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

November 2025

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Underwriting Resources

The MPF® Traditional product Selling Guide is available on the MPF Program website: www.fhlbmpf.com and through AllRegs®

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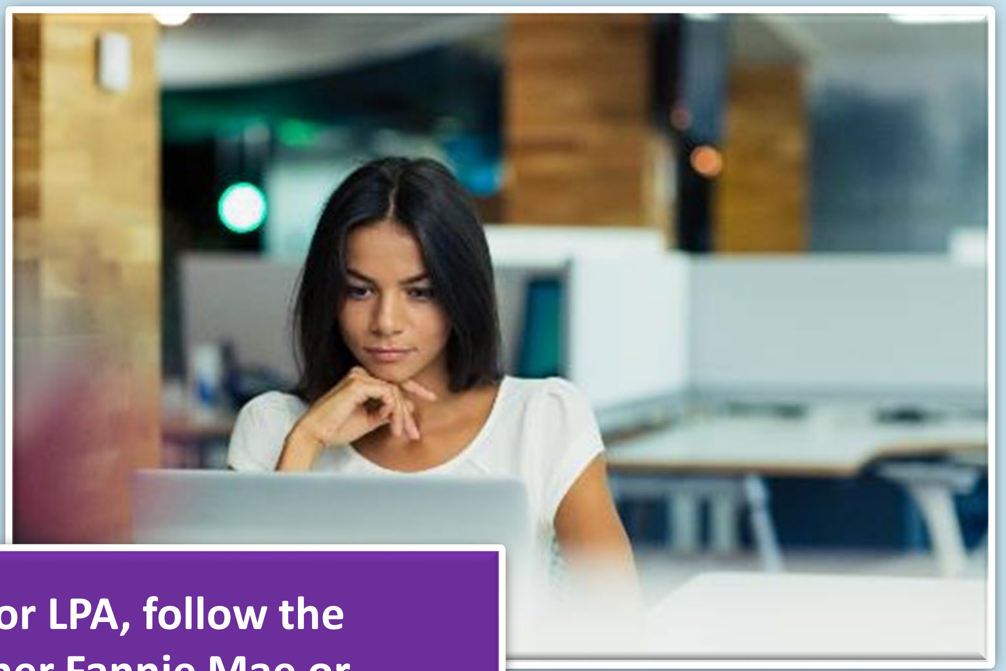
Underwriting MPF Traditional Loans

Loans may be underwritten manually or with the aid of Fannie Mae's Desktop Underwriter® (DU®) or Freddie Mac's Loan Product Advisor® (LPA)



Manually underwritten loans must follow the guidelines published in the MPF Traditional Product Selling Guide

When using DU or LPA, follow the guidelines of either Fannie Mae or Freddie Mac but watch out for potential overlays

Which of the following attributes/transaction types are not allowed under the MPF Traditional conventional products?

a. Interest-only loans
b. Cash-out refinances of manufactured homes
c. Single-wide manufactured homes
d. High-balance mortgage loans

a. and c. are not permitted

Overlays

General Overlays

- Maximum LTV: 95%
- **Minimum FICO: 620**
- Full appraisal or an acceptable alternative property valuation

- No co-ops
- No adjustable-rate mortgages (ARMS)
- No investment properties

Know Where to Find the Overlays

Chapter 6.2
Occupancy Status

- Defines primary and secondary homes
- Investment properties are not eligible

Chapter 6.1.1
Eligible Property Types

- Lists the eligible property types (co-ops are not listed and therefore not eligible
- Property location requirements (i.e., eligible U.S. territories)

Chapter 6.8.2

- Ineligible manufactured homes

Chapter 8.4

- Ineligible Condo and PUD characteristics

Chapter Section 2.7

Ineligible Transactions, Products, and Attributes (not all inclusive)*

- Co-ops
- Investment properties
- ARMs
- Single-width manufactured homes
- Home Improvement/rehab loans
- Agricultural properties
- Condotels
- Fannie Mae's HomeReady or Freddie Mac's Home Possible
- Loans with reduced mortgage insurance
- Shared equity transactions

*Please refer to the MPF Selling Guide for a complete list of ineligible attributes

Eligible or Not Eligible?

- Limited cash-out refinance- SFR
- 45% DTI
- 70% LTV
- 12 months reserves
- Manually Underwritten

NO
Max DTI is 43%

- Cash-out refinance
- Second home
- 80% LTV
- Underwritten with DU or LPA

What if the loan is manually underwritten?

No-DU (75%)
No-LPA (75%)

Manual UW allows up to an 85% LTV

- Purchase transaction
- 1-unit primary
- 95% LTV
- 650 credit score < 3 months reserves
- Manually underwritten

Yes

Keep in mind that multiple risk factors can have an impact on your final underwriting decision

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Value Acceptance: DU

Fannie Mae Selling Guide: B4-1.4-10 and B4-1.4-11

The value acceptance option cannot be used when which of the following characteristics are present:

a. Two-to four-unit properties

b. Construction-to-permanent loans

c. Manufactured homes

d. Transactions using a gifts of equity

e. Properties with an estimated value or purchase price greater than $1,000,000

All these characteristics require a full appraisal

Single-Closing Construction-to-Perm Loans: DU Only

In some cases, income, employment, and credit report documents may be more than **4** months old but no older than _**18**_ months at the time of conversion

Which of the two conditions must apply to use the older documentation?

a. LTV ratios do not exceed 95%
b. LTV ratios do not exceed 90%
c. The loan must be underwritten with DU and receive an approve/eligible finding
d. Credit score must be ≥ 700

a. and c.

Employment Offers and Contracts

MPF Traditional Selling Guide: 5.3.9.7
Fannie Mae Selling Guide: B3.1-09
Freddie Mac Selling Guide: 5303.2

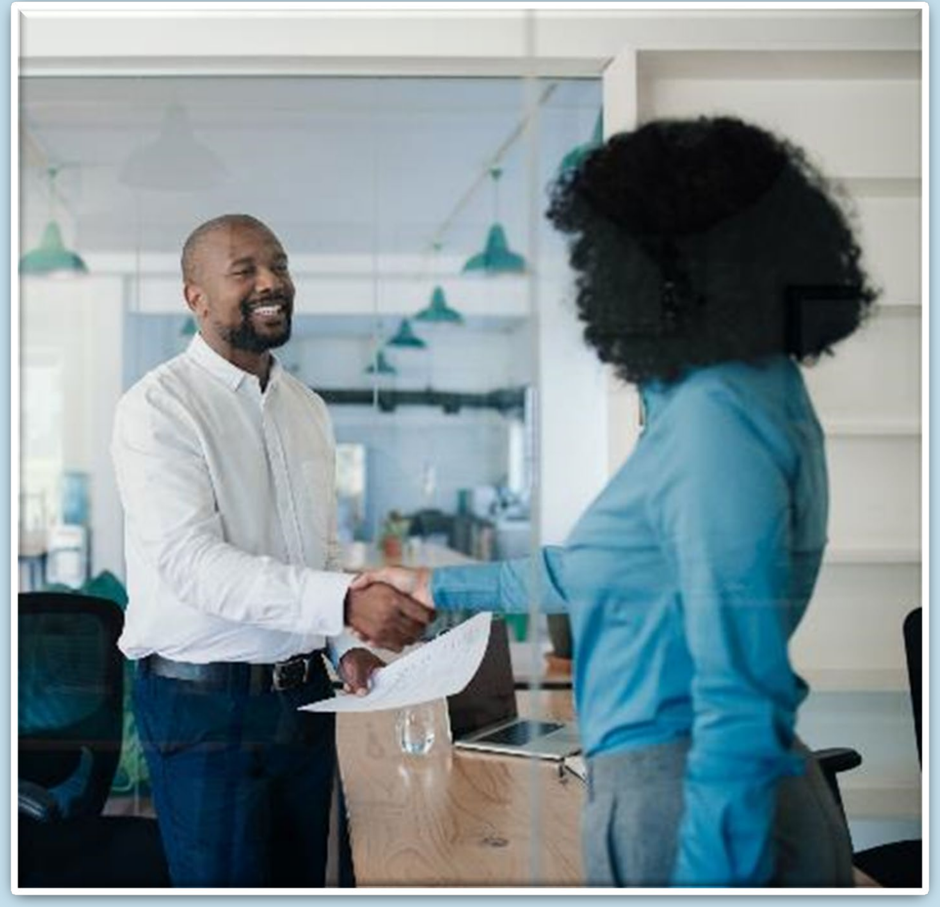
True or False

A loan may close prior to a borrower beginning new employment and receiving income

True

Do you have to obtain a paystub before delivering the loan to the MPF Program?

No



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Employment Offers and Contracts

MPF Traditional Selling Guide: 5.3.9.7
Fannie Mae Selling Guide: B3.1-09
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If a borrower has not started their new employment at the time of closing, you may consider one of two options

Option #1

- Obtain an executed copy of the employment contract, verify the employment terms, start date, and income
- Wait until the borrower receives their first paystub (full pay period) before delivering the loan for purchase
- The borrower cannot be employed by a family member or an interested party to the transaction

Employment Offers and Contracts

Loans may be delivered *prior to* receiving a paystub if the following guidelines are met

Option #2

- Purchases only, 1-unit primary residence
- The borrower must qualify using only fixed base income
- The employer may not be a family member or an interested party

Review the employment contract!

- Signed by both the employer and borrower
- Terms of employment including position, type and rate of pay, start date
- Must be non-contingent. If conditions exist (i.e., background check), confirm they are satisfied (verbally or written verification)

MPF Traditional Selling Guide: 5.3.9.7
Fannie Mae Selling Guide: B3.1-09
Freddie Mac Selling Guide: 5303.2

Employment Offers and Contracts

What other details need to be considered when delivering a loan without a paystub?

The borrower's start date must be no earlier than 30 days prior to the Note date and no later than 90 days after the Note date

If Jane starts her job 5 days before closing, at a minimum, which of the following is required?

a. Employment offer or contract
b. Written verification of employment
c. Verbal verification of employment

a. and c. The guides do not require a written VOE

- In addition to the of reserves required for the transaction, the borrower must have sufficient reserves to cover their PITIA on the property for six months **or,**
- Available financial resources to cover all monthly liabilities (including their PITIA) for the number of months between the Note date and their employment start date (partial months should be counted as a full month)

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Prorated Tax Credits

If a borrower is receiving a prorated real estate tax credit from the seller at closing, can you use those funds to offset the borrower's funds needed to close?

a. Yes

b. No

c. Maybe

Maybe

MPF Traditional Selling Guide: 2.6.1
Fannie Mae Selling Guide: B2-1.3-01
Freddie Mac Selling Guide: 5501.1 (d)

When real estate taxes are paid in *arrears* the seller will typically give the buyer funds at closing to cover their portion of taxes not yet billed or payable

- **Only permitted if an escrow account is established (must be on the Closing Disclosure)**
- **The seller's credit may off-set all or a portion of the funds needed to establish the escrow account**

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Refinances

MPF Traditional Selling Guide: 2.6.2.1
Fannie Mae Selling Guide: B2-1.3-02
Freddie Mac Selling Guide: 4301.4

Doug is on the title to his parent's home but not on the existing mortgage

- For the past two years, Doug has been living in the home and making all payments on behalf of his parents
- He would like to be the sole borrower on a 30-year fixed, limited cash-out refinance to lower the payments
- **Does this meet the limited cash-out refinance requirements?**

YES, at least one borrower on the new loan must be on title

If Doug borrows $275,000 how much cash back can he get at closing?

$2,750

New guidelines allow for *the greater of 1%* of the new loan or *$2,000*

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What’s the median age for the typical repeat homebuyer?

a. 39
b. 42
c. 51
d. 62

As of June 2025, the median age reached 62

With borrower’s getting older, it’s important to understand how to consider other types of income and assets

- Social Security
- Pensions
- Annuities
- IRA, 401(k) distributions

Source: National Association of Realtors

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MPF Traditional Selling Guide: 5.3.9.8
Fannie Mae Selling Guide: B3-3.1-09

Employment-Related Asset as Qualifying Income

Dana is 58 years old, and switched from being a full-time to part-time professor at a local university

- **Her salary brings in $4,583 per month but her total monthly obligations would be $2,750 making her DTI 60%**
- **LTV is 60%**
- **She has retirement assets totaling $746,000 but has yet to take any distributions**
- **She also has other non-retirement assets totaling $321,000**

Could this transaction work?

Yes, if certain eligibility guidelines are met

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MPF Traditional Selling Guide: 5.3.9.8
Fannie Mae Selling Guide: B3-3.1-09

Using Assets for Qualifying: Fannie Mae and Manual Underwriting Guidelines

- **The assets must be employment-related, such as a 401(k), IRA, or Keogh account**
- **Purchases and limited cash-out refinances** only
- Must be a **1-4 unit primary or 1-unit second home**
- Max LTV/CLTV is **70% but up to 80%** LTV/CLTV is permitted if the owner of the asset is at least 62 years old at the time of closing. If the asset is jointly owned, all owners must be at least 62 years old

- The borrower must have unrestricted access to the funds
- If the asset is jointly owned, all owners must be on the loan
- Any penalties for early withdrawal (prior to age 59 1/2) or funds used towards the transaction must be subtracted from the asset balance

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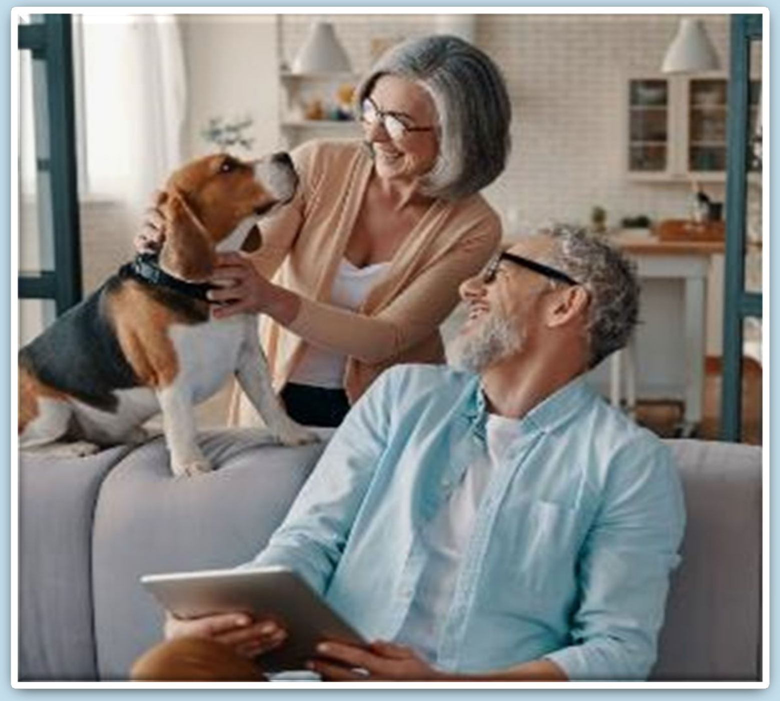
Employment-Related Assets as Income

Other items to consider for Fannie Mae and MPF Traditional manually underwritten loans

- Only rely on the income stream if a distribution isn’t already set up or the currently distribution isn’t enough to qualify

- Lump sum **severance or retirement** packages can be used but must be documented with a distribution letter from the employer and the funds deposited into a verified asset account



1. Will any of Dana's retirement funds be used towards down payment or closing costs? *If so, they must be subtracted from the balance*

2. Is there a penalty for early distribution? *If the borrower is younger than 59 ½ apply a 10% penalty*

NO

YES

IRA Balance:	$746,000
Funds used to close:	$0
10% Penalty:	-$74,600
Adjusted IRA Balance	$671,400

$671,400 ÷ 360 (loan term) =

$1,865 per month of additional qualifying income

If you use LPA, how are Freddie Mac's guidelines different from Fannie Mae?

Freddie Mac Selling Guide: 5307.1

In addition to retirement accounts and lump sum retirement or severance distributions, Freddie Mac **permits depository accounts and securities**

For all asset types Freddie Mac requires:

- Maximum LTV/TLTV of **80%**
- The asset must not currently be used as a source of income
- The borrower must have access to withdraw the funds in their entirety (less any portion pledged as collateral) without being subject to a **penalty or early distribution tax**

Could you build an income stream for Dana if you use LPA?

Unfortunately, no. Because she is only 58, she's subject to an early distribution tax

What if Dana was 62 years old? How would you calculate an income stream using Freddie Mac guidelines?*

Start with the verified asset balances

Subtract:

- any funds considered for the transaction (e.g., down payment, closing costs)
- gift funds and/or borrowed funds (i.e., HELOC funds deposited into a depository account)
- any portion pledged as collateral for other debt

In all cases, divide the of eligible asset(s) by 240

*Please refer to Freddie Mac guidelines to confirm all other eligibility requirements are met

Retirement:	**$746,000**
Other depository accounts/securities:	**$341,000**
Total Assets:	**$1,087,000**
Funds used for the transaction, deposited gift funds, borrowed funds, any pledged funds:	**-$263,000**
Total Net Assets:	**$824,000**

$824,000 / 240 = $3,433 of additional income

Credit Reports

MPF Traditional Selling Guide 5.12.7.9
Fannie Mae Selling Guide B3-5.3-07
Freddie Mac Selling Guide: 5202.5

Trevor was in a car accident and unable to work for over a year. Major medical expenses and mounting debts forced him to file for Chapter 13 bankruptcy

- **His bankruptcy was discharged in January of 2022**
- **His credit has been re-established, and he meets the minimum credit score requirement**

Does this meet the waiting period and credit re-establishment requirements for manual underwriting?

Yes, it should. Two years must have lapsed (from discharge date) if the bankruptcy was due to extenuating circumstances. If due to financial mismanagement, the waiting period is 4 years.

If DU or LPA are used, the loan must also receive an approve/accept eligible recommendation

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Buy Now, Pay Later Loans (BNPLs)

BNPL loan debt is becoming more common, but the terms of the financing aren't always clear

Popular BNPL companies include:

Klarna
Affirm
Pay Pal
Afterpay
Sezzel
Zip

Fun Facts and Warnings About BNPLs

Did you Know?

- An estimated half of all Americans have used a BNPL plan at least once
- Half of users are under the age of 33
- 2/3 of Coachella concert goers used a BNPL plan to buy their tickets
- You can “Klarna” a burrito

Source: New York Times Oct 7, 2025

- May show on the credit report but sometimes the terms are not clearly stated
- Typically, most are paid off in less than four installments, but some can have longer terms
- **If the number of remaining payments cannot be verified and the payment results in the DTI being too high, you should obtain evidence to confirm the term**
- Watch for payments on bank statements, they may not show up on the credit report

Nontraditional Credit

When manually underwriting a loan file, if one or more borrowers does not have a credit score and relying on nontraditional credit to qualify, which of the following statements are true:

a. Properties are limited to 1-unit primary residences

b. The transaction must be a purchase or limited cash-out refinance

c. The maximum debt-to-income ratio must be ≤ 36%

d. A nontraditional credit history must be documented for each borrower without a credit score

All the above are true

Additional Guidelines

- Non-occupant co-borrowers are permitted (provided the guidelines for non-occupant co-borrowers are met)
- Conforming loan amounts only, high-balance mortgage loans are not permitted

Nontraditional Credit

Want to know more about nontraditional credit?

Join us on
Tuesday, December 2nd
for a webinar dedicated entirely to nontraditional credit guidelines

Check out our upcoming webinars:
https://www.fhlbmpf.com/education/upcoming-webinars

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