Mortgage Partnership Finance™

Underwriting FAQs

October 27, 2021

MGIC

FHLBANKS
A NATION OF LOCAL LENDERS

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Today's Presenters

Rebecca Chase
MGIC Customer Trainer
Rebecca is a veteran of the southeastern United States residential mortgage industry. As a transplant from the Midwest, she lived in southwest Florida before moving to the Tampa Bay area twenty plus years ago when she joined MGIC.
She works with national accounts as well as the Southeastern states. In addition to specialized classes, Rebecca frequently participates in industry panels and conventions.
Rebecca attended Marquette University, is a member of several industry trade groups, participates in Toastmasters, enjoys officiating volleyball, and loves to ask why?

Julie Schneider
National Education Manager, MPF® Program
Julie has been with the MPF Provider at the Federal Home Loan Bank of Chicago since March of 2014. In addition to spending several years in the title insurance industry, her background includes over 18 years of mortgage origination and underwriting experience. She has been training mortgage professionals for the past 12 years.
Julie graduated from Lawrence University in Appleton, Wisconsin

A sampling of scenarios were taken from a few sources:

Fannie Mae's published FAQs, Selling Guide Announcements and the MPF® Service Center.

Questions will cover a wide variety of topics:

Both **MPF® Traditional** products and the **MPF Xtra®** product underwriting questions will be discussed in addition to some topics related to COVID-19 underwriting updates.

Income FAQs

Self-Employed Borrowers

Veronica is a dental technician who specializes in consulting and fitting dental aligners. She has been working with a number of dental practices in her community for the past 5 years.

She just applied for a mortgage on **October 1st** and hopes to close on her new home on **November 30th**.

Documentation Questions

Q: If she provided 2019 and 2020 tax returns, what should the P & L cover?

A: The P & L should cover January – September 2021

Q: If the P & L isn't audited, what months should the bank statements cover?

A: She should provide a three month look-back therefore statements for July, August and September should be provided.

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Secondary Income

Jerry is self-employed as a plumber. He also has an 8% interest in a real estate development company (LLC). He shows a small loss from the LLC. Does that loss need to be subtracted from his qualifying income?

No. Because Jerry has less than a 25% interest in the real estate development company, it is not necessary to deduct the loss.

Secondary Income

What if Jerry receives income from the LLC? Can cash distributions from the K-1s be used to qualify?

It depends. If you can confirm that the business has adequate liquidity to support the withdrawal of earnings it may be used.

If the Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then no further documentation of access to the income or adequate business liquidity is required. The Schedule K-1 income may then be included in the borrower's cash flow.

Loan Structuring FAQs

Land Contracts

An installment contract (aka, land contract, bond for deed, contract for deed) is an agreement between a seller and buyer, under which the buyer agrees to pay to the seller the purchase price plus interest in installments over a set period of time.

Upon execution of the contract, the buyer immediately takes possession of the home but the seller retains legal title to the property until the buyer pays the full purchase price.

Oftentimes, borrowers seek out financing to pay off an installment contract. Let's look at some scenarios…

Land Contracts

An installment land contract that was executed within __12__ months preceding the date of the loan application, is considered to be a ________purchase________transaction.

When the installment land contract was executed more than 12 months before the date of the loan application, The transaction is considered to be a limited cash-out refinance.

Cash-out refinance transactions involving installment land contracts are not eligible for delivery.

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Land Contracts

Loan to value (LTV) calculations for transactions with land contracts

LTVs for **purchase transactions** are determined by dividing the new loan amount by the **lesser** of the total acquisition cost (purchase price indicated in the land contract, plus any costs the purchaser incurred for rehabilitation, renovation, or energy conservation improvements) or the appraised value of the property.

LTVs for **limited cash-out refinances** are determined by dividing the new loan amount by the appraised value of the property.

Rent to Own

Ted currently rents a home. His his lease contains an option to purchase. Under this option, he pays his landlord $500 over the market rent so it can be counted towards his future down payment.

Q: How many months worth of excess rent can be used towards his down payment?

A: 12 months ($6,000)

Any other amounts offered by the seller would either need to be an interested party credit (IPC) towards closing costs / prepaids or a reduction in the sales price.

Delayed Purchase Refinances

The housing market in Alicia's hometown was so crazy she purchased a new home for cash. She used funds from a HELOC on her current primary residence (pending sale) and took out a HELOC on condo she uses as a second home.

Q: Can Alicia use a delayed purchase refinance to pay off the HELOC on the condo?

A: Yes. HELOC funds from other properties are eligible sources for the purchase.

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Delayed Purchase Refinances

A delayed purchase refinance occurs when a home is purchased with cash and the borrower wants to refinance to put some of the cash back into their pocket. They are treated like a cash-out refinance.

The home must have been purchased within the past __**6**__ months, measured from the original closing date through ___**the disbursement date of the new loan**___.

- There cannot be any liens against the property.
- Liquid assets, HELOC funds from other properties and unsecured loans are eligible sources for the initial purchase.
- A settlement statement from the initial purchase must be provided.
- Value/loan-to-values are determined by a current appraisal.
- The new loan amount cannot exceed the initial investment plus closing costs and pre-paid items on the new loan.

Q: Can gift funds be used for all or a portion of the initial purchase?

A: Funds received as "gifts" that were used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.

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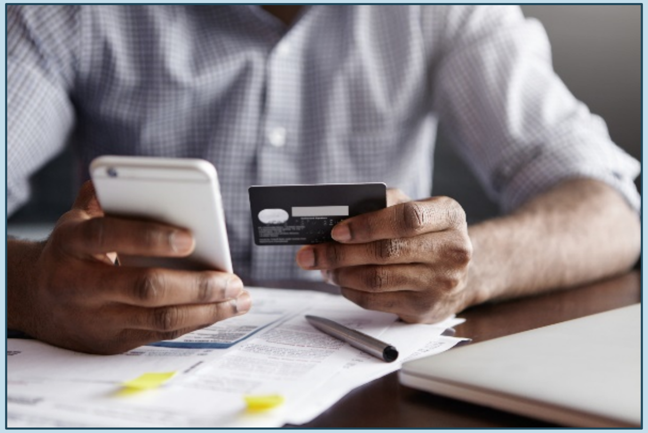
Credit FAQs

Obligations

Jesse has a open 30-day charge account with a that reflects an amount due that is equal to the balance ($2,350). Which of the following is <u>not true</u> if using DU or LPA* to underwrite the file:



a. **The payment may be ignored if the lender verifies funds to cover the account balance.**
b. **The entire payment must always be held against him.**
c. **5% of the balance can be used as a monthly payment.**
d. **The payment may only be ignored if it is paid at or prior to closing.**

The answer is b. NOTE: Manually underwritten MPF Traditional loans: *The entire payment must be held against the borrower unless the balance is paid off at or before closing.*

**LPA may be used under the MPF Traditional product only.*

Utility Payments

Jared and Mira recently signed up for a credit score boosting program through one of the national credit agencies. By adding their utility payments (gas and electric) to their credit report, it has helped to bring their scores up.

Which of the following is true about utility payments:

a. **If they are on the credit report, they must be held against the borrower.**
b. **They are not typically held against the borrower so it's ok to remove them from the borrower's liabilities.**
c. **They must always be included in the borrower's DTI ratio.**
d. **You cannot consider the "boosted credit score impacted by the utility payments.**

The answer is b. Please note: Fannie Mae does not include utility payments in the DTI calculation. So, if DU populates the tradelines as liabilities, you should remove them so the DTI is accurate.

Timeshare Properties

You notice that your borrower has a timeshare loan on their credit report and it is listed as a mortgage.

How do you handle this liability?

a. **List the property in the REO section of the 1003 just like any other properties.**

b. **Treat it like an installment loan.**

c. **Treat it like a revolving obligation.**

The answer is b. Despite being listed as a mortgage, timeshare loans are always treated as installment debt.

Rental History

Bart is a first-time homebuyer who has rented for many years and has a limited credit history with some old derogatory events. Is it possible to consider his stellar rental history to help enhance his DU credit risk assessment?

Yes, **Fannie Mae announced that beginning September 18, a new "positive rent payment history" feature has been added to DU.**

Let's take a look

Using Rental History with DU

- Borrowers must be a first-time homebuyer purchasing a primary residence.
- An *average median credit score* of at least 620 is required.
- Borrowers must have at least a 12-month history of renting and pay at least $300 per month.
- Borrower must have a bank account or accounts that document the rental payments.

How Does it Work?

- DU will use verification of asset reports (i.e. bank statements) to identify recurring rent payments.

- Lenders must order the asset report through a pre-determined vendor*. The report supplier with send the borrower an email or text that directs the borrower to a secure portal where the borrower can log in and specify the account(s) they need to use to generate the report.

** Lenders are responsible for setting up the vendor and covering any applicable costs.*

Property FAQs

Multiple Financed Properties

Q: Your borrower, Gary wants to refinance his primary home. He also owns numerous rental properties and he needs the cash flow from those properties to qualify. Using DU/LPA to underwrite the loan, what is the maximum number of financed properties is Gary permitted to own?

A: Since the subject property is his primary residence, there is no limit to the amount of financed properties Gary can own.

Loans underwritten using DU or LPA* allow for up to ten financed properties if the subject property is a **second home or investment property****.

**LPA may be used for the MPF Traditional product. only.*

*** Investment properties are permitted under the MPF Xtra product only.*

Multiple Financed Properties

When the subject property is a second home or investment property* both the borrower's primary residence (if financed) and the subject property are part of the total count.

- There are additional reserve requirements when a borrower has multiple financed properties.
  - ✓ DU and LPA will calculate the appropriate amount of reserves.
  - ✓ Manually underwritten loans require a manual calculation for the additional reserves which is based upon the number of properties and their loan balances.

- If manually underwriting a second home or investment property* loan, the maximum number of financed properties is **six.**

- If the subject property is a **primary residence**, there is no limit on the number of financed properties.

* *Investment properties are only eligible under the MPF Xtra® product.*

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Borrowers with Multiple Properties

Additional reserve requirements apply to <u>second homes and investment properties</u>

If using DU or LPA, the AUS will do this calculation for you!
Manually underwritten loans require the calculation to be made manually.

Number of Financed Properties	Amount of Reserves
One to Four	**2%** of the aggregate unpaid principal balances for any mortgages and HELOCs
Five to Six	**4%** of the aggregate unpaid principal balances for any mortgages and HELOCs
Seven to Ten (DU or LPA only)	**6%** of the aggregate unpaid principal balances for any mortgages and HELOCs

The calculation does not have to consider mortgages and HELOCs on the subject property or the borrower's primary residence. Properties that are sold or pending sale, and accounts that will be paid by closing are also excluded from the calculation.

Mixed-Use Properties

Some mixed-use properties are permitted. Fannie Mae purchases mortgages that are secured by properties that have a business use in addition to their residential use.

Which of the following apply?

a. The property must be a one-unit, primary residence only.
b. The borrower must be both the owner and the operator of the business.
c. The property must be primarily residential in nature.
d. The home may not be modified in a manner that has an adverse impact on its marketability as a residential property.
e. All of the above.

All of the above apply.

Shared or Private Roads

Upon reviewing the appraisal you see that the property is located on a privately-owned and maintained road. Do you need additional documentation?

Sometimes.

When applicable, we ask that a copy of the agreement or covenant be obtained that outlines the following:

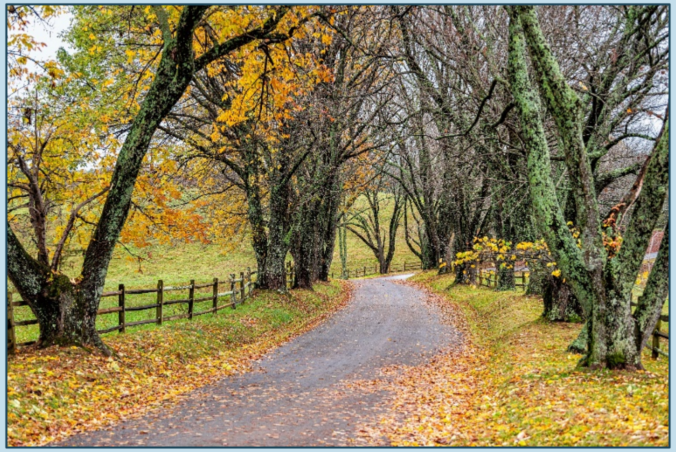
- Responsibility for payment of repairs and each owner's representative share.
- Default remedies should a party fail to comply with their responsibilities.
- The effective term of the agreement.

Shared or Private Roads

Why is the answer “sometimes”?

- If the property is located within a state that has statutory provisions that defines the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required.

- If the documentation is required but not available, MPF QC will issue a “moderate” finding which will require an explanation for why the agreement or covenant could not be obtained.



Asset FAQs

Cryptocurrency

Alex wants to use Bitcoin for the down payment on his new home. Can it be used and if so, how do you document it?

A: Cryptocurrency can be used however it must be converted to U.S. dollars and deposited into one of the borrower's eligible accounts. If considered a large deposit, the source must be documented.

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401k, IRAs and Keogh Accounts

Distributions from a 401k, IRA or Keogh account must continue for at least __3__ years.

How is the continuance determined?

Divide the account balance by 36. It should be equal to or exceed the current monthly distribution. If it's lower, reduce the amount to correspond with the calculation.

Can you combine the balances to determine the continuance?

Yes.

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IRA Distribution Example

Claire has three IRA accounts. She receives a $1,200 distribution from one of the IRAs which has a $28,000 balance. She also has two other IRAs but has yet to take any distributions. Combined, they total $145,000.

Since she only has about 23 months left on the current IRA you can either lower her monthly distribution to around $770. (balance divided by 36) per month **or;**

Combine the balances of all three IRAs and continue to show $1,200 per month (do not use more than the current distribution).

MPF Program Information

MPF Service Center

- Phone: 877-463-6673
- Email: MPF-Help@FHLBC.com
- Hours: 8:30 am to 4:30 pm CST

MPF National Education

mpftraining@fhlbc.com

Be sure to follow the MPF Program on social media!

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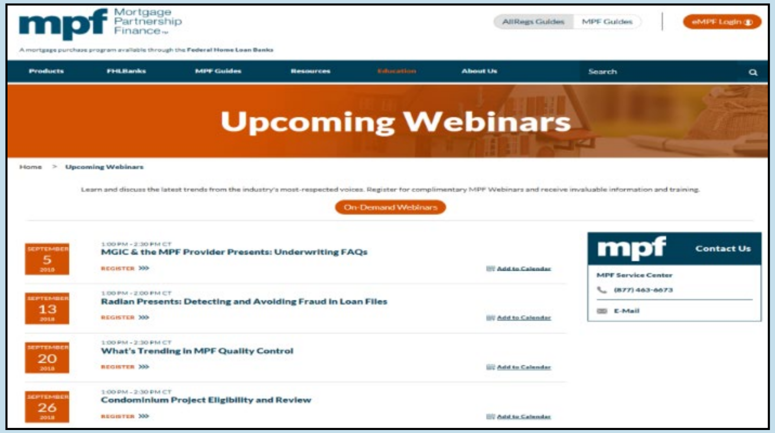
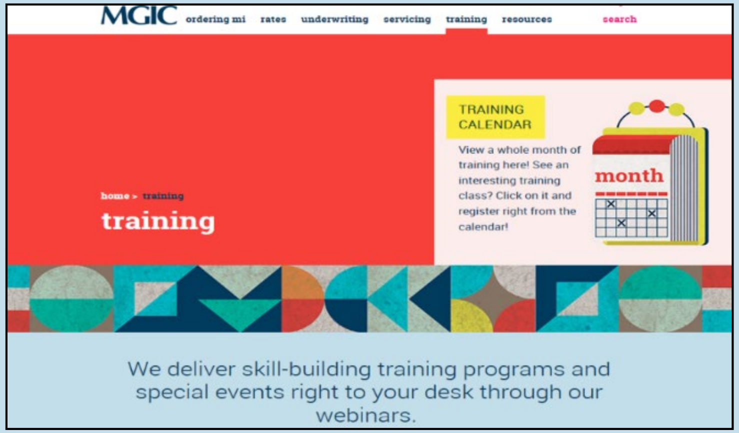
Learning Resources

Check out the learning opportunities offered by MPF National Education and MGIC





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