

# What's Trending in MPF® Quality Control

August 26, 2021



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# Agenda

- **Critical Defects**
- **Income Calculations and Employment**
- **Liabilities**
- **Assets**
- **Miscellaneous**
- **Best Practices**



# MPF Quality Control

## MPF Quality Control Sampling Methodology

- MPF Program loan files are sampled based on a rate of the lesser of four loans or 10% of your volume over a rolling 12-month period.
- At least one loan per year will be reviewed.
- These requirements do not include any high-risk overlays that may be reviewed or any loans selected by the Federal Home Loan Bank.

**eMAQCS** plus

# Match the Exception Types

**Informative**

**Moderate**

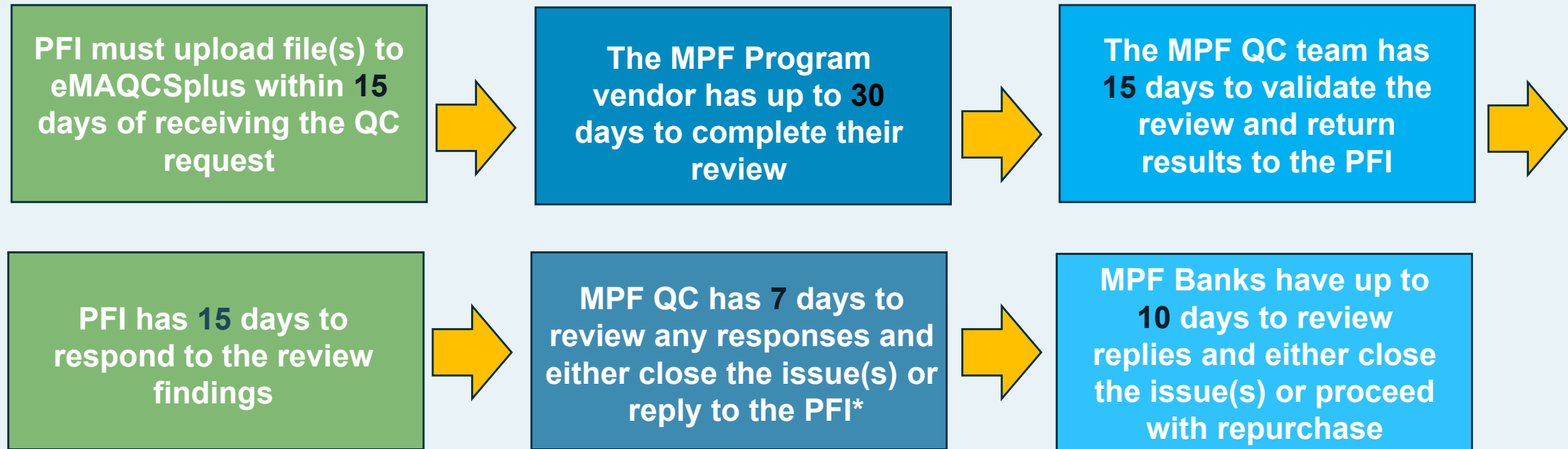
**Serious**

**Critical**

- a. An exception that affects loan eligibility, that appears impossible to cure. Repurchase is anticipated if PFI is unable to provide documentation to cure.
- b. Does not impact loan eligibility but may indicate the PFI is not meeting pre and post-closing QC standards. The reported issue must be addressed.
- c. Does not impact loan eligibility but may indicate the PFI needs to make a minor modification to its processes. Should be addressed but evidence of a cure is not required.
- d. May potentially affect loan eligibility but may be possible to cure. Loan repurchase is anticipated if unable to provide documentation to cure.



# Updated QC Timeline Overview



\*Every request for follow-up documentation after the initial 15-day response is received allows for an additional **7** days to provide the missing information. **30** days are provided for title or transcript exceptions.

Non-Responsiveness will result in self-reporting to the investor. The PFI will be notified when the last attempt is made prior to the self-report. It is imperative that any issues causing a delay in uploading are communicated.

*All examples are reflected in calendar days.*

# Critical Defects

**Volume is up but unfortunately so are defects**

So far in 2021 we have cited **82** loans with critical defects.

In all of 2020 there were 83.



# Income Calculations and Employment





# Income Analysis

Terry started working for a manufacturing firm in November of 2020. He delivers parts to customers within a 50 mile radius of the plant. He uses his own vehicle and is reimbursed for mileage

You are reviewing his pay stubs. What income should have been used for qualifying?

Payment Date	Check No	Payment Amount	Company Info, Bulletins, and Upcoming Events			
12/18/2020		\$1,516.84	N/A			
Pay Period	Employee No	SSNO				
11/29/2020 - 12/12/2020						
Earnings		Hours	Rate	Amount	YTD	
Nontaxable		0.00	\$0.00	\$553.85	\$1,324.25	
Reimbursement						
Overtime		0.75	21.75	\$16.31	\$32.63	
Regular Pay		80.00	14.50	\$1,160.00	\$2,555.63	
Training In House		0.00	\$0.00	\$0.00	\$112.38	
Totals:		80.75		\$1,730.16	\$4,024.89	
Pre-Tax Deductions		Amount		YTD		
N/A						
Totals:				\$0.00	\$0.00	
Taxes		Filing	Amount	YTD		
Fed. Income Tax		S-0	\$76.33	\$135.02		
Fed. Medicare Employee			\$17.06	\$39.16		
Fed. Soc. Sec. Employee			\$72.93	\$167.44		
ME State Income Tax		S-0	\$47.00	\$93.00		
Totals:			\$213.32	\$434.62		
Deductions		Amount		YTD		
N/A						
Totals:				\$0.00	\$0.00	

- a. Regular pay and overtime
- b. Regular pay
- c. Regular pay and non- taxable reimbursement
- d. Regular pay, overtime and non-taxable reimbursement

# Income Analysis

## **Only Terry's regular wages should have been used.**

- Use the VOE to determine that the hours worked per week corresponds with the paystubs.
- Remember that using YTD income on paystubs may not be accurate if hourly pay increased at some point during the current year.

Non-taxable reimbursement for his vehicle mileage is not an eligible source of income.

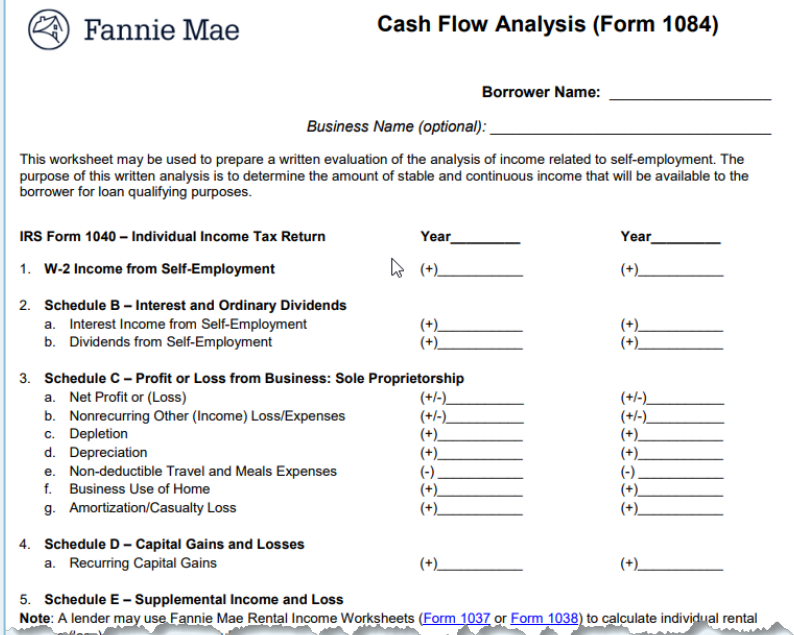
Since he was on the job for just a few months before closing, overtime is not eligible because there isn't a sufficient history of receipt.



# Self-Employed Income

Income worksheets should be used to show how income was calculated.

- Many files arrive in QC without any evidence of how income was determined.
- We suggest using either Fannie Mae Form **1084** or Freddie Mac Form **91** (or something equivalent) to analyze tax returns.
  - ✓ There are also worksheets available to analyze rental income.
  - ✓ Many of the MI companies have excellent worksheets as well.



**Fannie Mae** **Cash Flow Analysis (Form 1084)**

Borrower Name: \_\_\_\_\_

Business Name (optional): \_\_\_\_\_

This worksheet may be used to prepare a written evaluation of the analysis of income related to self-employment. The purpose of this written analysis is to determine the amount of stable and continuous income that will be available to the borrower for loan qualifying purposes.

IRS Form 1040 – Individual Income Tax Return	Year _____	Year _____
1. W-2 Income from Self-Employment	(+) _____	(+) _____
2. Schedule B – Interest and Ordinary Dividends		
a. Interest Income from Self-Employment	(+) _____	(+) _____
b. Dividends from Self-Employment	(+) _____	(+) _____
3. Schedule C – Profit or Loss from Business: Sole Proprietorship		
a. Net Profit or (Loss)	(+/-) _____	(+/-) _____
b. Nonrecurring Other (Income) Loss/Expenses	(+/-) _____	(+/-) _____
c. Depletion	(+) _____	(+) _____
d. Depreciation	(+) _____	(+) _____
e. Non-deductible Travel and Meals Expenses	(-) _____	(-) _____
f. Business Use of Home	(+) _____	(+) _____
g. Amortization/Casualty Loss	(+) _____	(+) _____
4. Schedule D – Capital Gains and Losses		
a. Recurring Capital Gains	(+) _____	(+) _____
5. Schedule E – Supplemental Income and Loss		

**Note:** A lender may use Fannie Mae Rental Income Worksheets ([Form 1037](#) or [Form 1038](#)) to calculate individual rental

# Self Employed Documentation

**Profit and loss and depository account statements must be provided to determine the extent to which a business has been impacted by COVID-19**

<b>Application Date</b>	<b>Profit and Loss must report...</b>	<b>When the P&amp;L is unaudited, depository statements should include...</b>
<b>January 2021</b>	January through December 2020	October, November and December 2020
<b>February 2021</b>	January through December 2020 and January 2021	November and December 2020 and January 2021
<b>June 2021</b>	January through May 2021	March, April and May 2021

*Once 2020 tax returns are obtained, it is not necessary to report any portion of 2020 on the YTD P&L.*

# Documentation Question

**Amy applied for a loan in March of 2021. 2018 and 2019 tax returns were provided. What other documentation needs to be in the file if the 2020 returns were not filed prior to closing?**

- a. An audited 2020 P&L that also includes Jan. and Feb. 2021.
- b. An unaudited 2020 P&L and business depository statements for Jan., Feb. and March 2021.
- c. An unaudited 2020 P&L including Jan. and Feb. 2021 and business depository statements for Dec. 2020, Jan. and Feb. 2021.
- d. 2020 P&L and business depository statements for Dec. 2020, Jan. and Feb. 2021.

**Both a. and c. are correct.**





# Employed or Not Employed?

**There have been instances of a borrower not being employed at the time of closing.**

- Employment should be confirmed within 10 days (or less) of closing or after closing as long as it is prior to delivery.
- If self-employed, confirm that the business is still operating.
  - ✓ Company website
  - ✓ Contact by telephone or other means



# Declining Income

## Self-employed borrowers with declining income\*

If the trend in the amount of income is stable or increasing, the income amount should be averaged.\*\*

If the trend was declining, but has since stabilized and there is no reason to believe that the borrower will not continue to be employed at the current level, the current, lower amount of variable income must be used.

- ✓ If there was a legitimate one-time expense (due to a natural disaster, equipment purchase, etc.) that expense should be noted in the file.

*\*Pre-COVID-19 guidelines.*

*\*\*Sometimes DU or LPA may only require one year of returns.*

# Declining Income

**If the trend is declining, income may not be stable**

Additional analysis must be conducted to determine if any variable income should be used.

Year over year trends must be analyzed. If the most recent year has declined:

- The income may only be used to qualify the borrower if the income has been determined to be stable.
- Once stability is determined, use a 12-month average.



# Declining Income

## COVID-19 Considerations

*When the current year net business income has been impacted by the COVID-19 pandemic and is:*

- If income is **less** than the historical monthly income calculated but is stable at its current level, reduce the amount of qualifying income calculated to no more than the current level of stable income.
- If income is **more** than the historical income calculated, use no more than the currently stable level of income calculated.

# Additional Income Oversights

- Missing documentation for self-employed borrowers with multiple businesses. All businesses must be documented and part of the analysis, even if not needed for qualifying purposes.
- If a self-employed borrower has multiple businesses listed on Schedule E, K1s must be provided, if they own 25% or more of that business, full returns are required.
- For applications made **prior to August 11, 2021**, documentation must be no older than 60 days on the date the Note is signed.
  - ✓ As of August 11, 2021 this temporary COVID-19 requirement is being removed and the age of documents will return to 120 days.





## Additional Oversights (continued)

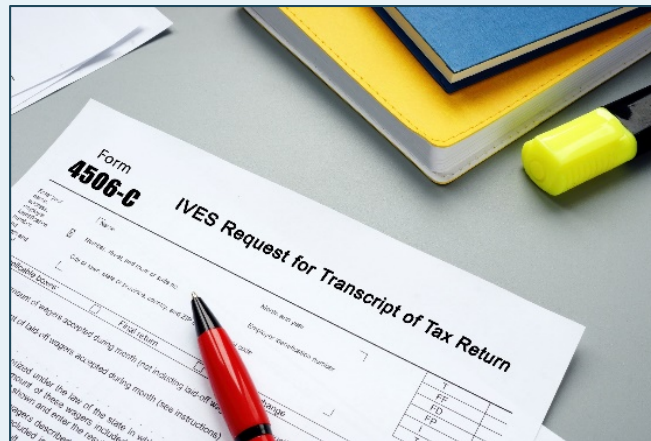
- Schedule C income increased in 2020 from 2019. Only 2020 income was used for qualifying when a 24-month average should have been used.
- A 24-month average was used when income declined in 2020 from 2019. Only the 2019 income should have been used.
- Failure to use a worksheet resulted in ineligible items being added back as income.
- Capital gains income being used when it wasn't recurring.



# Tax Transcripts

**When a loan file is requested for a Quality Control review, tax return transcripts must be included in the file**

- Transcripts are not required to underwrite the loan.
- If transcripts are not obtained for underwriting, a **4506-C** must be completed and signed at closing so that transcripts may be obtained prior to a possible QC review.
- Loans underwritten with DU using **Day 1 Certainty**® vendor documentation do not have to provide transcripts or a 4506-C.



# Liabilities



# Undisclosed Liabilities

- New debt established prior to closing that was not reflected on the initial credit report and therefore not included in the debt to income (DTI) ratio.
- Purchases of large ticket items such as furniture and automobiles are common.
- Watch for large increases in disclosed debt, this can be just as concerning as a new liability.



# Undisclosed Liabilities

## How to Avoid Undisclosed Debt Complications

### Prevention starts with the Loan Officer/Originator

- Educate the borrower at the time of application.
- Most borrowers are unaware of the impact, especially after their loan has been “approved”.

### Follow-up on credit inquiries

- MPF Traditional (manual underwriting) guidelines state that all inquiries made in the past 90 days must have a detailed explanation from the *inquirer* that addresses both the purpose and outcome of the inquiry.
- MPF Xtra® and MPF Traditional loans underwritten with an Automated Underwriting System (AUS) guidelines are a bit more vague and state that the lender “must confirm that the borrower has not obtained any additional credit that is not listed on the credit report”.

### Obtain a “soft-pull” credit report before closing

- Does not effect the borrower’s credit score.



# Undisclosed Liabilities

## What if undisclosed liabilities are discovered just prior to closing?

- The file should be re-underwritten using the higher DTI ratio.
- If underwritten using DU or LPA, the applicable tolerances for resubmission must be followed.



# Further Action Required?

This credit report shows two current student loans that were deferred due to COVID-19. **How should they be treated?**

- a. Leave as is and do not hold a payment against the borrower.
- b. Obtain documentation from the borrower to confirm the actual payments.
- c. Use a payment equal 1% of the outstanding balance.
- d. Use a payment equal to .50% of the outstanding balance.

NHHELC/GSM&R Student Loan	02/21	01/21	10/20	\$5,674	\$5,674	-	\$0 120 mos	05	0	0	0	Pays as agreed EDUCATIONAL LN - INS XPN (EFX,TRU)
Individual									11111			
NHHELC/GSM&R Student Loan	02/21	01/21	10/20	\$3,659	\$3,659	-	\$0 120 mos	05	0	0	0	Pays as agreed EDUCATIONAL LN - INS XPN (EFX,TRU)
Individual									11111			

# Further Action Required?

This credit report shows two current student loans that were deferred due to COVID-19. **How should they be treated?**

- a. Leave as-is and do not hold a payment against the borrower. ***NOPE.***
- b. Obtain documentation from the borrower to confirm the actual payments.  
***This can always be used.***
- c. Use a payment equal 1% of the outstanding balance.  
***May be used for MPF Xtra and MPF Traditional loans that are manually underwritten or underwritten with DU.***
- d. Use a payment equal to .50% of the outstanding balance.  
***May be used for MPF Traditional loans underwritten with LPA.***

# Incorrect Liabilities

## The liabilities on the credit report do not match what is on the 1003/1008

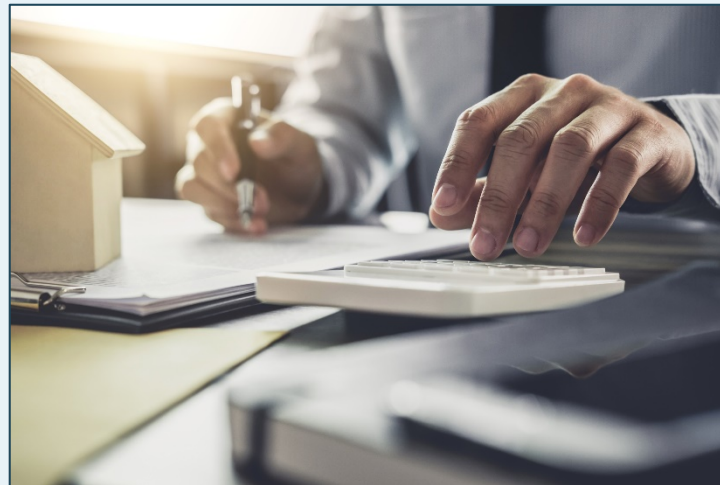
- We are missing an explanation or documentation to support the omission.
  - ✓ Recently paid off? – needs documenting
  - ✓ Less than 10 payments on an installment debt but shows more?
    - ***While the 10 payments is counted from the closing date, we suggest getting a credit supplement before closing to reflect that there are 10 or less payments remaining.***
  - ✓ Watch for duplicate items or items that look like duplicates but are not.
  - ✓ Not the borrower's debt? – needs documenting
  - ✓ If paid by a business, provide evidence
  - ✓ Do not omit car lease payments with less than 10 payments remaining

**1** Description: The borrower's credit was not sufficiently documented. A monthly installment payment in the amount of \$497 was omitted from the borrower's DTI ratio; however, no documentation was provided to support this exclusion. Please refer to DU condition 9. Type: Documentation

Resolution: Please provide documentation to support the exclusion of the installment loan of \$497 from the borrower's qualifying DTI ratio.

# Obligations Related to Real Estate

- We are often missing documentation that breaks out the amount of taxes and insurance that's been included in the DTI.
- We also need evidence that taxes and insurance are escrowed and part of the total mortgage payment.





# Assets



# Unsourced Assets

## **QC has discovered funds that came from sources such as unsecured loans and cash on hand**

Large deposits shown bank statements or funds to open a new account need to be properly sourced.

Any indication of borrowed funds should be investigated.

- A recently opened account.
- Large deposits (greater than 50% of the total monthly qualifying income).
- An account balance that is considerably greater than the average balance over the previous few months.

# Sourcing Funds

If an account was opened recently (last two-three months), where did the funds to open the account originate?

If there's a large deposit identified in any verified account, where did it come from?

- If money was transferred from a verified account into another account (large deposit) or used to open a new account, verify the withdrawal from the account to make sure the funds are not counted twice.

Account Summary for Statement Savings -										
Starting Balance	+	Deposits	+	Interest Paid	-	Withdrawals	-	Service Charges	=	Ending Balance
0.00		13,000.00		0.00		0.00		0.00		13,000.00

Transactions for Statement Savings -				
Date	Description	Checks/ Debits	Deposits/ Credits	Balance
02-04	Starting Balance			0.00
02-04	New Account Deposit		13,000.00	13,000.00

The amount of Interest earned between 02-04-2021 and 02-24-2021 is \$1.12.  
The average daily balance during this period was 13,000.00.  
The minimum balance during this period was 13,000.00.  
The Annual Percentage Yield Earned for this account is 0.15%.

# Gift Funds

There are many instances of donor funds not being evidenced in the file  
If gift funds are received...

Before Verifying Assets	After Verifying Assets	At Closing
<p>Verify that funds have been transferred into the account.</p> <ul style="list-style-type: none"><li>Cancelled <b>donor's check</b></li><li>Evidence of deposit</li></ul> <p>or</p> <ul style="list-style-type: none"><li>Evidence of electronic transfer between the donor and the borrower's account.</li></ul>	<p>Document the transfer of funds into the borrower's account.</p> <ul style="list-style-type: none"><li>Copy of the <b>donor's check</b> and <b>borrower's deposit slip</b>.</li></ul> <p>or</p> <ul style="list-style-type: none"><li>Copy of the <b>donor's withdrawal slip</b> and <b>borrower's deposit slip</b></li></ul> <p>or</p> <ul style="list-style-type: none"><li>Evidence of electronic transfer between the donor and the borrower's account.</li></ul>	<p>Funds must be in the form of a certified check, cashier's check, other official check or wire transfer (must show donor as remitter).</p> <ul style="list-style-type: none"><li>Copy of the <b>donor's check</b> to the closing agent or evidence of wire transfer.</li><li>A Closing Disclosure (CD) showing receipt of the <b>donor's check/funds</b>.</li></ul>

# Miscellaneous



# Occupancy Status

**Extra care must be taken when borrowers decide to keep a departure residence as a rental.**

Watch for signs that the new property may not be a primary residence:

- What's the distance from the departure residence?
- Does the size of the property make sense for the borrower's lifestyle?
- Look at the insurance coverage, does it show rental property (or landlord) insurance?





# Determining Occupancy Status

**If our QC vendor cannot verify occupancy, we will want to obtain some type of non-essential utility bill (i.e. cable, internet, landline phone) to confirm occupancy**

- Many essential utilities like heat and electricity are not a good indicator of occupancy because they may only show the property address not the borrower's true mailing address.
- An essential utility bill may be in the borrower's name at the subject property while the property is being renovated.
- Bank statements are discouraged because addresses are easily changed.



# Loan Delivery

**We have seen a wave of loans that were funded into the program prior to the loan closing at the title company**

There have been 14 loans that have delivered in the last 9 months. These are repurchases for the MPF Xtra product.

A loan cannot be re-sold back into the MPF Program once it closes.



# Best Practices

- Perform the verbal verification of employment as close to the closing date as possible.
- Fully investigate all credit inquiries made in the past 90 days. A soft pull of the borrower's credit just before closing may help determine if new credit was established, or if there were major changes since the initial credit report.
- Limit items to be collected at closing.
- Use income calculation worksheets (show your work!)
- Have a process in place to ensure everything in the loan file has been validated.

# Best Practices

- It's important to make sure that your contacts within eMAQCSplus are up to date.
- Please review your contacts and users and let us know if any changes need to be made!
- Reach out to either your local FHLB, the MPF Service Center or the MPF QC team if you are ever uncertain about a loan. It's best to ask before delivering that could be ineligible.



# Resources

## Self-employed borrower worksheets:

Fannie Mae: [https://www.fanniemae.com/content/guide\\_form/1084.pdf](https://www.fanniemae.com/content/guide_form/1084.pdf)

Freddie Mac: <http://www.freddiemac.com/singlefamily/forms/sell/pdf/91.pdf>

MGIC: <https://www.mgic.com/underwriting/seb>

ARCH MI: <https://mi.archcapgroup.com/Calculators>

Genworth: <https://new.mi.genworth.com/self-employed-borrower-calculators>

Radian: <https://www.radian.biz/apex/page?name=SelfEmployedCFAnalyzer>

Essent: <https://www.essent.us/training/essentials-training/income-analysis-tools>

# MPF Contacts and Resources

## MPF Service Center

- Email - [MPF-Help@FHLBC.com](mailto:MPF-Help@FHLBC.com)
- Hours - 8:30 am to 4:30 pm CST
- Phone: (877) 345-2673

MPF Quality Control  
[mpfinvestordirectqc.fhlbc.com](http://mpfinvestordirectqc.fhlbc.com)



# MPF National Education



**Check out our upcoming webinars:**

<https://www.fhlbmpf.com/education/upcoming-webinars>

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**MPF National Education**

[mpftraining@fhlbc.com](mailto:mpftraining@fhlbc.com)

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