

How Well Do You Know MPF Xtra® Product Underwriting Guidelines?

January 26, 2023



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MPF Xtra Product Guides

The MPF Xtra product guides are available on the MPF® Website:
fhlbmpf.com at AllRegs.com

The screenshot shows the MPF Mortgage Partnership Finance website. The top navigation bar includes 'Subscribe', 'MPF Guides', 'AllRegs Guides', and 'eMPF Login'. The main navigation menu has 'Products', 'FHLBanks', 'Guides', and 'Resources'. The 'MPF LIBRARY' section is active, displaying a 'Table of Contents' and a list of documents. The 'MPF Xtra Product' category is expanded, showing 'MPF Xtra Selling Guide (01/20/22)', 'MPF Xtra Servicing Guide (03/26/21)', and 'Fannie Mae Resources'. A yellow arrow points from the text 'Access to Fannie Mae Guides' to the 'Fannie Mae Resources' link.

Access to Fannie Mae Guides



Underwriting MPF Xtra Product Loans

Loans may be manually underwritten or Fannie Mae's Desktop Underwriter[®] (DU[®]) may be used.



Freddie Mac's Loan Product Advisor[®] (LPA) is no longer an eligible automated underwriting system for the MPF Xtra product.

Eligible or Ineligible?

Which of the following are not permitted under the MPF Xtra product?

- A. HomeReady® loans under 95% LTV
- B. Investment Properties
- C. HomeStyle Renovation loans
- D. High LTV refinance transactions

C. and D. are not permitted.



Loan To Values (LTVs)

The maximum LTV for the purchase of a 2 unit primary residence is 85%

True or False? Second homes can be underwritten manually or with DU. False, DU only

The maximum LTV for a cash-out refinance of a 1 unit investment property is 75%



Business Assets

Jesse and Margaret are looking to purchase a new home. Margaret is salaried as a college professor and Jesse owns his own consulting firm. They are only using Margaret's income to qualify, but want to use funds from Jesse's business account for their down payment.

Which of the following applies:

- A. Jesse must be listed as an owner of the business account.
- B. A business cash flow analysis must be performed.
- C. The funds must be transferred to a joint account.
- D. The funds cannot be used.

The answer is A. *Fannie Mae recently simplified the documentation requirements for using business assets when the income is not being used to qualify.*



Gift Letters

Rachel is receiving a gift from her mother to purchase her first home.

Which of the following must be in a gift letter:

- A. The donor's telephone number
- B. A statement that no repayment is expected.
- C. The actual or maximum dollar amount of the gift.
- D. The donor's relationship to the borrower.

All of the above must be in a gift letter.



Interest Buy Outs

Emily and Steven purchased a home in May of 2022. Unfortunately, Emily filed for divorce shortly thereafter. Steven plans to remain as the sole owner of the home and buy out Emily's interest. The refinance is scheduled to close in March.

Is this a limited cash-out refinance or a cash-out refinance?

It would be considered a cash-out refinance.

What could be done to make it a limited cash-out refinance?

The property needs to be owned jointly for 12 months to be eligible for a LCOR (based on the disbursement date of the new loan). The borrowers could wait until May to close instead of March.



Limited Liability Companies (LLCs)

Henry owns three single family homes that he rents out. He's looking to take cash-out on one of the properties to pay for new windows and repainting of the exterior. Currently title to the property is held in an LLC.

Which of the following statements apply:

- A. Title must be in Henry's name for at least 6 months prior to closing.
- B. Henry must hold title in his name at closing.
- C. If Henry wants to transfer title back into the LLC after closing, he must own a majority interest in the LLC.
- D. Henry cannot transfer title back into the LLC after closing.

B. and C. are correct.



Delayed Purchase Refinances

Last November, Christina was in a bidding war for a condo and ended up making a cash offer. To purchase the unit, she used a combination of savings, a loan against her 401K, and gift funds from her parents.

Which of the following are true:

- A. The sources for the funds used to purchase the unit must be documented.
- B. If closed within 6 months of purchase, it's a LCOR.
- C. The gift funds cannot be reimbursed with the proceeds of the new mortgage.
- D. Proceeds can be used to reimburse the borrower, her parents, and, pay off the 401K loan.

The answers are A. and C.

Delayed purchase refinances are always cash-out and cannot be used to reimburse gift funds.



Temporary Buy Downs

Temporary buy downs are a popular way to reduce the upfront interest rate on a mortgage.

According to Fannie Mae's guidelines, are the following statements true or false?

1. Temporary buy downs are available for principal residences and second homes. **True**
2. The terms of the buy down plan must be disclosed to the investor, the mortgage insurer (if applicable) and the property appraiser. **True**
3. Interested party contribution limits do not apply to temporary buy downs. **False**
4. The buy down plan cannot change the terms of the mortgage Note. **True**



Assets

Andrew plans to use his checking account and a mutual fund account for his down payment and funds to close. He needs \$40,000 to close. He has \$44,000 in verified assets: \$4,000 in his checking account and \$40,000 in his mutual fund account.

Does Andrew need to supply evidence of liquidation for the mutual fund account?

YES.

The value of the mutual funds should be at least 20% more than the amount needed from the account for down payment and closing costs.

$\$36,000$ (amount being used from the mutual funds) $\times 1.20 = \$43,200$
A balance of at least **\$43,200** is needed to not require evidence of liquidation.



Assets

Randi has a borrower who stated that he is on the title to his parent's home but he is not obligated on the promissory Note.

How should she treat the obligation and payment history for the property?

- A. Include the obligation in his DTI ratio.
- B. Exclude the obligation from his DTI ratio if he provides 12 months worth of cancelled checks (or similar evidence) that show his parents are making the payments on time.
- C. She does not need to include the obligation in the borrower's DTI ratio.

The answer is C. Only the individual(s) who sign the Note are personally liable for the debt.



Secondary Income

Gary and Janice retired in a rural area. During the summer they do a small bit of farming on a separate parcel of land they own nearby.

They qualify using Social Security and pension income but they also file a Schedule F for their farming activity.

Does that farming income/loss need to be included in their income calculation?

No.

It's considered secondary self-employment and can be excluded because Gary and Janice's primary income is from retirement income.

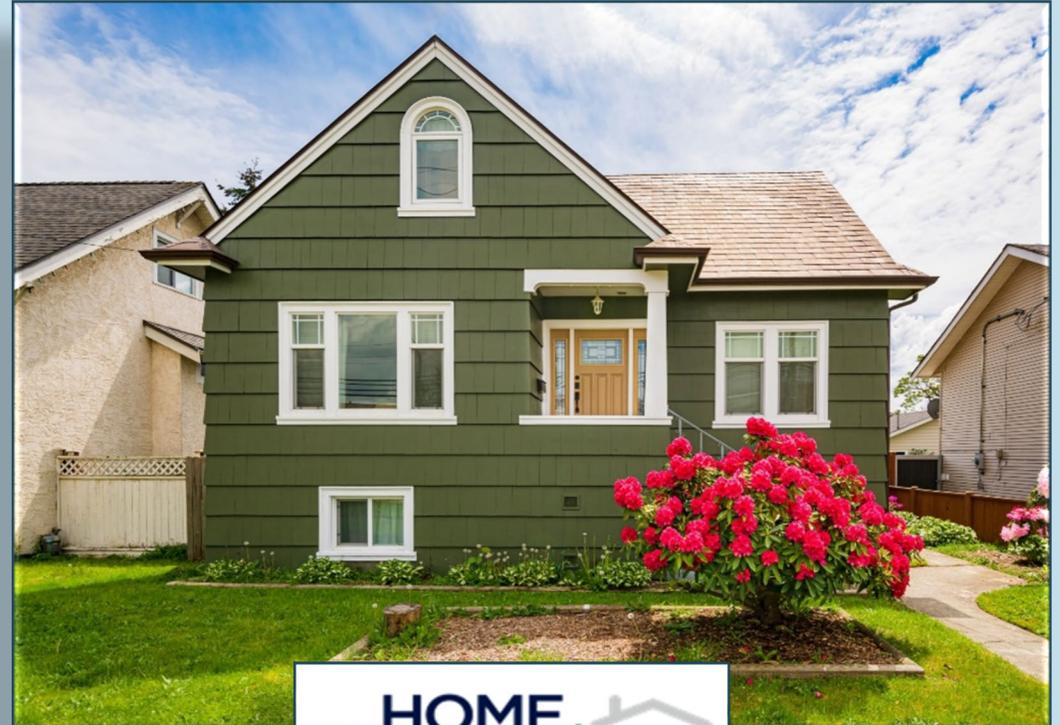


HomeReady

Which of the following is true about the HomeReady option?

- A. Sweat equity is permitted.
- B. Boarder income is permitted.
- C. Borrowers can own one additional financed property.
- D. Borrowers with credit scores ≥ 680 may be eligible for a pricing advantage.

All of the above are true.



Standard Expanded 97% LTV Option vs. HomeReady

Match the guideline to either the Standard Expanded 97% option, HomeReady, or both.

1. For purchase transactions, at least one borrower must be a first time home buyer. **Standard Expanded 97%**
2. The total income for all borrowers signing the Note must not exceed 80% of the Area Median Income (AMI). **HomeReady**
3. If all borrowers are first time buyers at least one borrower must complete a home buyer education course before closing. **Both**
4. For refinance transactions, the loan being refinanced must be owned by Fannie Mae. **Both**
5. DU must always be used, manual underwriting is not permitted. **Standard Expanded 97%**



Variable Income

Carl started working as a salesman at a Honda dealership 7 months ago. He was previously a salesman at a Chevy dealership for 6 years. He has always received a draw against commissions.

Which of the following is true?

- A. Commissions cannot be used because Carl hasn't been on the job for at least two years.
- B. The last two years of commissions can be analyzed for qualifying.
- C. Only the draw can be considered for qualifying.
- D. Commissions and draws can both be considered.



The answer is B. Because Carl receives commissions for a job in the same line of business, we can consider (average or use the lesser of) his commission history for qualifying.

Continuity of Income

Which of the following income sources do not require evidence of a three-year continuance?

- A. Social Security retirement payments
- B. Distributions from a retirement account
- C. Trust income
- D. Child support
- E. Long term disability

The answers are A. and E. Both are expected to continue and therefore do not require evidence.



Using Rental Income

Duane is purchasing an investment property. Which of the following must apply in order to add any surplus rental income towards Duane's qualifying income?

- A. Duane must currently own a primary residence or have a current housing expense.
- B. Duane must have at least a one-year history of receiving rental income or documented landlord experience.
- C. The property cannot be more than 1 unit.

A. and B. must apply to add any positive income.



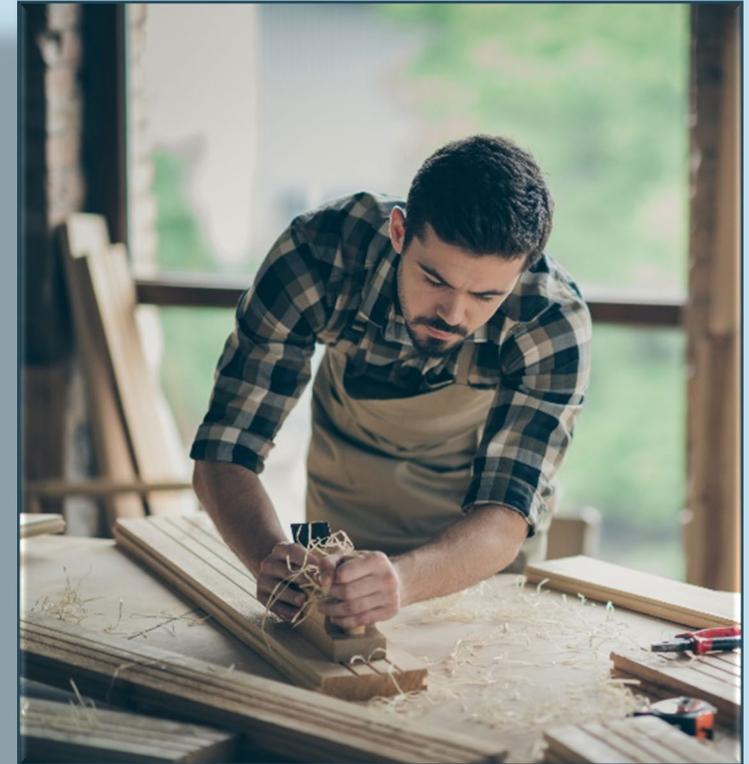
Credit History

Byron has no credit scores but his girlfriend Cathy has a score of 710. Byron is self-employed as a woodworker and Cathy is a teacher. Byron's income represents 53% of the their total qualifying income.

Which of the following is true if DU is used to underwrite their purchase loan?

- A. Byron needs 2 non-traditional credit sources.
- B. Byron needs 4 non-traditional credit sources.
- C. Byron is not eligible because his income is from self-employment.
- D. Byron does not need to supply any non-traditional credit sources.

A. *Byron needs 2 credit sources because Cathy's income represents less than 50% of the total qualifying income.*



The MPF Xtra Product

It what year did the MPF Program launch the MPF Xtra Product?

- A. 1997
- B. 2003
- C. 2008
- D. 2011

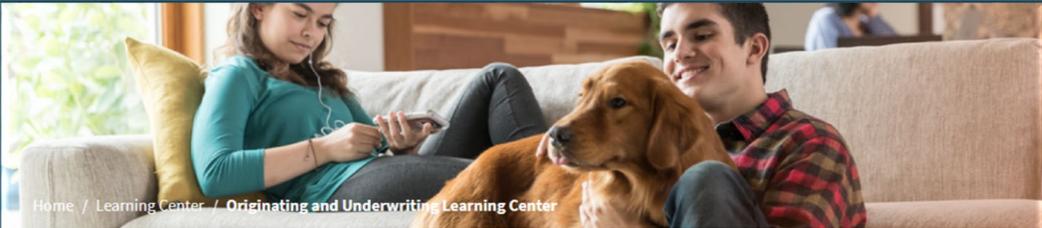
C. 2008



Resources

Visit Fannie Mae's Originating and Underwriting Learning Center

<https://singlefamily.fanniemae.com/learning-center/originating-and-underwriting-learning-center>



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Everything you need to know to assist in originating and underwriting loans for sale to Fannie Mae

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