mpf Mortgage Partnership Finance™

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

January 19, 2023

FHLBANKS
A NATION OF LOCAL LENDERS

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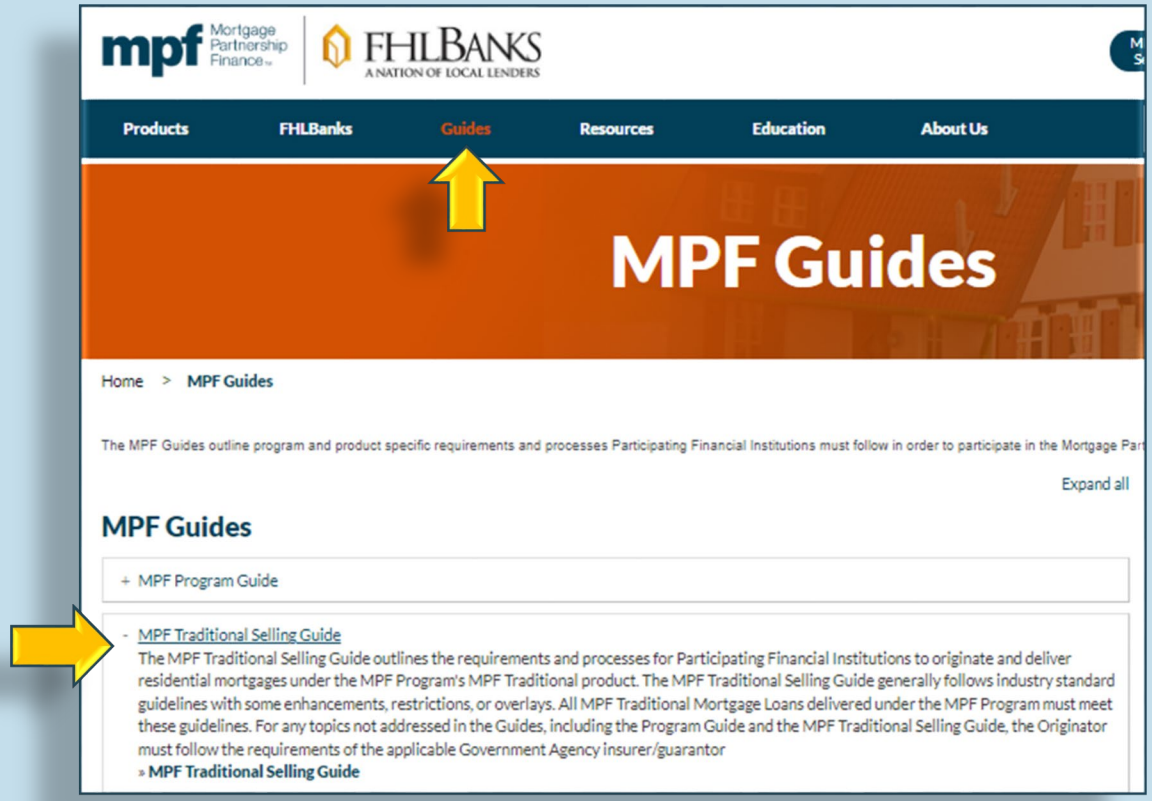
Underwriting Resources

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

Let's start the quiz! Use the *Question* box to submit your answers.

Using DU and LPA

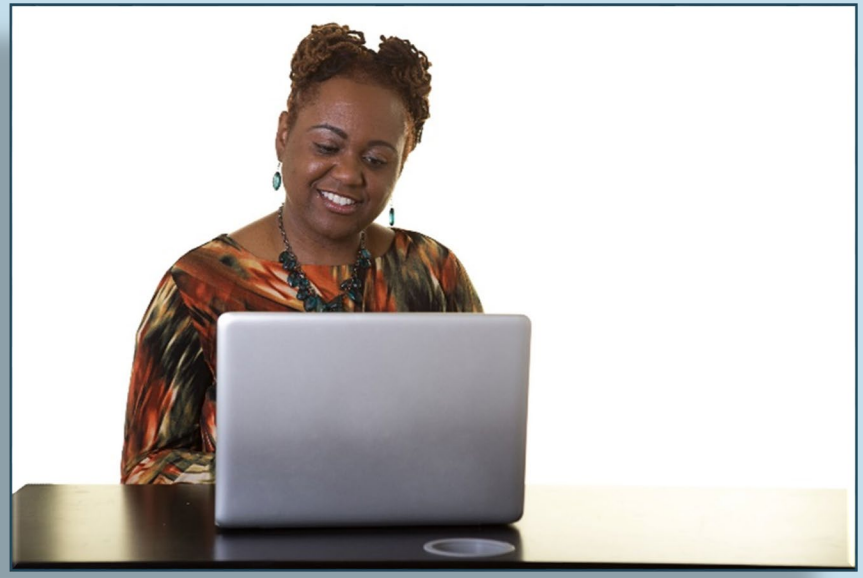
Which of the following are not allowed when using DU or LPA to underwrite MPF Traditional loans?

a. **85% LTV for cash-out refinances of second homes**

b. **Freddie Mac ACE appraisal waivers (LPA)**

c. **Cooperative (co-op) properties**

d. **Single-width manufactured homes**



All but b. ACE appraisal waivers are eligible if using LPA.

- Both Fannie Mae and Freddie Mac limit cash-out transactions of second homes to 75% LTV but you can go to 85% if the loan is manually underwritten.
- Co-ops and single-width manufactured homes are property eligibility overlays.

Property Eligibility

Which of the following is not an eligible property type?

a. Mixed-use properties

b. A condo unit located in a PUD

c. A manufactured home used as a secondary residence

d. Panelized or pre-fabricated homes

c. Manufactured homes are limited to primary residences only.

Manual Underwriting

Which of the following is false about manually underwritten MPF Traditional loans?

a. **Student loan payments deferred for more than 12 months from the Note date do not have to be counted in the DTI ratio.**
b. **There is a six month reserve requirement for second homes.**
c. **Earnest money deposits that are less than 50% of the total down payment do not have to be sourced.**
d. **There are no restrictions to the maximum number of loans permitted for a single borrower.**

The answer is b.

The reserve requirement is two months but you or a MI provider may have separate requirements.

Using DU or LPA

Which of the following is true about using DU or LPA to underwrite MPF Traditional Loans?

a. DTI ratios can exceed 43% with an approve/accept eligible finding.
b. Income and assets may be combined for qualifying if using a non-occupant co-borrower.
c. Borrowers with an ITIN are eligible.
d. Condominium projects are limited to 25% square footage for commercial spaces.

All but d. are true.

Fannie Mae and Freddie Mac guidelines allow up to 35% of the square footage to be commercial. Manually underwritten loans are limited to 25%.

Appraisal Waivers

Which of the following transaction(s) may be eligible for an appraisal waiver?

a. Two-to four unit properties
b. Second homes
c. Properties valued at $1,000,000 or greater
d. Condominium units
e. Manufactured homes

b. and d. are the correct answers

Gifts of Equity

Michael's mother is moving to a condo. She wants to sell her current single-family home to him at a reduced price.

Which of the following are required when an equity gift is part of the transaction?

a. **The contract purchase price should reflect the market value.**

b. **The contract purchase price should reflect the reduced purchase price.**

c. **The contract should include the amount of the equity gift.**

d. **The contract does not have to include the amount of the equity gift if there is a gift letter.**

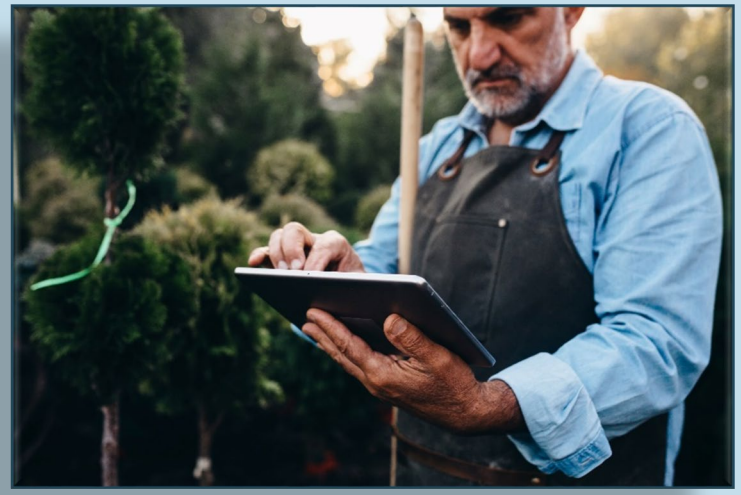
The answers are a. and c.

The purchase price should be the market value, the difference between the loan amount and the market value equals the amount of the gift. The gift amount should be noted on the contract ***and*** *a gift letter obtained for the file.*

Sweat Equity

Frank owns a landscaping business. He is purchasing a new home from L&M builders. He negotiated with the builder to receive a sweat equity credit at closing.

What is the maximum (percentage) Frank can be credited for sweat equity?



a. 5%
b. 10%
c. Frank can't use sweat equity, it's not allowed.
d. There is no limit

The answer is a. but if you answered c., that can also be true if using Fannie Mae guidelines (unless it is a HomeReady loan under the MPF Xtra product).

Bonus Question: Yes or no?
Is there a minimum borrower contribution if sweat equity is a part of the transaction?
Yes, a 3% borrower contribution is required.

Subject Property Second Homes

Your borrowers are purchasing a second home in a detached condo community. Which of the following about second homes is <u>not true</u>?

a. **Limited to one-unit detached homes, condos and PUDs (no manufactured homes).**

b. **The borrower may own no more than two units in the development.**

c. **The property must have a full-sized kitchen, separate rooms for sleeping and no lock-out bedrooms.**

d. **The property cannot be in the same local market as the borrower's primary residence.**

b. and d.

Borrowers may own no more than one unit in the project (occupancy overlay) and there are distance exceptions in some situations.

Limited Cash Out Refinances (LCORs)

Craig and Pat's home suffered damage during a tornado last summer. Insurance covered most of the repairs but they would like to refinance to cover some of their out of pocket costs for minor upgrades not covered by insurance.

Fill in the blanks:

It can be treated as a LCOR if the amount of cash out is the *lesser* of $15,000 or 10% of the principal balance of the new mortgage.

The property has to be located in a FEMA designated disaster area, declared no more than 2 years prior to the loan delivery date.

Refinances

Paula and Wayne used a first mortgage and a piggyback HELOC to purchase their home in 2014. They recently sold an investment property and paid off their first mortgage.

They would like to refinance their HELOC to a 15-year fixed mortgage.

Is this cash-out or limited cash-out?

Limited cash-out

What if the line was paid down and re-used to make house renovations? Is it still a LCOR?

Employment Offers and Contracts

Leslie accepted a job offer but will not begin her job until after the loan can be delivered for purchase. This is permitted if the loan is underwritten with DU/LPA*, but which of the following statements is FALSE?

a. Purchase transactions only.

b. Must be a principal residence or a second home.

c. One-unit properties only.

d. The borrower cannot be employed by a family member or an interested party to the transaction.

e. The borrower must qualify using only fixed, base income.

b. Fannie Mae does not permit second homes unless the loan is delivered after the borrower receives their first paystub.

If using LPA, please review Freddie Mac guidelines, they may differ slightly.

Employment Offers and Contracts: DU

If a paystub is not obtained before the loan is delivered, the borrower needs reserves sufficient to cover PITIA for _6_ months (Fannie Mae) OR;

Financial resources sufficient to cover all monthly liabilities included in the DTI ratio including the PITIA for the subject property for the number of months between the _Note date_ and the _employment start date_ plus _1_ month(s).

What can be considered a financial resource?
Reserves and current income.

Boarder Income

Tabitha wants to refinance her home. She has been renting a spare room to her friend, Cyndi for the past 3 years. She needs the rental income to qualify.

Which of the following statements are true?

a. **Boarder income can be used if the loan is manually underwritten and the income has been reported on the borrower's tax returns.**

b. **Boarder income is not permitted if using DU or LPA**

c. **Boarder income is permitted when using DU or LPA**

d. **If manually underwriting, boarder income is only permitted if the income is from a live-in aide.**

The answers are a. and b. *However, boarder income may be used for the MPF Xtra product HomeReady® option.*

Retirement and Pension Income

When borrowers don't have a history of draws on an employment-related retirement asset, income can be considered if certain guidelines are met.
Which comments relate to manual underwriting only, underwriting using DU or both methods*?

1. **The LTV/TLTV cannot exceed 70%.**
   Manual underwriting
   DU/LPA allows up to 80% if all owners of the asset are 62 years or older at the time of closing. All owners must be on the loan.

2. **Transactions are limited to purchases and limited cash-out refinances.**
   Manual underwriting and DU/Fannie Mae

**Freddie Mac guidelines differ. If using LPA please refer to Freddie Mac's guidelines.*

Retirement and Pension Income

3. **To arrive at draw amount, the total net documented asset(s) must be divided by the loan term.**
   DU/Fannie Mae
   Manual underwriting always uses 360 months no matter the term.

4. **The asset must be liquid and available without penalty.**
   Manual Underwriting
   DU/LPA requires any penalties be deducted from the value of the asset prior to calculating the income stream.

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Temporary Rate Buy Downs

Which of the following are true about temporary rate buy downs for manually underwritten loans?

a. The maximum LTV for a 3-2-1 buy down is 95%.

b. Buy downs are not permitted on a cash-out refinance.

c. The Note rate is used for qualifying.

d. Manufactured homes are limited to 2-1 buy downs only.

b. and c. are correct.

The max LTV for a 3-2-1 buy down is actually 90% and manufactured homes are not eligible for buy downs.

Appraisals

Lois is working on a dual-close construction loan. She has a “subject to” appraisal that is nine months old. The home is complete and the construction loan is being refinanced to permanent financing. It is scheduled to close at the end of February.

Does she need to order a new appraisal?

It depends.

As long as the appraisal is less than 12 months old at the time of closing, she can get a 1004D and use the old appraisal. If the 1004D notes that the value has since declined, then she needs to order a new appraisal.

Questions?

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MPF Contacts and Resources

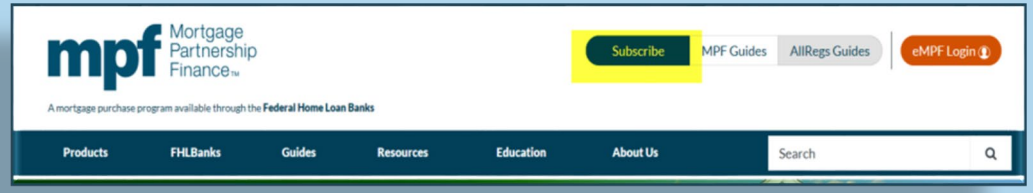
MPF Service Center

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

Have you tried out the new customer service portal?

Keep up with MPF Traditional product guideline updates by subscribing to MPF Program Announcements:

www.fhlbmpf.com



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