the signatory needs the general POA for other legal documents, in which case a certified copy of the POA must be attached to the Note.

Except as required by applicable law, a power of attorney may not be utilized to sign a security instrument or note if either (or both) of the following applies:

- no other borrower executed such loan documents in person and in the presence of a notary, unless a power of attorney is utilized to sign such loan documents for each borrower, and the attorney in fact is either:
 - the borrowers attorney at law; or
 - the borrowers relative
- the transaction is a cash out refinance.

10.2.7 Facsimile Signatures (3/16/17)¹⁸⁹

If facsimile signatures are used to endorse the Note, the documentation described below must be provided as evidence that such endorsements are valid in relevant states, are authorized by appropriate corporate action, and are valid and enforceable. The following documentation is required:

- A copy, certified by the PFI's secretary or other authorized officer, of the resolution by the PFI's board of directors: (i) authorizing specific officers to use their facsimile signatures to endorse Notes; (ii) stating that such facsimile signatures by the authorized officer will be a valid and binding act by the PFI; and (iii) authorizing the PFI's secretary or other appropriate officer to certify the validity of the resolution, the names of the officers authorized to endorse Notes using their facsimile signatures and the authenticity of specimen forms of facsimile signatures;
- A notarized "certification of facsimile signature", which includes both the facsimile and the original signatures of the signing officer(s) and each officer's certification that the facsimile is a true and correct copy of his or her original signature; and
- Legal opinions from the PFI's counsel indicating that facsimile signatures are valid for each jurisdiction in which the PFI uses them.

Additionally, the PFI must indemnify and hold the MPF Bank harmless against any claims, losses, judgments, costs and expenses, including reasonable attorneys' fees, arising from the invalidity of its use of facsimile signatures. The PFI must provide a copy of all documentation to the MPF Bank and must retain a copy in its records.

10.2.8 MERS Registration (3/16/17)¹⁹⁰

The PFI must comply with the requirements of the Mortgage Electronic Registration System (MERS) Membership Agreement if it is a MERS Member and delivers Mortgages registered in MERS to an MPF Bank.

If any requirement of the MERS Membership Agreement is in conflict with the requirements of the Selling Guide, the PFI must comply with the requirements of the Selling Guide.

If a Mortgage Loan has been registered with MERS, no Assignment from the PFI is required. However, the PFI must immediately register with MERS that the investor for that Mortgage Loan is "Org ID 1000491".

¹⁸⁹ MPF Announcement 2017-12 (3/16/17)

¹⁹⁰ MPF Announcement 2017-12 (3/16/17)

If MERS is the original Mortgagee (a MOM loan), a certified copy of the Security Instrument showing MERS as the original Mortgagee must be delivered to the Custodian.

Use of MERS Rider in Specified Geographic Areas

In the states listed below, use of the MERS Rider (Fannie Mae/Freddie Mac Form 3158) is required when a newly originated Mortgage Loan will be registered with MERS. In addition, the instructions to the MERS Rider must be followed in order to make changes to the standard Security Instruments for the following states:

- Montana;
- Oregon; and
- Washington

As the MERS Rider must be used in these specified states, post-closing assignments into MERS are prohibited.

The new rider and instructions are available on the Single-Family Riders & Addenda page at <https://www.fanniemae.com/singlefamily/riders-addenda>. The instructions are under the “Summary” link for the Form 3158.

CHAPTER 11. LOAN PRESENTMENT

11.1 Loan Presentment Overview (12/11/18) ¹⁹¹

The Mortgage Loan must be submitted for Loan Presentment prior to delivery. The Loan Presentment Request (Form OG3) must be completed and submitted electronically via the eMPF website or via secure email to MPF-Help@fhlbc.com..

11.1.1 Submission (10/31/17) ¹⁹²

A Loan Presentment Request (Form OG3) received via secure email will be accepted any time and will be processed each Business Day between 8:30 A.M. and 3:30 P.M. Central Standard Time. A Loan Presentment Request received via the eMPF Website will be accepted 7 days per week, including holidays, between 6:00 A.M. and 8:00 P.M. Central Time, except when system maintenance is necessary and the eMPF Website is not available. Note that during non-business hours and on holidays and weekends, MPF Service Center staff will not be available to provide assistance to PFIs who may experience problems with their Loan Presentments. If problems occur, PFIs need to contact the MPF Service Center for assistance the next Business Day.

For each Conventional Mortgage Loan, the MPF Provider evaluates the information on the Loan Presentment Request using the MPF credit enhancement rating system and determines a Loan Level Credit Enhancement amount and percentage. For certain MPF Mortgage Products, only the aggregate Loan Level Credit Enhancement amount plus any applicable Pool Level Credit Enhancement amount are reported to the PFI.

The Loan Presentment data and, if applicable, the Loan Level Credit Enhancement amount, will be confirmed with the PFI electronically or via e-mail. If submission is via secure email, confirmation will be returned via e-mail to the PFI within twenty-four (24) hours of submission or on the next Business Day, whichever is later.

11.1.2 Special Instructions (3/16/17) ¹⁹³

In limited instances where a loan originator may be exempt from licensing or registration under the *de minimus* exception of the SAFE Act, and does not have a loan originator identifier through NMLS, the PFI should populate all applicable data fields related to an NMLS license number, including the OG3, with a value of "1000".

¹⁹¹ MPF Announcement 2018-60 (12/11/18)

¹⁹² MPF Announcement 2017-63 (10/31/17)

¹⁹³ MPF Announcement 2017-12 (3/16/17)

For loans with AHP funds that have an LTV greater than ninety-five percent (95%), the PFI must contact the MPF Servicer at 877-345-2673 or at MPF-help@fhlbc.com to submit the loan for Loan Presentment.

For the purposes of loan eligibility and Loan Presentment, the TLTV must be calculated using the full HELOC limit, even if undrawn.

The following table provides an example of how to calculate the TLTV for Loan Presentment:

1) First Mortgage Amount	2) Full HELOC Limit	3) Outstanding HELOC Amount	4) Mortgaged Property Value	TLTV (1+2) / 4
\$50,000.00	\$40,000.00	\$10,000.00	\$100,000.00	90%

11.1.3 Resubmission

If any of the Loan Presentment data changes after submission, the PFI must re-submit the Loan Presentment data. For a resubmission, only the data that has changed since the last submission should be submitted.

For Conventional Mortgage Loans, the most recent Credit Enhancement is considered the only valid Loan Level Credit Enhancement amount.

For Government Mortgage Loans, the most recent Loan Presentment submission is considered the only valid data.

11.1.4 Inability to Obtain a Usable FICO Score (3/16/17)¹⁹⁴

Credit repositories are unable to provide FICO scores to the Originator when:

- No file is found; or
- There is a match, but there is insufficient credit data to calculate a FICO score (known as a “thin file”).

In the case where only a thin file can be obtained, the loan must be submitted for Loan Presentment, and the PFI must indicate “thin file” in place of a FICO score.

11.1.5 Loan Level Credit Enhancement Expiration

¹⁹⁴ MPF Announcement 2017-12 (3/16/17)

The Loan Level Credit Enhancement amount for a Mortgage Loan expires ninety (90) calendar days after the submission of the Loan Presentment data. However, the Loan Level Credit Enhancement amount expiration is subject to MPF Program credit enhancement rating system limitations such as upgrades, modifications or enhancements to MPF Program methodology and changes in data element requirements.

11.1.6 Use of Credit Enhancement Data

Credit Enhancement information, both on a loan level basis and on a pool level basis, supplied by the MPF Provider on behalf of the MPF Bank is proprietary information. This information is shared with the PFI for the sole purpose of assisting the PFI to evaluate whether to sell the mortgage to, the MPF Bank, and for the PFI to determine the appropriate capital treatment for such mortgage(s), and for no other purpose, including but not limited to valuation for market securitization purposes.

The MPF Bank and MPF Provider, their vendors and licensors and all Affiliates thereof do not and cannot warrant the accuracy, adequacy or completeness of, or performance or results that may be obtained by using the MPF Provider's system and/or any information or data generated with the use of this system. The information and data generated by the MPF Provider's system are provided "as is" without any express or implied warranties, including but not limited to any implied warranties of merchantability or fitness for any particular purpose or use. The MPF Bank and MPF Provider, their vendors and licensors and all Affiliates thereof shall not be liable to any PFI or anyone else for any inaccuracy, delay, interruption in service, error or omission, regardless of cause, or for any resulting damages.

Neither the MPF Bank, MPF Provider, their vendors and licensors and all Affiliates thereof nor anyone else who has been involved in the creation or production of the MPF Provider's system and/or the delivery of the information and data generated by the system or any component of the forgoing shall be liable for any indirect, incidental, special, punitive, consequential or similar damages, such as but not limited to, loss of anticipated profits or benefits resulting from the use of the information and data generated by the MPF Provider's system, even if any of them has been advised as to the possibility of such damages. This limitation of liability shall apply to any claim or cause whatsoever whether such claim or cause arises in contract, tort or otherwise. In the event that liability is nevertheless imposed, the cumulative liability of the MPF Bank and MPF Provider, their vendors and licensors and all Affiliates thereof shall not exceed twenty thousand dollars (\$20,000) in the aggregate.

CHAPTER 12. MASTER COMMITMENTS

12.1 Master Commitment Overview (3/16/17)¹⁹⁵

A Master Commitment is an agreement between the PFI and the MPF Bank which defines the terms under which the MPF Bank will purchase a pool of Mortgage Loans delivered by the PFI. A Master Commitment must be completed and signed by an authorized party of the PFI in accordance with the PFI Agreement, and must be signed as accepted by the MPF Bank.

The signing of a Master Commitment does not require the PFI to originate or sell any mortgages under the agreement, but it does constitute the PFI's best efforts commitment to deliver mortgages to the MPF Bank. The MPF Bank reserves the right to limit the number and/or total dollar amount of Master Commitments.

Each Conventional Mortgage Loan Master Commitment will have an associated First Loss Account (FLA) and a Maximum and/or Actual Credit Enhancement amount. Both the FLA and CE amount may be used to cover Realized Losses from the assigned pool of Mortgage Loans.

12.2 Establishing a Master Commitment (12/22/16)¹⁹⁶

Master Commitments must be established for each distinct Mortgage Loan type and distinct remittance type. No more than 15% of the aggregate principal balance of each Master Commitment may be comprised of manufactured housing.

When establishing a Master Commitment, the PFI and the MPF Bank must determine and/or be aware of the following:

- The estimated number and dollar amount of Mortgage Loans it believes it will deliver to the MPF Bank over the term of the Master Commitment (The estimated dollar amount of Mortgages will be shown as the amount of the Master Commitment);
- The remittance type for the Master Commitment (actual/actual, actual/actual single remittance or scheduled/scheduled);
- The initial term of the Master Commitment (must be at least three (3) months, but may not exceed twelve (12) months); and
- Whether Servicing of the Mortgage Loans will be retained, or sold concurrently with the sale of Mortgage Loans.

¹⁹⁵ MPF Announcement 2017-12 (3/16/17)

¹⁹⁶ MPF Announcement 2016-30 (12/22/16)

The following combinations of Mortgage Loan types are not allowed within the same Master Commitment and require separate Master Commitments:

- Conventional Mortgage Loans may not be combined with Government Loans;
- HUD Section 184 loans may not be mixed with any other Government or Conventional Mortgage Loans;
- RHS Section 502 loans may not be mixed with any other Government or Conventional Mortgage Loans; and
- Remittance types (actual/actual, actual/actual single remittance, and scheduled/scheduled) may not be combined.

12.2.1 Credit Enhancement and First Loss Account (3/16/17)¹⁹⁷

The Maximum Credit Enhancement amount is the maximum amount of Realized Losses for which the PFI can be required to reimburse the MPF Bank for the subject Master Commitment. The PFI must pledge collateral to secure its Credit Enhancement obligations to the MPF Bank.

The MPF Bank will establish a Maximum Credit Enhancement amount for Conventional Mortgage Loan Master Commitments based on the MPF Mortgage Product. The PFI may be required to provide a sample of mortgages that is similar in credit characteristics, mix, and term to the mortgages that the PFI expects will make up the given Master Commitment. For each mortgage in the sample, the PFI shall complete a Loan Presentment Request (Form OG3) and submit it to the MPF Provider via the eMPF Website or secure email.

For MPF Original Master Commitments, the MPF Provider will use the sample of mortgages to develop a target Credit Enhancement amount. This amount represents the Credit Enhancement that would most probably be required if the Mortgage Loans delivered under the Master Commitment have the characteristics estimated by the PFI.

12.2.2 Loan Level Credit Enhancement (3/16/17)¹⁹⁸

A Loan Level Credit Enhancement must be calculated before delivering a Conventional Mortgage Loan under an MPF Traditional Product. The data submitted for the most recent Loan Level Credit Enhancement must be complete, correct, accurate, and unexpired.

Every Conventional Mortgage Loan requested to be delivered under a Master Commitment will be subject to the following procedures:

- The Mortgage Loan must have first been submitted for Loan Presentment;

¹⁹⁷ MPF Announcement 2017-12 (3/16/17)

¹⁹⁸ MPF Announcement 2017-12 (3/16/17)

- The Loan Level Credit Enhancement for the requested Mortgage Loan will be added to the Credit Enhancements of all Mortgage Loans previously delivered under the same Master Commitment;
- If required by the MPF credit enhancement rating system, the sum of the projected Loan Level Credit Enhancement amounts will then be added to the new Pool Level Credit Enhancement;
- If the sum of the projected Loan Level Credit Enhancement plus the new Pool Level Credit Enhancement does not exceed the Maximum Credit Enhancement amount of the Master Commitment, and the other MPF Program delivery requirements are satisfied, the Mortgage Loan will be purchased and the Loan Level Credit Enhancement amount for that Mortgage Loan will be assigned to the specified Master Commitment; and
- If the Maximum Credit Enhancement amount is exceeded, the specific mortgage loan will not be purchased.

12.2.3 Pool Level Credit Enhancement

In addition to the specific Loan Level Credit Enhancement amount assigned to a Master Commitment, a Pool Level Credit Enhancement amount may also be calculated and assigned to a Master Commitment each time a new Mortgage Loan is delivered under that Master Commitment, if required by the MPF credit enhancement rating system.

12.2.4 Actual Credit Enhancement Amount

The Actual Credit Enhancement amount is the sum of Loan Level Credit Enhancement amounts for each Mortgage Loan and the Pool Level Credit Enhancement for the same Mortgage Loans in the Master Commitment.

The Actual Credit Enhancement amount must always be less than, or equal to, the Maximum Credit Enhancement amount for a given Master Commitment.

12.2.5 FLA Percentage (3/16/17)¹⁹⁹

For MPF Original Master Commitments, the MPF Bank establishes the FLA percentage by examining potential credit losses from the sample of mortgages provided by the PFI. The FLA percentage will be determined solely at the MPF Bank's discretion. Master Commitments for other Conventional MPF Traditional Mortgage Products will provide for the FLA as specified for the applicable MPF Mortgage Product.

12.2.6 Credit Enhancement Fee

Subject to the performance of the Mortgage Loans in a Master Commitment (if the Credit Enhancement Fee is performance based), the MPF Bank will pay the PFI a Credit Enhancement Fee

¹⁹⁹ MPF Announcement 2017-12 (3/16/17)

based on the Principal Balance of the Mortgage Loans in the Master Commitment as of the last calendar day of each month. If the performance based CE Fees are withheld they will be applied to losses before the CE obligation. The Credit Enhancement Fee will be paid to the PFI on the eighteenth (18th) calendar day of the following month or on the preceding Business Day if the eighteenth (18th) is not a Business Day.

Credit Enhancement Fees for newly purchased Mortgage Loans will be prorated on a 30/360 day basis for the period starting with the Funding Date through the end of the month.

12.3 Filling a Master Commitment

The Master Commitment gets filled when Delivery Commitments are obtained under the Master Commitment and when Mortgage Loans are delivered under the Delivery Commitments.

The PFI must assign each Delivery Commitment to a specific open Master Commitment. A Master Commitment is open for the issuance of a new Delivery Commitment as long as the sum of open Delivery Commitments and the Mortgage Loans already delivered under the Master Commitment is less than the Master Commitment amount.

12.4 Amending a Master Commitment

The PFI may request that the MPF Bank amend an open Master Commitment at any time. Any Master Commitment amendment made by the MPF Bank will be made at the MPF Bank's sole discretion.

Amendments may be requested to:

- Change the size and term of the Master Commitment;
- Change the Maximum Credit Enhancement amount; or
- Extend the expiration date of the Master Commitment.

Amendment requests are subject to the following conditions:

- Requests for amendments must be accompanied by complete information and supporting data;
- No request for amendment may be made which would affect a Mortgage Loan or Delivery Commitment already assigned to a specific Master Commitment, the Actual Credit Enhancement amount, the First Loss Account, or the Credit Enhancement Fee.

12.5 Resetting the PFI Credit Enhancement Obligation

For Master Commitments for which a reset is specified, the PFI's Credit Enhancement obligation is recalculated based on the current MPF credit enhancement rating system. Some Master Commitment characteristics taken into consideration include, but are not limited to, the unpaid Principal Balance

of the Mortgage Loans, the credit evaluation of remaining Mortgage Loans and the remaining balances of the MPF Bank's FLA and/or stop loss account, where applicable.

The recalculation process is conducted and completed the month following the recalculation time frame as determined by the MPF Mortgage Product and the Master Commitment. For example, if the recalculation is as of the month of August, the recalculation process will be completed in September.

This recalculation will utilize the current MPF credit enhancement rating system to determine the Credit Enhancement. If this recalculated amount is less than the prior Credit Enhancement obligation, the PFI's Credit Enhancement obligation will be reset to the new, lower level. The new Credit Enhancement obligation will not be less than 20 Basis Points (0.20 %) of the remaining Principal Balance of the Master Commitment, unless a lower Credit Enhancement is permitted for the specific Master Commitment.

12.6 Closing a Master Commitment

A Master Commitment is closed when any of the following occurs:

- The sum of open Delivery Commitments and the Mortgage Loans delivered under the Master Commitment equals or exceeds the Master Commitment amount;
- The Master Commitment term has expired; or
- In the MPF Bank's or the MPF Provider's judgment, the Actual Credit Enhancement may exceed the Maximum Credit Enhancement due to existing Delivery Commitments.

CHAPTER 13. DELIVERY COMMITMENTS

13.1 Overview (10/31/17)²⁰⁰

A Delivery Commitment is an agreement between the PFI and the MPF Bank that defines the Note Rate, premium or discount, Closing time interval, product type, subproduct type total dollar amount, and other terms pertaining to the purchase of Mortgage Loans under the terms of the corresponding Master Commitment.

Except for Best Efforts Delivery Commitments delivered under specified MPF Xtra® Master Commitments, all Delivery Commitments are mandatory and may be filled with a single Mortgage Loan or multiple Mortgage Loans. For information on Best Efforts Delivery Commitments, see the MPF Xtra Selling Guide.

A Delivery Commitment cannot be assigned to a closed Master Commitment, nor reassigned to another Master Commitment.

13.2 Establishing a Delivery Commitment (10/31/17)²⁰¹

By 8:30 A.M. Central Time each Business Day, the MPF Provider will publish electronically on the eMPF® Website, the Rate and Fee Schedules for each remittance type, if available from the MPF Bank. Each individual Rate and Fee Schedule posted will have a unique schedule number.

Posted Rate and Fee Schedules expire at 3:30 P.M. Central Time on the date of issue. The MPF Provider may cancel, withdraw and/or reissue the Rate and Fee Schedules at any time during the Business Day. Each new issue of a Rate and Fee Schedule will be assigned a new unique schedule number and will be published electronically as indicated above.

The Rate and Fee Schedules posted directly by the MPF Provider on the eMPF Website or by a third-party investor for the MPF Direct product provide indicative pricing and do not constitute an offer by the MPF Bank to the PFI for a Delivery Commitment.

At any time between 8:30 A.M. Central Time and 3:30 P.M. Central Time, the PFI may obtain a Delivery Commitment using the following methods:

- For Delivery Commitments less than \$10 Million, the PFI may utilize the eMPF Website; or

²⁰⁰ MPF Announcement 2017-63 (10/31/17)
MPF Announcement 2017-12 (3/16/17)

²⁰¹ MPF Announcement 2017-63 (10/31/17)
MPF Announcement 2017-62 (10/27/17)
MPF Announcement 2017-12 (3/16/17)

- For Delivery Commitments greater than or equal to \$10 Million, the PFI must contact the MPF Servicer Center. All telephone conversations relative to obtaining a Delivery Commitment will be tape-recorded.

The PFI will supply the following information to the MPF Provider:

- PFI name and number (if via telephone);
- The name of the person calling and authorized to obtain a Delivery Commitment (if via telephone);
- The number of the Master Commitment to which the Delivery Commitment is to be assigned;
- The associated product type, subproduct type, and commitment term/expiration date;
- The Note Rate for the Delivery Commitment; and
- The Delivery Commitment amount.

The PFI is required to make specific representations and warranties when requesting a Delivery Commitment for certain MPF Mortgage Products.

The MPF Provider will verify the following information:

- The referenced Rate and Fee Schedule is still valid; and
- The referenced Master Commitment is open and the remaining amount equals or exceeds the amount of the Delivery Commitment.

If the above items are confirmed, the MPF Provider will assign a Delivery Commitment number and issue a binding Delivery Commitment. The terms of each Delivery Commitment will be confirmed with the PFI on the day of issuance via on-screen notification and e-mail.

13.2.1 Note Rate Range

For each Delivery Commitment, the PFI must specify a Note Rate from the appropriate Rate and Fee Schedule. The acceptable Note Rate range for the Mortgage Loans in a Delivery Commitment is plus or minus 25 Basis Points (0.25%) from the specified Note Rate, or the limit of the price range, whichever is more restrictive.

Since Delivery Commitment pricing is published and obtained in one-eighth percent (0.125%) increments, pricing will be determined for Mortgage Loans that are delivered with Note Rates in between one-eighth percent increments by interpolating the pricing difference between the upper and lower one-eighth percent rate published for the specific Delivery Commitment.

13.3 Extending a Delivery Commitment (3/15/18)²⁰²

A Delivery Commitment may be extended prior to its expiration by contacting the MPF Service Center or via the eMPF website. The extension is in one-day increments up to a maximum of thirty (30) calendar days. A Delivery Commitment extension fee will be assessed for each extension. The Delivery Commitment must have delivery capacity available in order to be extended.

13.4 Closing a Delivery Commitment

A Delivery Commitment is closed on the applicable expiration date or on the date the Delivery Commitment is filled, whichever occurs first.

A Delivery Commitment is considered filled when Mortgage Loans aggregating the maximum permitted dollar amount have been delivered. The maximum permitted dollar amount is the greater of:

- 101% of the original Delivery Commitment amount; or
- The original Delivery Commitment amount plus \$100,000.

Price adjustment fees may apply when the aggregate principal amount of the Mortgage Loans delivered under the Delivery Commitment is greater than the Delivery Commitment amount at expiration.

No Mortgage Loan may be delivered under a Delivery Commitment if it would cause that Delivery Commitment to exceed the maximum permitted dollar amount.

13.5 Delivery Commitment Fees

This section describes the fees that may be assessed in relation to a Delivery Commitment.

13.5.1 Pair-off Fees

For each Delivery Commitment of \$2 Million or less, the PFI will be assessed a Pair-off Fee at expiration when the aggregate principal amount of the Mortgage Loans delivered under a Delivery Commitment is less than ninety-five percent (95%) of the original Delivery Commitment amount. The Pair-off Fee will be calculated on the difference between the aggregate principal amount of the Mortgage Loans actually purchased by the MPF Bank and ninety-five percent (95%) of the original Delivery Commitment amount.

For each Delivery Commitment of greater than \$2 Million or for each MPF Government MBS Mortgage Loan Delivery Commitment of any amount, the PFI will be assessed a Pair-off Fee at

²⁰² MPF Announcement 2018-18 (3/15/18)

expiration when the aggregate principal amount of the Mortgage Loans delivered under a Delivery Commitment amount is less than ninety-nine percent (99%) of the original Delivery Commitment amount. The Pair-off Fee will be calculated on the difference between the aggregate principal amount of the Mortgages actually purchased by the MPF Bank and ninety-nine percent (99%) percent of the original Delivery Commitment amount.

The Pair-off Fee will be calculated as of the close of business on the expiration date of the Delivery Commitment.

Reduced Delivery Commitment

The PFI may reduce the amount of a Delivery Commitment prior to the expiration of that Delivery Commitment. For all Delivery Commitments which are reduced, a Pair-off Fee will be calculated on one hundred percent (100%) of the reduction amount of the Delivery Commitment.

The reduction amount of the Delivery Commitment is the amount of the existing Delivery Commitment less the amount of the reduced Delivery Commitment. The Pair-off Fee will be calculated at the time of the reduction.

13.5.2 Price Adjustment Fees

For each Delivery Commitment of \$2 Million or less, the PFI will be assessed a Price Adjustment Fee when the aggregate principal amount of the Mortgage Loans delivered under a Delivery Commitment is greater than one hundred-five percent (105%) of the Delivery Commitment amount at expiration. The Price Adjustment Fee will be assessed at expiration and calculated on the difference between the aggregate principal amount of the Mortgage Loans actually purchased by the MPF Bank and one hundred-five percent (105%) of the original Delivery Commitment amount at expiration.

For each Delivery Commitment of greater than \$2 Million, the PFI will be assessed a Price Adjustment Fee when the aggregate principal amount of the Mortgage Loans delivered under a Delivery Commitment is greater than one hundred-one percent (101%) of the Delivery Commitment amount at expiration. The Price Adjustment Fee will be assessed at expiration and calculated on the difference between the aggregate principal amount of the Mortgage Loans actually purchased by the MPF Bank and one hundred-one percent (101%) of the original Delivery Commitment amount at expiration.

The Price Adjustment Fee will be calculated as of the close of business on the date that the aggregate principal amount of the Mortgage Loan purchased exceeds the amount of the Delivery Commitment.

13.5.3 Calculation of the Pair-off Fee and the Price Adjustment Fee (10/31/17)²⁰³

The MPF Provider will calculate the Pair-off Fee and Price Adjustment Fee based on the following:

²⁰³ MPF Announcement 2017-63 (10/31/17)

- The nature and amount of the pair-off;
- The premium or discount corresponding to the Note Rate issued for the Delivery Commitment; and
- The premium or discount in effect at the time of pair-off for Delivery Commitments that have the same product type, subproduct type, Note Rate, and delivery period that most closely approximates the remaining term of the Delivery Commitment being paired off.

Pair-off Fees and Price Adjustment Fees will be charged to the PFI's DDA. Under no circumstances will these fees be paid directly to the PFI.

CHAPTER 14. MORTGAGE LOAN PURCHASE

All Mortgage Loans delivered under the MPF Program must be of investment quality.

14.1 Conventional Mortgage Loan Seasoning Requirements (10/31/17)²⁰⁴

In addition to complying with all other MPF Program Requirements, Conventional Mortgage Loans must also meet the following criteria:

Category	Mortgage Loans with 24 or fewer monthly payments applied	Mortgage Loans with more than 24 monthly payments applied
Notification to MPF Bank prior to submitting the loan for Loan Presentment or opening a Delivery Commitment.	Not Required.	Required. At its discretion, the MPF Bank may require the Mortgage Loans to meet additional criteria.
Applicable eligibility and underwriting requirements	MPF Program Requirements in effect on the Note date, with the exception of the maximum original loan amount, which must comply with MPF Program loan limits in effect on the Funding Date.	MPF Program Requirements in effect on the Funding Date. If the Loan Application Date is on or after January 10, 2014, the Mortgage Loan must be a “safe harbor” qualified mortgage.
FICO score maximum age on Funding Date	180 days.	180 days and the FICO score must be the greater of: <ul style="list-style-type: none"> • 660; or • The minimum applicable credit score in effect on the Funding Date for the loan characteristics.
Minimum Transaction Amount	None.	\$2,500,000 for a single transaction.

²⁰⁴MPF Announcement 2017-63 (10/31/17)
MPF Announcement 2017-12 (3/16/17)

Category	Mortgage Loans with 24 or fewer monthly payments applied	Mortgage Loans with more than 24 monthly payments applied
Payment History on Funding Date	<ul style="list-style-type: none"> The Mortgage Loan has not been thirty (30) days or more delinquent in the most recent twelve (12) months. The Borrower's most recent monthly payment cannot be past due as follows: <ul style="list-style-type: none"> For Actual/Actual and Actual/Actual Single remittance types, the monthly payment must not be more than fifteen (15) days past the payment due date; For Scheduled/Scheduled remittance types, the Mortgage Loan must be current through the end of the month prior to the Funding Date. 	

By delivering the Mortgage Loan under the MPF Program, the PFI represents and warrants that from the Note date to the Funding Date, the Mortgage Loan has met the following requirements:

- The value of the Mortgaged Property has not declined;
- The Mortgage Loan has not been modified;
- The Mortgage Loan's lien priority has not been adversely affected;
- The occupancy status of the Mortgaged Property has not changed; and
- The Mortgage Loan has been serviced in compliance with Applicable Standards.

14.2 Government Mortgage Loan Seasoning Requirements (3/16/17)²⁰⁵

In addition to complying with all MPF Program and applicable Government Agency requirements for Government Mortgage Loans, Government Mortgage Loans must meet the following criteria:

Category	Mortgage Loans with 24 or fewer payments applied	Mortgage Loans with more than 24 payments applied
Notification to MPF Bank prior to submitting the loan to Loan Presentment or opening a Delivery Commitment.	Not required.	Required. At its discretion, the MPF Bank may require the Mortgage Loans to meet additional criteria.

²⁰⁵ MPF Announcement 2017-12 (3/16/17)

Category	Mortgage Loans with 24 or fewer payments applied	Mortgage Loans with more than 24 payments applied
Applicable eligibility and underwriting requirements	MPF Program and Government Agency requirements in effect on the Note date.	MPF Program and Government Agency requirements in effect on the Funding Date.
Minimum Transaction Amount	None.	\$2,500,000 for a single transaction.
Payment History on Funding Date	<ul style="list-style-type: none"> The Mortgage Loan has not been thirty (30) days or more delinquent in the most recent twelve (12) months. The Borrower's most recent monthly payment cannot be past due as follows: <ul style="list-style-type: none"> For Actual/Actual and Actual/Actual Single remittance types, the monthly payment must not be more than fifteen (15) days past the payment due date; For Scheduled/Scheduled remittance types, the Mortgage Loan must be current through the end of the month prior to the Funding Date. 	

14.3 Data to be Submitted (5/1/19) ²⁰⁶

In order to deliver a Mortgage Loan under the MPF Program, the following data must be submitted electronically via the eMPF website:

- PFI number and name
- PFI loan number
- Loan Application Date
- Name of the person submitting data and authorized to deliver Mortgages
- Master Commitment number
- Delivery Commitment number
- Borrower(s) name
- Borrower(s) ethnicity

²⁰⁶ MPF Announcement 2019-26 (5/1/19)

- Borrower(s) race or national origin
- Borrower(s) gender
- Borrower(s) age
- Borrower(s) date of birth
- Borrower(s) monthly income
- Borrower(s) Social Security Number
- Borrower(s) FICO score
- Borrower(s) FICO score source
- Number of Borrowers
- NextGen FICO®²⁰⁷ score
- Borrower(s) self-employed
- First time buyer
- Loan Origination Source
- Mortgage Identification Number (if MERS registered)
- Loan plan type
- Loan purpose
- Occupancy
- Loan feature
- Product type
- Loan term (in months)
- Note Rate
- Original loan amount
- Appraised value
- Sales price
- Note Date
- Loan-to-Value (LTV) Ratio

²⁰⁷ NextGen® FICO is a registered trademark of the Fair Isaac Corporation.

- Subordinated financing
- Total Loan-to-Value (TLTV) Ratio
- Housing expense ratio
- Total debt ratio
- Mortgage insurance coverage level (%)
- Mortgage insurance company code (if required)
- Documentation type
- Asset verification
- Automated Underwriting System (AUS)
- Automated Underwriting System (AUS) certificate number
- Appraisal Type
- Buydown
- Anti-predatory lending (APL) category
- HOEPA status
- Rate/APR spread or Average Prime Offer Rate/APR spread
- Higher Priced Mortgage Loan status
- Property street address and apartment number
- City, state and zip code
- Property county name
- Federal Information Processing Standards (FIPS) code
- Property type
- Manufactured housing information
- Number of bedrooms per unit
- Unit owner occupied per unit
- Rent level per unit
- Rent plus utilities per unit
- Principal and Interest Payment
- Outstanding loan balance

- First payment due date
- Next payment due date
- Maturity date
- Funding Date
- Investor due date
- Disbursement date (if refinance)
- Loan Originator and Originator's Company ID numbers
- Appraiser state license number, if an Appraisal was obtained
- Supervisory appraiser state license number (if signor on Appraisal form)
- Agency case number (Government Loan only)
- Current Loan-to-Value ratio (seasoned loan only)
- Pay history (seasoned loan only)

Borrower and Co-Borrower income must be collected and delivered to the MPF Provider for all Government Mortgage Loans, regardless of the applicable Government Agency's requirement to use or collect such information.

14.4 Purchase Requirements (3/16/17)²⁰⁸

In order to qualify for purchase under the MPF Program, the Mortgage Loan must meet the following requirements:

- Be assigned to an open Delivery Commitment that corresponds to the applicable MPF Mortgage Product;
- Not cause the maximum permitted amount of the referenced Delivery Commitment to be exceeded (within tolerance limits);
- For Conventional Mortgage Loans, not cause the Actual Credit Enhancement amount to exceed the Maximum Credit Enhancement amount of the relevant Master Commitment; and
- Have the entire principal amount of the Mortgage Loan fully disbursed to the Borrower, or disbursed or advanced in accordance with the direction of the Borrower, prior to the purchase of the Mortgage Loan by the MPF Bank. For example, a refinance Mortgage Loan cannot be delivered under the MPF Program during any applicable rescission period for the refinance Mortgage.

²⁰⁸ MPF Announcement 2017-12 (3/16/17)

14.5 Amount to be Paid

Mortgage Loans will be purchased in the amount of the current principal balance plus interim interest, from the prior payment date to the Funding Date, calculated on a 30/360 basis at the pass-through rate, plus or minus any applicable premium or discount.

For the Scheduled/Scheduled remittance type, the "outstanding loan balance" on the Loan Presentment Request (Form OG3) is the scheduled principal balance as of the month delivered (if the first payment date is in the future, it is the scheduled principle balance following application of the first payment).

For the Actual/Actual and actual/actual single remittance types, the "outstanding loan balance" is the actual principal balance as of the Funding Date.

14.5.1 Payment Method (10/27/17)²⁰⁹

Upon determination that a Mortgage Loan can be purchased, the MPF Bank will deposit funds in the PFI's DDA. The purchase of a Mortgage Loan will be confirmed with the PFI on the Funding Date via e-mail or electronically.

The first payment due date for all Mortgage Loans should be the first day of the second month following the disbursement date of the Mortgage Loan.

14.5.2 Reconciliation

If at a later date it is determined that a payment error has taken place, regardless of the source of the error, the MPF Bank will make adjusting debits or credits to the PFI's DDA and confirm the details of such adjustments with the PFI.

14.5.3 Premium Pricing Reimbursement (12/22/16)²¹⁰

The MPF Bank reserves the right to request reimbursement for any premiums paid in connection with Mortgage Loans that are paid off within 120 days of the Funding Date.

²⁰⁹ MPF Announcement 2017-62 (10/27/17)

²¹⁰ MPF Announcement 2016-30 (12/22/16)

CHAPTER 15. DOCUMENT DELIVERY TO THE CUSTODIAN **(10/27/17) ²¹¹**

The documentation and delivery requirements in this chapter must be followed by any approved Custodian, unless the requirement is specifically stated to be for the MPF Program Custodian. The PFI must obtain acceptance from the Custodian that documents are in proper form and are properly executed. PFIs should reference MPF Custody Frequently Asked Questions and Answers (Exhibit J) for assistance with the MPF Custody process.

15.1 Collateral File Package (7/24/17)²¹²

Documents must be submitted to the Custodian in the order specified in a legal-sized pocket manila folder. The outside of the manila folder must identify the MPF Program, the PFI's name, the Master Commitment number, the Borrower's name, the MPF loan number and the PFI's loan number. Collateral Files must be sent in MPF loan number order to the Custodian.

The following documents must be sent to the Custodian in the order indicated:

- Original Note with proper endorsements;
In a circumstance where the original Note is lost or destroyed prior to delivery to the Custodian, the PFI may substitute the following:
 - A lost note affidavit along with a copy of the fully-executed Note; or
 - A lost instrument bond in accordance with the Initial Certification Review Checklist for MPF Traditional (Exhibit K).
- The original unrecorded Assignment of the Security Instrument "in blank" from the PFI;
- Original unrecorded Assignments of the Security Instrument from the Affiliate to the PFI (if applicable);
- All recorded Intervening Assignments or certified copies of Intervening Assignments sent for recording (if applicable);
- Original/certified copy of the Power of Attorney (if applicable);
- Any rider, addendum, modification or Assumption that modifies the Note (if applicable); and
- Trust Agreement(s) (if applicable).

²¹¹ MPF Announcement 2017-62 (10/27/17)

MPF Announcement 2017-12 (3/16/17)

²¹² MPF Announcement 2017-37 (7/24/17)

Any copies provided must be certified with the following signed statement: “certified to be a true and correct copy of the original.”

15.1.1 New York Consolidation, Extension, and Modification Agreements (12/22/16)²¹³

For CEMA, the following documents must be submitted to the Custodian:

- Original/Certified Copy of the most current version of CEMA (FNMA/FHLMC Form 3172);
- FNMA/FHLMC Form 3172 Exhibits "A", "B", "C", and "D". Exhibit "A" must list all Notes and Security Instruments being consolidated, modified and extended; and
- The original consolidated Note evidencing the new indebtedness endorsed "in blank", without recourse.

See the Initial Certification Review Checklist for MPF Traditional (Exhibit K) for more CEMA requirements.

15.1.2 Data Accuracy

The PFI is responsible for reviewing all Mortgage Loan documents for completeness and accuracy, and is responsible for the correction of all errors prior to submission to the Custodian. All Closing documents must be error-free. If corrections are necessary, strike-overs that are initialed by the Borrower must be used. Corrective coverings are not acceptable.

The names and signatures of each Borrower must be consistent on all Closing documents, and must correspond to the names appearing on the title insurance policy.

15.2 Document Safeguarding

The PFI must protect and safeguard all Mortgage Loan documents before they are sent to the Custodian or upon release from the Custodian. These practices include protection from external elements (such as fire), identification of documents as MPF Bank assets, and separation from other unrelated documents. Collateral Files should be stored in secure, fire resistant facilities with customary controls on access to assure their safety and security.

15.2.1 Transit Insurance (3/16/17)²¹⁴

If the PFI has not contractually agreed with the Custodian to have the Custodian assume liability for Notes and Assignments and any other documents in the Collateral File while in transit, the PFI must

²¹³ MPF Announcement 2016-30 (12/22/16)

²¹⁴ MPF Announcement 2017-12 (3/16/17)

obtain insurance covering physical damage or destruction to, or loss of, any Notes, Assignments and other documents while such documents are in transit between the Custodian's premises and anywhere, regardless of the means by which they are transported. For the purpose of this insurance, Mortgage Notes are considered to be "Negotiable Instruments" under Section 3-104 of the Uniform Commercial Code (UCC).

The PFI or PFI's insurer, insurance broker or agent must notify the MPF Provider at least thirty (30) calendar days prior to cancellation or nonrenewal of the insurance.

The PFI's insurance policy must:

- Be underwritten by an insurer that has a B+ or better rating and also a financial size category of VI or better according to the A.M. Best Company, or be affiliated with Lloyd's of London;
- Be maintained in an amount that is deemed adequate for the number of Notes and Assignments held in custody and that is deemed appropriate based on prudent business practice; and
- Have a deductible amount no more than the greater of five percent (5%) of the PFI's GAAP net worth or \$100,000, but in no case greater than \$10,000,000.

If the PFI is covered under its parent's insurance program rather than by its own insurance, then the following additional requirements apply:

- The acceptable deductible amount for each insurance policy may be no more than the greater of five percent (5%) of the parent's GAAP net worth or \$100,000, but in no case greater than \$10,000,000; and
- The PFI must be a named insured.

15.3 Initial Certification Review (3/16/17)²¹⁵

The Initial Certification requirements in this section apply to PFIs using the MPF Program Custodian. PFIs using an alternative Custodian must obtain Initial Certification prior to selling the Mortgage Loans under the MPF Program.

The PFI must deliver all required documents to the MPF Program Custodian for review, certification and safekeeping within seven (7) calendar days of the Funding Date by the MPF Bank. The MPF Program Custodian will review the Collateral File in accordance with the Initial Certification Review Checklist for MPF Traditional (Exhibit K).

²¹⁵ MPF Announcement 2017-12 (3/16/17)

For each Collateral File not received and certified within the required time frame, an uncertified loan fee will be assessed to the PFI each calendar day thereafter until the date of Initial Certification by the MPF Program Custodian or repurchase of the Mortgage Loan.

Any Mortgage Loans for which an Initial Certification has not been received from the Custodian within thirty (30) calendar days of the Funding Date will be deemed "Not Eligible" and must be repurchased by the PFI.

The MPF Provider will notify the PFI of all Mortgage Loans for which the MPF Program Custodian has not received a Collateral File.

If the MPF Program Custodian determines that the documents submitted are not acceptable, the Collateral File will be suspended or deemed ineligible. The MPF Provider will notify the PFI of any Mortgage Loans for which the Collateral Files are suspended or ineligible, and the detailed reasons for the suspension or ineligibility.

If the MPF Program Custodian sends documents to the PFI for correction, the PFI must immediately correct any defects and return all documents to the MPF Program Custodian. Penalty charges may be assessed for delays in correcting and resubmitting required documents.

15.3.1 Correction of Exception (10/27/17)²¹⁶

When the PFI discovers an Exception, which includes an error on one of the documents in the Collateral File or a discrepancy between the Loan Presentment information and the loan document information, the PFI must immediately report the Exception by emailing the MPF Custody Department at MPFCustody@FHLBC.com and work with the MPF Custody Department to correct the Exception.

Exceptions are detailed in the Exception Report on the eMPF website. PFIs should reference Exhibit H (Document Codes) and Exhibit I (Exception Codes) for a translation of the codes on the Exception Report.

15.3.2 Loan Not Eligible

If the Custodian determines that the documents in the Collateral File do not meet the MPF Program Requirements, the Custodian will inform the MPF Provider of the conditions that cause ineligibility, and the Mortgage Loan must be repurchased by the PFI. The MPF Bank will affect the repurchase by withdrawing the required funds from the PFI's DDA.

²¹⁶ MPF Announcement 2017-62 (10/27/17)

15.4 Final Certification (3/16/17)²¹⁷

The Final Certification requirements in this section apply to all Government Mortgage Loans, regardless of the Custodian used.

The documents for Government Mortgage Loans must be submitted to and certified by the Custodian for Final Certification within twelve (12) months of the Funding Date (Conventional Mortgage Loans are not subject to Final Certification). The documents may be forwarded on a piecemeal basis as the PFI receives them, or the documents may be immediately forwarded once the PFI receives all of them. Multiple documents must be delivered in Master Commitment number order and then within each Master Commitment, by MPF loan number order. The final documents may be provided in a legal-sized pocket manila folder, or as an alternative, the PFI may provide the applicable Government Agency insurance certificate or loan guaranty in the acceptable delivery format listed in the Government Mortgage Final Certification Review Checklist (Exhibit L). The Custodian will review the Collateral File in accordance with Exhibit L.

An uncertified loan fee will be assessed to the PFI each calendar day for each Mortgage Loan that fails to receive Final Certification in the required time frame.

15.4.1 Required Documentation (3/1/19)²¹⁸

For Final Certification, the PFI must submit an electronic stamped certified true copy of the Loan Guaranty Certificate (LGC), Mortgage Insurance Certificate (MIC), Loan Note Guaranty (LNG) or Indian Loan Guaranty Certificate (ILGC) evidencing the Mortgage Loan has received insurance or a guaranty from the applicable Government Agency. The certificate or guaranty must be initialed by the PFI and display the MPF loan number.

If the PFI is unable to obtain the applicable certificate or guarantee, the PFI must contact their MPF Bank representative.

15.4.1.1 HUD Guaranteed Section 184 Loans

A PFI that is unable to obtain an Indian Loan Guaranty Certificate for a HUD section 184 loan before loan delivery, represents and warrants, by delivery of the loan, all of the following:

²¹⁷ MPF Announcement 2017-12 (3/16/17)

²¹⁸ MPF Announcement 2019-18 (3/1/19)

MPF Announcement 2017-62 (10/27/17)

MPF Announcement 2017-37 (7/24/17)

MPF Announcement 2017-12 (3/16/17)

- A complete and satisfactory mortgage guaranty application was submitted to the government agency within the required time frame, either based on an agency's prior approval of the loan application and issuance of a commitment to insure or guarantee, or subject to an agency's delegated or automatic loan approval processing, as applicable.
- All applicable fees (e.g. funding fee, guarantee fee etc...) were paid to the government agency within the government agency's required time frame.
- The government agency has the legal authority to issue the guaranty or insurance and will have such authority for long enough to issue the guaranty within a time period that is consistent with its past practice.

The MPF Bank, the MPF Provider or the Master Servicer may require the PFI to provide periodic reports on the guaranty status for such loans. Such reports must be provided within the requested timeframe.

PFI's must notify their MPF Bank of any delays in obtaining an Indian Loan Guaranty Certificate, or final certification, for any HUD section 184 loan delivered into the MPF Program. A PFI that fails to submit the Indian Loan Guaranty Certificate to the custodian and obtain final certification of a HUD section 184 loan within twelve (12) months of the Funding Date or in a timely manner as determined by the MPF Bank, must repurchase the Mortgage Loan and make the MPF Bank whole for any losses incurred by the MPF Bank. In addition, the MPF Bank may suspend or terminate the PFI's authority to deliver any or all mortgage loans into the MPF Program.

15.4.2 Past Due Final Certifications (3/1/19)²¹⁹

No more than four percent (4%) of the Mortgage Loans in the PFI's MPF Government Master Commitments may be past due for Final Certification. If the past due ratio exceeds 4%, at the sole discretion of the MPF Bank, the PFI must:

1. Pledge collateral equal to one hundred percent (100%) of the aggregate unpaid Principal Balance of the overdue Government Mortgage Loans, as of the date the MPF Provider notifies the PFI, in accordance with the PFI's Advances Agreement. The amount due for all Government Mortgage Loans requiring collateralization may be combined into a single collateralization. If the PFI brings its Government Mortgage Loans into compliance with the tolerance levels stated above before the collateralization expires, the PFI may request that the MPF Bank release its collateral. If after the six-month period the Government Mortgage Loans are still not in compliance with the Final Certification thresholds, the collateralization must be extended prior to expiration; or

²¹⁹ MPF Announcement 2019-18 (3/1/19)
MPF Announcement 2017-12 (3/16/17)

2. Repurchase the overdue Government Mortgages.

For any Government Mortgage Loans, other than HUD section 184 loans, past due for Final Certification after three (3) years, the PFI will be required to collateralize the Principal Balance of the overdue Government Mortgage Loans or repurchase such Mortgage Loans, regardless of the percentages of total Mortgage Loans past due for Final Certification. The MPF Bank will have discretion to impose the same requirement, or other additional requirements, for any HUD section 184 loans past due for Final Certification after three (3) years or longer, as determined by the MPF Bank.

15.5 MPF Program Custodian Fees and Service Charges (3/16/17)²²⁰

The MPF Program Custodian assesses the PFI the following fees and service charges:

- Rush release or rejected release request : (i) a request issued within the timelines listed below or (ii) for an invalid release request as determined by the MPF Program Custodian.
 - 1 Business Day turnaround -- \$5.00
 - 2 Business Day turnaround -- \$3.50
- Nonstandard or rejected release request - A fee charged to the PFI for: (i) the release of a Collateral File for a purpose other than Liquidation, Foreclosure or other Servicing responsibility that requires the physical possession of the Note or other documents (such as Exception correction for Initial or Final Certification requirements, etc.) or (ii) an invalid release request as determined by the Custodian.
 - 1 Business Day turnaround -- \$5.00
 - 2 Business Day turnaround -- \$3.50
 - 3-4 Business Day turnaround -- \$2.00
- Non-standard or rejected file reinstatement requests -- A fee charged to the PFI for: (i) the file reinstatement following a release request for a purpose other than Liquidation, Foreclosure or other Servicing responsibility that requires the physical possession of the Note or other documents (such as Exception correction for Initial or Final Certification requirements, etc.) or (ii) an invalid reinstatement request as determined by the Custodian -- \$3.00
- Copies of documents -- \$1.00 plus \$0.25 per single sided copy

²²⁰ MPF Announcement 2017-62 (10/27/17)
MPF Announcement 2017-12 (3/16/17)

- Exception correction (per Exception) – A fee charged to the PFI for every Exception cited by the MPF Program Custodian for Initial Certification, Final Certification, or recertification. Exception fees will be billed to a new PFI once one of the following occurs: sixty (60) calendar days have passed from first receipt of Collateral Files or one hundred (100) Collateral Files have been received by the Custodian from the PFI -- \$3.50
- External file transfer (change of Custodian) -- \$3.50

The MPF Provider will create preliminary custody invoices no later than the first (1st) Business Day of each month for the custody fees and service charges accrued in the previous month. The MPF Provider will create the final custody invoices on the eighteenth (18th) calendar day of each month or on the preceding Business Day if the eighteenth (18th) is not a Business Day, indicating the amount that will be drafted from the PFI's DDA. Both the preliminary and final invoices are available on the eMPF website. The MPF Provider reserves the right to amend the custodian fee schedule from time to time.

CHAPTER 16. POST-CLOSING REQUIREMENTS

16.1 Payments and Correspondence

If the Originator is not the current Servicer, any payments and correspondence that the Originator receives from the Borrower after Closing must be immediately forwarded to the current Servicer of the Mortgage Loan.

16.2 Rescission Notice

The Originator must immediately notify the current Servicer of the Mortgage Loan, the Master Servicer, the investor, and the MPF Bank if a rescission notice is received from a Borrower.

CHAPTER 17. SERVICING REQUIREMENTS

This chapter provides an overview for servicing retained loans and servicing released loans.

This chapter does not cover the requirements for the following types of transfers (which are addressed in the Servicing Guide):

- Transfers of servicing initiated post-loan delivery; or
- Transfers of servicing arising from mergers or other portfolio dispositions.

17.1 Servicing Retained

PFI's that are retaining the Servicing of the Mortgage Loans must refer to the Servicing Guide for the MPF Program servicing requirements.

17.2 Servicing Released (7/5/17)²²¹

This section addresses the options for PFI's to sell a Mortgage Loan Servicing released. To participate in these Servicing released options, PFI's must contact their MPF Bank Representative.

The following requirements apply for Mortgage Loans sold Servicing released:

- The PFI selling the Mortgage Loan (Selling PFI) must transfer servicing to the Assuming Servicer in full compliance with Applicable Law and the Guides;
- The Selling PFI must endorse the Note prior to delivery to the MPF Program Custodian;
- The Selling PFI must prepare an Assignment to the Assuming Servicer, or if the loan is registered with MERS, the Assignment must be prepared in accordance with MERS requirements. The Assuming Servicer is responsible for preparing the Assignment "in blank";
- The Selling PFI must submit the Collateral File to the MPF Program Custodian and is responsible for the Initial Certification and, if applicable, Final Certification with the Custodian;
- The Selling PFI is responsible for conducting quality control reviews in accordance with the Guides;
- The Selling PFI is responsible for providing copies of any documents requested by the MPF Provider if the MPF Provider selects the Mortgage Loans for a quality control review;
- The Selling PFI represents and warrants that the Mortgage Loans were serviced in accordance with Applicable Standards for any Servicing activity that occurred prior to the sale to the MPF Bank;

²²¹ MPF Announcement 2017-34 (7/5/17)

- The Selling PFI is responsible for Servicing the Mortgage Loans in accordance with the MPF Traditional Servicing Guide and Applicable Standards for any Servicing activity that occurs after the Mortgage Loans have been sold to the MPF Bank but prior to the effective servicing transfer date. Also see MPF Traditional Servicing Guide Chapter 13 for additional information; and
- The Selling PFI will remain liable for origination representations and warranties under its PFI Agreement.

17.2.1 Whole Loan Sale (7/5/17)²²²

Whole loan sales involve the PFI selling Conventional and certain Government Mortgage Loans, including the Servicing Rights for those Mortgage Loans, to the MPF Bank at loan delivery. The MPF Bank concurrently transfers the Servicing Rights to the Federal Home Loan Bank of Chicago (MPF Provider) for sale to the Assuming Servicer. The Selling PFI must obtain a Master Commitment that (i) indicates it will sell MPF Traditional Mortgage Loans on a whole loan basis and (ii) lists an Assuming Servicer as directed by the Selling PFI's MPF Bank.

For specific requirements regarding the servicing transfer process to CMC Funding, see the CMC Funding Servicing Sale Manual (Exhibit W).

17.2.2 Concurrent Sale of Servicing (7/5/17)²²³

Concurrent sales or transfers of Servicing involve the PFI selling the Servicing Rights for Conventional and certain Government Mortgage Loans to an Assuming Servicer at the same time the Mortgage Loan is sold to the MPF Bank.

For specific requirements for selling Servicing Rights to Colonial Savings, see the Colonial Savings Concurrent Servicing Sale Manual (Exhibit F).

²²² MPF Announcement 2017-34 (7/5/17)

²²³ MPF Announcement 2017-34 (7/5/17)