

TABLE OF CONTENTS

CHAPTER 1.	INTRODUCTION (7/24/17).	1
CHAPTER 2.	MORTGAGE LOAN ELIGIBILITY	2
2.1	LOAN LIMITS (12/07/23).	2
2.1.1	Conventional High-Balance Mortgage Loans	2
2.2	MORTGAGE LOAN ATTRIBUTES	2
2.2.1	Escrow Accounts (8/8/22)	3
2.2.2	Principal Curtailments (9/20/23)	3
2.3	MORTGAGE LOAN TERMS (12/22/16).	5
2.3.1	Maturity	5
2.3.2	Principal Amount (12/22/16)	5
2.3.3	Monthly Payments	5
2.4	MAXIMUM LTV AND TLTV RATIOS	6
2.4.1	Calculating LTV and TLTV Ratios (7/24/17)	6
2.4.2	LTV Ratios and Occupancy Eligibility for Conventional Conforming Mortgage Loans (10/14/22)	6
2.4.3	LTV Ratios and Occupancy Requirements for Conventional High-Balance Mortgage Loans (10/14/22)	8
2.5	ADDITIONAL HIGH-BALANCE MORTGAGE LOAN REQUIREMENTS (9/2/22).	9
2.6	ELIGIBLE TRANSACTIONS	10
2.6.1	Purchase Transactions (12/22/16)	10
2.6.2	Refinance Transactions (10/14/22)	10
2.6.3	Construction-to-Permanent Transactions (3/15/18)	16
2.6.4	New York Consolidation, Extension and Modification Agreements (CEMA)	20
2.6.5	Payoff of a Land Contract (8/21/23)	20
2.6.6	Subordinate Finance Transactions (12/22/16)	20
2.6.7	Property Assessed Clean Energy (PACE) Loans (10/14/22)	23
2.6.8	Non-Arm's Length Transactions	23
2.6.9	Temporary Buydowns (12/22/16)	23
2.6.10	Texas 50(a)(6) Mortgages (10/14/22)	25
2.7	INELIGIBLE TRANSACTIONS, PRODUCTS OR ATTRIBUTES (11/30/23).	25
2.8	GOVERNMENT MORTGAGE LOAN ELIGIBILITY AND UNDERWRITING REQUIREMENTS (7/24/17).	27
2.8.1	Maximum Loan Limits for Government Mortgage Loans (7/24/17)	27
2.8.2	Eligible Borrowers for Government Mortgage Loans	27
2.8.3	Eligible Property Types for Government Mortgage Loans (4/6/18)	28
2.8.4	Government Mortgage Loan Streamline Refinances (12/22/16)	28
2.8.5	Properties Impacted by a Major Disaster (8/13/18)	28

CHAPTER 3.	BORROWER ELIGIBILITY.....	29
3.1	BORROWER OVERVIEW	29
3.1.1	OFAC.....	29
3.1.2	Eligible Borrowers (8/8/22)	29
3.1.3	Co-Borrower.....	29
3.1.4	Non-Occupant Co-Borrower (12/22/16)	29
3.1.5	Inter Vivos Revocable Trust (12/11/18)	30
3.1.6	Illinois Land Trust	31
3.1.7	Non-U.S. Citizen	32
3.1.8	Social Security Number and Individual Taxpayer Identification Number Verification	32
3.1.9	Maximum Loans Per Borrower (12/22/16)	33
3.2	INELIGIBLE BORROWERS.....	33
CHAPTER 4.	UNDERWRITING STANDARDS	34
4.1	PERMITTED UNDERWRITING METHODS	34
4.2	CONVENTIONAL MORTGAGE LOANS	34
4.2.1	Automated Underwriting Systems (AUS) (11/30/23)	34
4.2.2	Manual Underwriting (5/3/23)	40
4.3	GOVERNMENT MORTGAGE LOANS	41
4.3.1	FHA Mortgage Loans (11/29/16)	41
4.3.2	VA Mortgage Loans (11/29/16)	42
4.4	AFFORDABLE HOUSING PROGRAM (AHP) FUNDS.....	43
4.4.1	FHLB Funds	43
4.4.2	Non-FHLB Funds (3/16/17)	43
4.4.3	Repayment Terms (12/22/16)	44
CHAPTER 5.	UNDERWRITING THE BORROWER (FOR MORTGAGE LOAN APPLICATIONS PRIOR TO JULY 1, 2023).....	45
	EFFECTIVE FOR MORTGAGE LOAN APPLICATIONS DATED PRIOR JULY 1, 2023 (5/3/23)	45
5.1	DOCUMENTATION REQUIREMENTS (12/22/16)	45
5.1.1	Complete Applications Required	46
5.1.2	Zero Tolerance.....	46
5.1.3	Age of Documents (1/28/19)	47
5.1.4	Direct Written Verifications	47
5.1.5	Verification of Borrower Identity (12/22/16)	47
5.2	ALTERNATIVE DOCUMENTATION	48
5.2.1	Eligibility Criteria	48
5.2.2	FAX or Emailed Copies	48
5.2.3	Internet Documentation.....	49
5.2.4	Reverification Authorization	49

5.3	AUTOMATED VALIDATION SERVICES	49
5.4	CREDIT HISTORY (12/22/16)	49
5.5	CREDIT REPORTS.....	50
5.5.1	Age of Reports	50
5.5.2	Credit Report Requirements (12/22/16)	50
5.5.3	Adverse Credit (12/22/16)	51
5.5.4	Disputed Information	52
5.5.5	Limited or No Traditional Credit History (10/31/17)	52
5.5.6	Credit Inquiries (12/22/16)	53
5.5.7	Delinquent Payments.....	53
5.5.8	Revolving Accounts	54
5.5.9	Authorized User Accounts	54
5.5.10	Consumer Credit Counseling (12/22/16)	54
5.5.11	Reestablishing Credit (9/1/16)	54
5.6	CREDIT SCORES (12/22/16)	55
5.6.1	FICO Scores.....	55
5.6.2	Minimum Credit Score.....	56
5.6.3	Credit Score Selection (12/11/18)	56
5.6.4	Unobtainable Credit Score.....	57
5.7	SIGNIFICANT ADVERSE CREDIT EVENTS (4/20/17)	57
5.8	LIABILITIES (7/1/21)	58
5.8.1	Revolving Accounts	59
5.8.2	Installment Debt (10/31/17)	60
5.8.3	Business Debt.....	60
5.8.4	Student Loans (3/16/17)	60
5.8.5	Past Due, Collections and Charge-Off Accounts	60
5.8.6	Loans Secured by Retirement Accounts (12/22/16)	61
5.8.7	Open-End Lines of Credit (HELOCs)	61
5.8.8	Deferred Payment Accounts (12/22/16)	61
5.8.9	Contingent Liabilities (7/24/17)	62
5.8.10	Co-Signed Loans.....	62
5.8.11	Assumption with No Release of Liability	62
5.8.12	Court Order.....	62
5.8.13	Lease Payments.....	63
5.8.14	Housing Payment History.....	63
5.8.15	Tax Debt and Tax Liens.....	63
5.8.16	Balloon Loan Payments (12/22/16)	63
5.8.17	Installment Debts from Virtual Currency (8/8/22)	63
5.9	VERIFICATION OF EMPLOYMENT (8/8/22)	64
5.9.1	Verbal Verification of Employment (12/11/18)	64
5.9.2	Written Verification of Employment (9/1/16)	65
5.9.3	VOE Provided by a Third-Party Employment Verification Vendor	66
5.9.4	Self-Employment Confirmation (3/16/17)	66
5.9.5	Paystubs	66

5.9.6	W-2 Forms	67
5.9.7	Tax Return (12/8/20)	67
5.9.8	4506-C and Tax Transcripts (8/8/22)	68
5.10	INCOME ANALYSIS (7/1/21)	70
5.10.1	Stable Monthly Income (12/22/16)	71
5.10.2	Returning to Work After an Extended Absence (12/22/16)	71
5.10.3	Calculating Income	72
5.10.4	Unacceptable Types of Income	72
5.11	WAGE AND SALARY INCOME	73
5.11.1	Primary Employment Less than 40-Hour Work Week	73
5.12	BONUS, OVERTIME, AND COMMISSION INCOME	73
5.12.1	Bonus and Overtime Income (12/22/16)	73
5.12.2	Commission Income (7/31/19)	74
5.12.3	Automobile Allowance (7/31/19)	74
5.13	PART-TIME AND SEASONAL INCOME	74
5.14	SELF-EMPLOYMENT INCOME (10/31/17)	75
5.14.1	Self-Employment Income Documentation Requirements (3/12/21)	76
5.14.2	Business Structures of Self-Employed Borrowers	77
5.15	TAX-EXEMPT INCOME	79
5.16	OTHER TYPES OF INCOME	80
5.16.1	Alimony, Child Support, Maintenance (12/22/16)	80
5.16.2	Boarder Income	80
5.16.3	Disability Income	81
5.16.4	Employer-Paid Mortgage Interest Subsidy (12/22/16)	81
5.16.5	Employment by a Relative or Transaction Participant (12/22/16)	81
5.16.6	Employment Offers or Contracts	82
5.16.7	Foreign Income (12/22/16)	82
5.16.8	Foster Care Income (12/22/16)	82
5.16.9	Interest and Dividend Income	83
5.16.10	Military Income/VA Benefits	83
5.16.11	Mortgage Credit Certificates	83
5.16.12	Notes Receivable, Installment Sales, and Land Contracts (12/22/16)	84
5.16.13	Public Assistance Income (12/22/16)	84
5.16.14	Retirement, Government Annuity, and Pension Income (12/22/16)	84
5.16.15	Royalty Income	85
5.16.16	Social Security Income	85
5.16.17	Temporary Leave Income (12/22/16)	85
5.16.18	Tip Income	86
5.16.19	Trust Income	86
5.16.20	Unemployment Income	86

5.16.21	Upcoming Increases in Income	86
5.16.22	Rental Income from the Borrower's Two- to Four-Unit Primary Residence (9/2/22)	87
5.16.23	Rental Income from an Existing Investment Property (12/22/16)	88
5.16.24	Rental Income from a Primary Residence Converted into an Investment Property (12/22/16)	89
5.16.25	Rental Income from a Second Home (9/1/16)	90
5.16.26	Parsonage or Housing Income (7/24/17)	90
5.17	QUALIFYING RATIOS	90
5.17.1	Housing Expense Ratios.....	90
5.17.2	Calculating Monthly Real Estate Tax Payment	91
5.17.3	Debt-to-Income Ratios (8/8/22)	91
5.17.4	Loan-to-Value Ratios	92
5.18	ASSETS AND RESERVES (9/27/19)	92
5.18.1	Down Payment Requirements (12/22/16)	92
5.18.2	Reserves.....	93
5.18.3	Prepaid Costs.....	94
5.19	BANK STATEMENTS (3/15/18)	95
5.19.1	Review of Bank Account Statements	96
5.19.2	Joint Accounts (10/31/17)	96
5.20	ACCEPTABLE SOURCES OF ASSETS.....	96
5.20.1	Liquid Assets	96
5.20.2	U.S. Savings Bond.....	97
5.20.3	Pooled Funds (12/22/16)	97
5.20.4	Sale of Personal Property.....	97
5.20.5	Trust Accounts	98
5.20.6	Retirement Accounts	98
5.20.7	Stocks and Bonds.....	98
5.20.8	Real Estate Proceeds (12/22/16)	99
5.20.9	Use of Business Funds.....	99
5.20.10	Earnest Money (8/8/22)	99
5.20.11	Sweat Equity (12/22/16)	100
5.20.12	Trade Equity (9/1/16)	100
5.20.13	Lease/Rent with Option to Buy (9/1/16)	100
5.20.14	Lot Value (9/1/16)	100
5.20.15	Borrowed Funds (12/22/16)	100
5.20.16	Bridge Loan Financing (9/1/16)	101
5.20.17	Cash on Hand (12/22/16)	101
5.20.18	Virtual Currency (8/8/22)	101
5.21	VERIFICATION OF DEPOSIT (3/15/18)	101
5.21.1	Direct Verification by a Third-Party Asset Verification Vender.....	102
5.22	UNACCEPTABLE SOURCES OF ASSETS	102

5.23	GIFTS (12/22/16) -	103
5.23.1	Personal Gifts (1/28/19) -	103
5.23.2	Gift or Grant from a Municipality, Nonprofit Organization, or Employer	104
5.23.3	Gift of Equity (10/31/17) -	105
5.24	CONTRIBUTIONS	105
5.24.1	Interested Party Contributions (IPCs)	105
5.24.2	Sales Concessions (12/22/16) -	106
5.24.3	Payment Abatements (12/22/16) -	106
CHAPTER 5.	UNDERWRITING THE BORROWER (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)	107
	EFFECTIVE FOR MORTGAGE LOAN APPLICATIONS DATED ON OR AFTER JULY 1, 2023 (5/3/23) -	107
5.1	DOCUMENTATION REQUIREMENTS	107
5.1.1	Complete Applications Required (8/29/23)	108
5.1.2	Zero Tolerance	108
5.1.3	Age of Documents	109
5.1.4	Allowable Age of Federal Income Tax Returns (6/13/23)	109
5.1.5	Direct Written Verifications	112
5.1.6	Verification of Borrower Identity	112
5.1.7	Blanket Authorization	113
5.2	AUTOMATED VALIDATION SERVICES	113
5.3	INCOME ASSESSMENT	113
5.3.1	General Income Information	114
5.3.2	Standards for Employment Documentation	120
5.3.3	Base Pay (Salary or Hourly), Bonus, and Overtime Income	123
5.3.4	Commission income	126
5.3.5	Secondary Employment Income (Second Job and Multiple Jobs) and Seasonal Income	127
5.3.6	4506-C and Tax Transcripts	128
5.3.7	Verbal Verification of Employment	130
5.3.8	Rental Income	134
5.3.9	Other Sources of Income	142
5.4	SELF-EMPLOYMENT INCOME	170
5.4.1	Underwriting Factors and Documentation for a Self-employed Borrower	170
5.4.2	Business Structures	174
5.4.3	IRS Forms Quick Reference	178
5.5	SELF-EMPLOYMENT DOCUMENTATION REQUIREMENTS FOR AN INDIVIDUAL	180
5.5.1	General Information on Analyzing Individual Tax Returns	180
5.5.2	Income Reported on IRS Form 1040	181

5.5.3	Income or Loss Reported on IRS Form 1040, Schedule C.....	183
5.5.4	Income or Loss Reported on IRS Form 1040, Schedule D	183
5.5.5	Income or Loss Reported on IRS Form 1040 Schedule, E	184
5.5.6	Income or Loss Reported on IRS Form 1040, Schedule F.....	185
5.5.7	Income of Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1	186
5.6	SELF-EMPLOYMENT DOCUMENTATION REQUIREMENTS FOR A BUSINESS	187
5.6.1	Analyzing Partnership Returns for a Partnership or LLC	188
5.6.2	Analyzing Returns for an S Corporation	189
5.6.3	Analyzing Returns for a Corporation	191
5.6.4	Analyzing Profit and Loss Statements	192
5.7	ASSET ASSESSMENT.....	192
5.7.1	Minimum Reserve Requirements	193
5.7.2	Interested Party Contributions (IPCs) (11/30/23)	195
5.7.3	Types of Interest Party Contributions (IPCs)	197
5.7.4	Virtual Currency.....	200
5.8	VERIFICATION OF DEPOSITORY ASSETS.....	200
5.8.1	Verification of Deposits and Assets.....	200
5.8.2	Depository Accounts	202
5.8.3	Individual Development Accounts	205
5.8.4	Pooled Savings (Community Savings Funds).....	207
5.8.5	Foreign Assets	207
5.9	VERIFICATION OF NON-DEPOSITORY ASSETS	208
5.9.1	Stocks, Stock Options, Bonds, and Mutual Funds	208
5.9.2	Trust Accounts.....	209
5.9.3	Retirement Accounts.....	210
5.9.4	Personal Gifts.....	210
5.9.5	Gifts of Equity	213
5.9.6	Grants and Lender Contributions	213
5.9.7	Disaster Relief Grants or Loans.....	216
5.9.8	Employer Assistance	216
5.9.9	Earnest Money Deposit	218
5.9.10	Anticipated Sales Proceeds	219
5.9.11	Trade Equity	219
5.9.12	Rent Credit for Option to Purchase.....	220
5.9.13	Sweat Equity	221
5.9.14	Bridge/Swing Loans	222
5.9.15	Borrowed Funds Secured by an Asset.....	223
5.9.16	Credit Card Financing and Reward Points	223
5.9.17	Personal Unsecured Loans	224
5.9.18	Sale of Personal Assets.....	224
5.9.19	Cash of Value of Life Insurance	225
5.9.20	Anticipated Savings and Cash-on-Hand.....	225

5.9.21	Borrower's Earned Real Estate Commission.....	226
5.10	CREDIT ASSESSMENT	226
5.10.1	General Requirements for Credit Scores	227
5.10.2	Determining the Credit Score for a Mortgage Loan	227
5.10.3	Unobtainable Credit Score	228
5.11	CREDIT REPORTS.....	229
5.11.1	Requirements for Credit Reports	229
5.11.2	Types of Credit Reports	231
5.11.3	Accuracy of Credit Information in a Credit Report.....	234
5.12	TRADITIONAL CREDIT HISTORY	234
5.12.1	Number and Age of Accounts	234
5.12.2	Payment History	235
5.12.3	Previous Mortgage Payment History.....	235
5.12.4	Inquiries: Recent Attempts to Obtain New Credit	236
5.12.5	Credit Utilization	237
5.12.6	Authorized Users of Credit.....	237
5.12.7	Significant Derogatory Credit Events – Waiting Periods and Re- establishing Credit	238
5.12.8	Extenuating Circumstances for Derogatory Credit.....	244
5.13	NONTRADITIONAL CREDIT HISTORY	244
5.13.1	Eligibility Requirements for Loans with Nontraditional Credit.....	244
5.13.2	Number and Types of Nontraditional Credit Resources	246
5.13.3	Documentation and Assessment of Nontraditional Credit History	247
5.14	LIABILITY ASSESSMENT	250
5.14.1	General Information on Liabilities.....	250
5.14.2	Debt-to-Income Ratios (DTI).....	252
5.14.3	Monthly Housing Expense for the Subject Property	254
5.14.4	Monthly Debt Obligations	256
5.14.5	Qualifying Impact of Other Real Estate Owned	262
5.14.6	Debts Paid Off At or Prior to Closing.....	263
CHAPTER 6.	PROPERTY REQUIREMENTS.....	265
6.1	PROPERTY STANDARDS	265
6.1.1	Eligible Property Types (12/22/16) -	265
6.1.2	Multiple Parcels (12/22/16) -	265
6.1.3	Mixed-Use Properties	265
6.1.4	Rural Property (12/22/16) -	266
6.2	OCCUPANCY STATUS	267
6.2.1	Primary Residence (8/8/22) -	267
6.2.2	Second Home (6/13/23) -	268
6.3	PROPERTY CONDITION (5/1/19) -	269

6.4	ESCROW FOR COMPLETION/POSTPONED IMPROVEMENTS (12/22/16)	269
6.4.1	Requirements for New or Proposed Constructions	269
6.4.2	Requirements for Existing Construction (5/1/19)	270
6.5	TITLE (12/11/18)	270
6.5.1	Fee Simple	270
6.5.2	Leasehold Estate (9/1/16)	270
6.6	LEGAL DESCRIPTION	272
6.6.1	Conventional Mortgage Loans	273
6.7	OTHER REQUIREMENTS	274
6.7.1	Ownership History/Chain of Title	274
6.7.2	Property Flipping (5/1/19)	274
6.7.3	Properties Subject to Age Restrictions	275
6.7.4	Properties Subject to Resale Restrictions (Income) (6/13/23)	275
6.7.5	Private Transfer Fee Covenants	275
6.8	MANUFACTURED HOUSING	276
6.8.1	Eligibility and General Requirements (12/22/16)	276
6.8.2	Ineligible Manufactured Homes	277
6.8.3	Purchase Transactions (12/22/16)	277
6.8.4	Limited Cash-Out Transactions	278
6.8.5	Cash-Out Refinance Transactions	278
6.8.6	Age of Home Requirements	279
6.8.7	Site	279
6.8.8	HUD Certification Label (5/1/19)	279
6.8.9	Structural Modifications or Additions	279
6.8.10	Elevation Certificate	280
6.8.11	Appraisal Requirements (5/1/19)	280
6.8.12	Title and Lien Requirements (12/22/16)	281
6.8.13	Master Commitment Requirements (12/22/16)	281
CHAPTER 7.	APPRAISAL REQUIREMENTS (12/11/18)	282
7.1	APPRAISER INDEPENDENCE (3/16/17)	282
7.2	APPRAISAL REPORTS (1/18/2024)	283
7.2.1	FNMA 1004/FHLMC 70: Uniform Residential Appraisal Report (URAR) (12/22/16)	284
7.2.2	FNMA 1004C/FHLMC 70B: Manufactured Home Appraisal Report	284
7.2.3	FNMA 1073/FHLMC 465: Condominium Project (12/22/16)	284
7.2.4	FNMA 1025/FHLMC 72: Small Res. Income Property Appraisal Report	285
7.2.5	FNMA 1004D/ FHLMC 442: Appraisal Update and/or Completion Report (1/18/2024)	285
7.3	APPRAISAL STANDARDS (10/31/17)	289
7.3.1	Appraisal Age (3/16/17)	290

7.4	ZONING COMPLIANCE (12/22/16)	290
7.5	ADVERSE ENVIRONMENTAL CONDITIONS	291
7.6	CHANGES IN VALUE	291
7.7	PRIOR SALES ACTIVITY	292
7.8	COMPARABLE SALES	292
7.8.1	General Requirements (12/22/16)	292
7.8.2	New Projects/New Subdivision Requirements (10/31/17)	293
7.9	MARKETABILITY/ PREDOMINANT VALUE	294
7.10	LOT SIZE (ACREAGE) (12/22/16)	294
7.11	ADJUSTMENTS (9/27/19)	294
7.12	COST APPROACH	294
7.13	INCOME APPROACH	295
7.14	IMPROVEMENTS/COMMENTS SECTION (12/22/16)	295
7.15	PROPERTIES LOCATED IN MAJOR DISASTER AREAS (9/2/22)	296
7.16	RECONCILIATION SECTION (3/16/17)	298
7.17	RESTRICTIONS (9/20/23)	299
7.18	RACE OR RACIAL DISTRIBUTION	299
7.19	NEIGHBORHOOD (12/22/16)	299
7.20	DRAINAGE/FLOOD HAZARD (12/22/16)	299
CHAPTER 8.	OTHER PROPERTY TYPES	301
8.1	PLANNED UNIT DEVELOPMENT	301
8.2	GENERAL CONDOMINIUM ELIGIBILITY REQUIREMENTS (9/1/16)	302
8.2.1	Single Entity Ownership (6/13/23)	302
8.2.2	Commercial Use	302
8.2.3	Right of First Refusal	302
8.2.4	Mortgagee Rights	302
8.2.5	Adverse Environmental Factors	303
8.2.6	Litigation	303
8.2.7	Delinquent HOA Dues/Special Assessments (8/21/23)	304
8.2.8	Insurance	304
8.2.9	Agreement for Professional Management	304
8.2.10	Taxes, Assessments and Charges	304
8.2.11	Actions of Homeowners' Association	304
8.2.12	Phasing or Add-Ons	305
8.2.13	MPF Bank's Rights Confirmed	305
8.2.14	Amenities	305
8.2.15	Age of Project Eligibility Determination	305
8.3	CONDOMINIUM PROJECT CLASSIFICATION STANDARDS	306
8.3.1	Established Condominium Projects	306
8.3.2	New Condominium Projects	306
8.4	INELIGIBLE PROJECTS (8/21/23)	308
8.4.1	Hotels or Motels (8/21/23)	310
8.4.2	Projects in Need of Critical Repairs (8/21/23)	312

8.5	UNPAID HOA ASSESSMENTS	313
8.6	PROJECT ELIGIBILITY (8/8/22) -	314
8.6.1	Limited Review (7/27/23) -	314
8.6.2	Full Review (5/1/19) -	315
8.6.3	Fannie Mae's Project Eligibility Review Service (PERS)	316
8.6.4	Fannie Mae's Condo Project Manager (CPM)	316
8.6.5	Location-Specific Condominium Project Requirements (2/22/21) -	316
8.6.6	Two- to Four-Unit Condominium Projects	317
8.6.7	Site Condominiums (5/1/19) -	317
CHAPTER 9.	INSURANCE REQUIREMENTS	319
9.1	GOVERNMENT MORTGAGE INSURANCE	319
9.2	CONVENTIONAL MORTGAGE INSURANCE	319
9.2.1	General Mortgage Insurance Requirements (12/11/18) -	319
9.2.2	Approved Mortgage Insurers (3/16/17) -	320
9.2.3	Mortgage Insurance Coverage (5/31/2019) -	320
9.2.4	Special Mortgage Insurance Requirements (6/13/23) -	321
9.3	TITLE INSURANCE	321
9.3.1	General Title Insurance Requirements (1/18/24) -	321
9.3.2	Title Insurer Rating	322
9.3.3	ALTA Policy Form (11/30/23) -	322
9.3.4	Title Endorsements (12/22/16) -	323
9.3.5	Master Title Insurance Policy	324
9.4	SURVEY STANDARDS	324
9.5	OPINION OF TITLE (3/16/17) -	324
9.6	ACCEPTABLE TITLE EXCEPTIONS (12/22/16) -	326
9.6.1	Unexpired Redemption Periods	327
9.7	ADDITIONAL TITLE INSURANCE REQUIREMENTS FOR CONDOMINIUMS AND PUDS	328
9.8	PROPERTY INSURANCE	329
9.8.1	Insurer Requirements.....	329
9.8.2	Property Insurance Coverage Requirements (12/22/16) -	330
9.8.3	Deductibles (12/22/16) -	331
9.8.4	Additional Insurance Requirements for Condos and PUDs (7/27/23) -	331
9.8.5	Mortgagee Clause for Property and Flood Insurance (12/22/16) -	333
9.8.6	Evidence of Insurance.....	333
9.8.7	Insurance Premiums (12/22/16) -	334
9.9	FLOOD INSURANCE (12/22/16) -	334
9.9.1	Coverage Requirements for One- to Four-Unit Properties (7/12/19) -	335
9.9.2	Deductibles (12/22/16) -	336
9.9.3	Additional Flood Insurance Requirements for Condos (12/22/16) -	336
9.9.4	Coastal Barrier Resources System or Otherwise Protected Area	336
9.10	LIABILITY INSURANCE (12/11/18) -	337

9.11	FIDELITY INSURANCE (12/22/16) -	337
CHAPTER 10. MORTGAGE LOAN DOCUMENT EXECUTION AND RETENTION		339
10.1	MORTGAGE LOAN FILE CONTENTS (3/16/17) -	339
10.1.1	Closing Documents (8/29/23) -	339
10.1.2	Underwriting Documents (5/1/19) -	340
10.1.3	Special Purpose Documents (5/1/19) -	341
10.1.4	Access to Records	342
10.2	DOCUMENT EXECUTION	342
10.2.1	Uniform Instruments and Notes (5/19/22) -	342
10.2.2	Master and Short Form Security Instruments	344
10.2.3	Security Instrument Preparation	344
10.2.4	Assignment Preparation (3/16/17) -	344
10.2.5	Note Preparation (3/16/17) -	345
10.2.6	Power of Attorney (12/13/2021) -	346
10.2.7	Facsimile Signatures (3/16/17) -	349
10.2.8	MERS Registration (3/16/17) -	350
10.2.9	Electronic Signatures (10/05/23) -	350
10.2.10	Notarization Standards (10/05/23) -	351
CHAPTER 11. LOAN PRESENTMENT.....		352
11.1	LOAN PRESENTMENT OVERVIEW (12/11/18) -	352
11.1.1	Submission (10/31/17) -	352
11.1.2	Special Instructions (3/16/17) -	352
11.1.3	Resubmission	353
11.1.4	Inability to Obtain a Usable FICO Score (3/16/17) -	353
11.1.5	Loan Level Credit Enhancement Expiration	353
11.1.6	Use of Credit Enhancement Data	354
CHAPTER 12. MASTER COMMITMENTS.....		355
12.1	MASTER COMMITMENT OVERVIEW (3/16/17) -	355
12.2	ESTABLISHING A MASTER COMMITMENT (11/24/20) -	355
12.2.1	Credit Enhancement and First Loss Account (3/16/17) -	356
12.2.2	Loan Level Credit Enhancement (3/16/17) -	356
12.2.3	Pool Level Credit Enhancement (12/3/19) -	357
12.2.4	Actual Credit Enhancement Amount	357
12.2.5	FLA Percentage (3/16/17) -	357
12.2.6	Credit Enhancement Income (8/14/23) -	358
12.3	FILLING A MASTER COMMITMENT	358
12.4	AMENDING A MASTER COMMITMENT (8/14/23) -	358
12.5	RESETTING THE PFI CREDIT ENHANCEMENT OBLIGATION	359
12.6	CLOSING A MASTER COMMITMENT	359
CHAPTER 13. DELIVERY COMMITMENTS.....		360
13.1	OVERVIEW (10/31/17) -	360

13.2	ESTABLISHING A DELIVERY COMMITMENT (10/31/17) -	360
13.2.1	Note Rate Range.....	361
13.3	EXTENDING A DELIVERY COMMITMENT (3/15/18) -	361
13.4	CLOSING A DELIVERY COMMITMENT	362
13.5	DELIVERY COMMITMENT FEES	362
13.5.1	Pair-off Fees.....	362
13.5.2	Price Adjustment Fees.....	363
13.5.3	Calculation of the Pair-off Fee and the Price Adjustment Fee (10/31/17) -	363
CHAPTER 14.	MORTGAGE LOAN PURCHASE	365
14.1	CONVENTIONAL MORTGAGE LOAN SEASONING REQUIREMENTS (10/31/17) -	365
14.2	GOVERNMENT MORTGAGE LOAN SEASONING REQUIREMENTS (3/16/17) -	366
14.3	DATA TO BE SUBMITTED (9/20/23) -	367
14.4	PURCHASE REQUIREMENTS (3/16/17) -	370
14.5	AMOUNT TO BE PAID	370
14.5.1	Payment Method (10/27/17) -	371
14.5.2	Reconciliation.....	371
14.5.3	Premium Pricing Reimbursement (12/22/16) -	371
CHAPTER 15.	DOCUMENT DELIVERY TO THE CUSTODIAN (8/14/23) -	372
15.1	COLLATERAL FILE PACKAGE (7/1/21) -	372
15.1.1	New York Consolidation, Extension, and Modification Agreements (12/22/16) -	373
15.1.2	Data Accuracy.....	373
15.2	DOCUMENT SAFEGUARDING	373
15.2.1	Transit Insurance (3/16/17) -	373
15.3	INITIAL CERTIFICATION REVIEW (8/14/23) -	374
15.3.1	Correction of Exception (10/27/17) -	375
15.3.2	Loan Not Eligible	375
15.4	FINAL CERTIFICATION (3/16/17) -	375
15.4.1	Required Documentation (6/13/23) -	376
15.4.2	Past Due Final Certifications (3/1/19) -	377
15.5	MPF PROGRAM CUSTODIAN FEES AND SERVICE CHARGES (3/16/17) -	378
CHAPTER 16.	POST-CLOSING REQUIREMENTS	380
16.1	PAYMENTS AND CORRESPONDENCE.....	380
16.2	RESCISSION NOTICE	380
CHAPTER 17.	SERVICING REQUIREMENTS	381

17.1	SERVICING RETAINED.....	381
17.2	SERVICING RELEASED (7/5/17) -	381
17.2.1	Whole Loan Sale (11/1/21) -	382
17.2.2	Concurrent Sale of Servicing (11/1/21) -	383

CHAPTER 1. INTRODUCTION (7/24/17)¹

The MPF® Traditional Selling Guide (“Selling Guide”), the MPF Program Guide, the MPF Traditional Servicing Guide, product specific manuals, forms, exhibits, (together referred to herein as the “Guides”), and the Applicable Agreements apply to all Participating Financial Institutions (PFIs) originating or delivering MPF Traditional Mortgage Loans into the MPF Program. This Selling Guide outlines the requirements and/or processes for PFIs to originate and deliver MPF Traditional Mortgage Loans under the MPF Program. All MPF Traditional Mortgage Loans delivered under the MPF Program must meet these guidelines. PFIs must abide by the procedures, terms, and conditions set forth in this Selling Guide, as it may be amended from time to time. Failure of a PFI to perform its obligations under either the Applicable Agreements or the Guides constitutes an Event of Default entitling the MPF Bank to exercise all available remedies as provided in the Guides and Applicable Agreements.

¹ MPF Announcement 2017-37 (7/24/17)

CHAPTER 2. MORTGAGE LOAN ELIGIBILITY

2.1 Loan Limits (12/07/23)²

There is no minimum loan amount for Mortgage Loans delivered under the MPF Traditional Product. The following maximum original loan amounts apply to Conventional Mortgage Loans with a Funding Date on or after January 1, 2024.

Number of Units	Maximum Original Loan Amount for Conventional Mortgages (Properties in Contiguous States, District of Columbia & Puerto Rico)	Maximum Original Loan Amount for Conventional Mortgage Loans (Properties in Alaska, Guam, Hawaii & Virgin Islands)
1	\$766,550	\$1,149,825
2	\$ 981,500	\$ 1,472,250
3	\$ 1,186,350	\$ 1,779,525
4	\$ 1,474,400	\$2,211,600

2.1.1 Conventional High-Balance Mortgage Loans

To determine the maximum original loan amount for Conventional High-Balance Mortgage Loans, see the applicable Conventional High-Cost Area Loan Limits exhibit (Exhibit N). Properties located in counties that are not listed on Exhibit N are subject to the Conventional Mortgage Loan limits above.

2.2 Mortgage Loan Attributes

An investment quality mortgage loan is a loan that is made to a Borrower, from whom repayment of the debt can be expected, is secured by one-to-four unit residential real property and is originated in accordance with the requirements of the MPF Guides, Government Agency and Applicable Laws. The PFI warrants that all Mortgage Loans delivered to the MPF Bank have the characteristics of an investment quality Mortgage Loan.

² MPF Announcement 2023-97 (12/07/23)
MPF Announcement 2022-63 (12/13/22)
MPF Announcement 2021-84 (12/6/21)
MPF Announcement 2020-80 (12/2/20)
MPF Announcement 2019-64 (12/5/19)
MPF Announcement 2018-61 (12/13/18)
MPF Announcement 2017-77 (12/22/17)
MPF Announcement 2017-62 (10/27/17)
MPF Announcement 2017-18 (4/20/17)
MPF Announcement 2016-30 (12/22/16)

2.2.1 Escrow Accounts (8/8/22) ³

Mortgage loans generally must provide for the deposit of escrow funds to pay as they come due, including taxes, ground rents, premiums for property insurance, and premiums for flood insurance. For the calculation of the monthly real estate tax payments, PFIs must comply with all federal, state, and local laws and regulations when calculating the amount to be collected for any established escrow account.

If a special assessment levied against the property was not paid at the loan closing, the Borrower's payment must include appropriate accruals to ensure that any estimated annual payment toward the assessment will be accumulated by the time it comes due.

2.2.1.2 Escrow Waivers

Subject to the Applicable Standards, the Servicer may waive the requirement for an Escrow Account only if a Borrower has a savings history, credit history, and/or income to pay for the escrow items when due. Servicers are required to follow the applicable Government Agency guidelines and MI company regarding waiving and reinstating Escrow. The Servicer may not waive the requirement to escrow MI premiums.

When the requirement for an escrow account is waived, the PFI must retain the MPF Program's right to enforce the requirement in appropriate circumstances.

The MPF Program advocates the establishment of an escrow account for the payment of taxes and insurance, particularly for the following:

- Borrowers with blemished credit histories,
- Mortgages to Borrowers that are First-Time Homebuyer,
- Mortgages secured by 2- to 4-unit properties,
- Mortgages secured by Manufactured Homes,
- Second home Mortgages,
- Mortgages where the Borrower has less than six months of reserves, or
- Refinance Mortgages where taxes were past due on the Mortgage being refinanced.

2.2.2 Principal Curtailments (9/20/23) ⁴

³MPF Announcement 2022-37 (8/8/22)

⁴MPF Announcement 2023-75 (9/20/23)

A principal curtailment is the application of funds that are used to reduce the unpaid principal balance of the mortgage loan. The MPF Program permits certain curtailments prior to mortgage loan delivery for the following reasons:

- The PFI may apply a curtailment to refund the overpayment of fees or charges paid by the Borrower, in any amount, in accordance with applicable regulatory requirements;
- If the Borrower receives more cash back than is permitted for limited cash-out refinances, the PFI can apply a curtailment to reduce the amount of cash back to the Borrower to bring the mortgage loan into compliance with the maximum cash-back requirement. The maximum amount of the curtailment cannot exceed the lesser of \$2,500 or 2% of the original loan amount for the subject loan. For example, if the Borrower received \$3,500 cash back at closing on a loan amount of \$200,000, the PFI could apply a \$1,500 curtailment prior to delivery. This would result in “net cash back” to the Borrower of \$2,000, thus meeting limited cash-out refinance requirement.
- Additional principal payments remitted by a Borrower to prepay the mortgage loan as permitted by the loan documents. This includes curtailments applied to the principal balance to reduce the monthly mortgage payment.

If the curtailment is applied after closing, but before delivery, the Mortgage Loan File must be documented with the amount of the curtailment and the reason or source of the curtailment (for example, refund of overpayment of fees or borrower-initiated), and include any modification agreement used to reduce the monthly payment following the application of the curtailment.

2.2.2.1 Re-Amortized Mortgage Loans (9/20/23) ⁵

Mortgage Loans that are re-amortized following the application of a principal curtailment received from the Borrower are eligible for delivery. The principal curtailment reduces the principal balance and the monthly mortgage payment over the remaining term of the Mortgage Loan. In order to be eligible for delivery the following requirements must be met:

- The only changes to the original Note terms are a corresponding reduction in the principal balance and a re-amortized reduction to the monthly mortgage payment (does not extend the term or change the Note Rate of the Mortgage Loan);
- The re-amortization and Note modification are in compliance with the applicable mortgage insurance company or Government Agency requirements;
- The original Note amount must comply with maximum loan limits in effect at the time of delivery
- When the Mortgage Loan was underwritten, the Borrower was fully qualified based on the original Note amount; and

⁵MPF Announcement 2023-75 (9/20/23)

- An Agreement for Modification, Re-Amortization, or Extension of Mortgage (Fannie Mae Form 181) or its equivalent must be executed by all parties on the original Note. PFIs must retain a copy in the Mortgage Loan file and must deliver the completed documents to the MPF Program Custodian in accordance with the Guide. The delivery data must comply with the delivery instructions in Section 14.3.

2.3 Mortgage Loan Terms (12/22/16)⁶

The Note must provide for a fixed interest rate and full amortization by maturity through regular fixed monthly payments up to a maximum term of thirty (30) years. Amortization must begin within sixty-two (62) days of the final disbursement of the Mortgage Loan proceeds.

2.3.1 Maturity

For the fifteen-year product type, the original maturity of the Mortgage Loan must be more than five (5) years and must not extend beyond fifteen (15) years from the Note date.

For the twenty-year product type, the original maturity of the Mortgage Loan must be more than fifteen (15) years and must not extend beyond twenty (20) years from the Note date.

For the thirty-year product type, the original maturity of the Mortgage Loan must be more than twenty (20) years and must not extend beyond thirty (30) years from the Note date.

2.3.2 Principal Amount (12/22/16)⁷

The entire principal amount of the Mortgage Loan must be fully disbursed to the Borrower, or disbursed or advanced in accordance with the direction of the Borrower prior to the purchase of the Mortgage Loan by the MPF Bank or any other investor under the MPF Program. For example, a refinance Mortgage Loan cannot be purchased by the MPF Bank or any other investor under the MPF Program during any applicable rescission period for the refinance Mortgage Loan. The principal amount of the Mortgage Loan must be as represented to the MPF Bank by the Originator and must be fully secured by the Security Instrument, which must not allow the Borrower to borrow additional funds.

2.3.3 Monthly Payments

Monthly Payments must:

- Consist of Principal and Interest Payments that do not change for the life of the loan;
- Fully amortize the Mortgage Loan over the term of the loan; and
- Have no potential negative amortization, rate concessions or graduated-payment mortgage (GPM) features.

⁶ MPF Announcement 2016-30 (12/22/16)

⁷ MPF Announcement 2016-30 (12/22/16)

2.4 Maximum LTV and TLTV Ratios

This section describes acceptable LTV and TLTV.

2.4.1 Calculating LTV and TLTV Ratios (7/24/17)⁸

The LTV is determined by dividing the original mortgage amount (generally the purchase price less the down payment) by the value. For purchase Mortgage Loans (except manufactured homes), "value" is the lower of the appraised value of the Mortgaged Property at the time of Closing, or the purchase price. For refinance Mortgage Loans (except manufactured homes), "value" is the appraised value of the Mortgaged Property at the time the refinance Mortgage Loan is closed.

The Total Loan-to-Value Ratio (TLTV) is determined by dividing the sum of the original Mortgage Loan, and secondary financing amounts, including any eligible PACE obligation, by the value, as defined above.

The data delivery format for the LTV should be delivered in the following format: xxx.xxx (3 decimal places). (For example, 80.021 percent.)

2.4.2 LTV Ratios and Occupancy Eligibility for Conventional Conforming Mortgage Loans (10/14/22)⁹

The following eligibility grids are for manually underwritten loans only. Loans underwritten with Desktop Underwriter® or Loan Product Advisor® must follow the eligibility requirements issued by the applicable agency (Fannie Mae or Freddie Mac). The eligibility grids for Fannie Mae can be found by clicking the following link: [Fannie Mae Eligibility Matrix](#).

The Freddie Mac eligibility grids can be found in the Freddie Mac Single-Family Seller/Service Guide.

Note: Loans underwritten manually or with an AUS are subject to a maximum LTV of 95%. See [Chapter 4](#) for additional requirements for loans underwritten with an AUS.

⁸ MPF Announcement 2017-37 (7/24/17)

⁹ MPF Announcement 2022-47 (10/14/22)

MPF Announcement 2017-12 (3/16/17)

MPF Announcement 2016-30 (12/22/16)

MPF Announcement 2016-17 (11/29/16)

PFI Notice 2016-12 (9/1/16)

TERMS OF 30 YEARS OR LESS			
MANUAL UNDERWRITING			
PURCHASE AND LIMITED CASH-OUT REFINANCE TRANSACTIONS			
Property Type	Maximum LTV	Maximum TLTV*	Maximum TLTV where secondary financing is a HELOC**
1 Unit Primary Residence	95%	95%	95%
1 Unit Second Home	90%	90%	90%
2 Unit Dwelling	85%	85%	85%
3-4 Unit Dwelling	75%	75%	75%
Manufactured Housing with a term = <20 years (Primary Residence only)	95%	Sec. fin. not permitted	Sec. fin. not permitted
Manufactured Housing with a term >20 years (Primary Residence only)	90%	Sec. fin. not permitted	Sec. fin. not permitted

TERMS OF 30 YEARS OR LESS			
MANUAL UNDERWRITING			
CASH-OUT REFINANCE TRANSACTIONS			
Property Type	Maximum LTV	Maximum TLTV*	Maximum TLTV where sec. fin. is a HELOC**
1 Unit Primary Residence	90%	90%	90%
1 Unit Second Home	85%	85%	85%
2-4 Unit Dwelling	75%	75%	75%
Manufactured Housing with a term = < 20 Years (Primary Residence only)	65%	Sec. fin. not permitted	Sec. fin. not permitted

- * Manufactured Housing with a term >20 years is not eligible for a cash-out refinance.

TERMS OF 30 YEARS OR LESS			
MANUAL UNDERWRITING			
EXPEDITED REFINANCE TRANSACTIONS			
Property Type	Maximum LTV	Maximum TLTV*	Maximum TLTV where sec. fin. is a HELOC**
1-2 Unit Primary Residence (excluding manufactured homes)	95%	95%	95%
3-4 Unit Primary Residence	75%	75%	75%
1 Unit Second Home (excluding manufactured homes)	90%	90%	90%

** If the secondary financing is a Home Equity Line of Credit (HELOC), use the first lien plus the full HELOC limit, even if undrawn, to determine the TLTV.

2.4.3 LTV Ratios and Occupancy Requirements for Conventional High-Balance Mortgage Loans (10/14/22)¹⁰

The following eligibility grids are for manually underwritten loans only. Loans underwritten with Desktop Underwriter® or Loan Product Advisor® must follow the eligibility requirements issued by the applicable agency (Fannie Mae or Freddie Mac). The eligibility grids for Fannie Mae can be found by clicking the following link: [Fannie Mae Eligibility Matrix](#).

The Freddie Mac eligibility grids can be found in the Freddie Mac Single-Family Seller/Servicer Guide.

¹⁰MPF Announcement 2022-47 (10/14/22)
MPF Announcement 2022-37 (8/8/22)
MPF Announcement 2021-84 (12/6/21)
MPF Announcement 2020-80 (12/2/20)
MPF Announcement 2019-64 (12/5/19)
MPF Announcement 2018-18 (3/15/18)
MPF Announcement 2016-30 (12/22/16)

TERMS OF 30 YEARS OR LESS			
MANUAL UNDERWRITING			
PURCHASE AND LIMITED CASH-OUT REFINANCE			
Purpose	Maximum LTV	Maximum TLTV	Minimum Primary Credit Score
1 Unit Primary Residence (ALL purchase transactions OR limited cash-out transactions)	90%	90%	700 > 75% LTV or TLTV 660 ≤ 75% LTV and TLTV
1 Unit Second Home	65%	65%	740
2-4 Unit Primary Residence	75%	75%	740
Manufactured Housing (Primary Residence only)	90%	Sec. fin. not permitted	700 > 75% LTV or TLTV 660 ≤ 75% LTV and TLTV

TERMS OF 30 YEARS OR LESS			
MANUAL UNDERWRITING			
CASH-OUT REFINANCE TRANSACTIONS			
Purpose	Maximum LTV	Maximum TLTV with Secondary Financing	Minimum Primary Credit Score
1 Unit Primary Residence only	60%	60%	740
Manufactured Housing with a term ≤ 20 years (Primary Residence only)	60%	Sec. fin. not permitted	740

2.5 Additional High-Balance Mortgage Loan Requirements (9/2/22)¹¹

High-Balance Mortgage Loans are subject to the following criteria in addition to all other underwriting requirements:

- Expedited refinance transactions are not permitted;

¹¹ MPF Announcement 2022-41 (9/2/22)
MPF Announcement 2021-84 (12/6/21)
MPF Announcement 2020-80 (12/2/20)
MPF Announcement 2019-64 (12/5/19)
MPF Announcement 2018-18 (3/15/18)

- Cash-out refinance transactions are allowable only for primary residences;
- Cash-out refinance transactions are allowable only if the property was purchased more than six (6) months prior to the transaction;
- If mortgage insurance is financed, the maximum LTV, including the financed mortgage insurance premium, cannot exceed ninety percent (90%);
- Every Borrower must have a valid FICO® score based on an established credit history;

The Appraisal for a condominium unit must contain at least two (2) comparable sales from outside the condominium project, in addition to a comparable sale from within the condominium project.

2.6 Eligible Transactions

This section addresses the transaction types that are eligible under the MPF Program.

2.6.1 Purchase Transactions (12/22/16)¹²

A purchase transaction allows the Borrower to use the proceeds of the Mortgage Loan to finance the acquisition of the Mortgaged Property. Alternately, the purchase Mortgage Loan proceeds could pay off the outstanding balance owed on a land contract, or convert an interim construction loan into permanent financing. The Borrower should not receive any cash at settlement, except reimbursement of overpaid fees and charges, or refunds required by regulation. The Borrower may also receive reimbursement for costs paid in advance for such items as the Appraisal, earnest money, credit report, or a pro-rated real estate tax credit in areas where real estate taxes are paid in arrears. The Borrower should not be on title to the Mortgaged Property prior to the Closing.

2.6.2 Refinance Transactions (10/14/22)¹³

A refinance Mortgage Loan is a transaction for which the proceeds are used to pay off an existing mortgage(s), and the current Borrower executes a new Note using the same property as security. The property may not be currently listed for sale.

2.6.2.1 Limited Cash-Out Refinance (08/21/23)¹⁴

A limited cash-out refinance allows a Borrower to pay off an existing mortgage by changing the rate and term, and may also permit Borrower(s) to retain minimal cash from the proceeds of a new loan secured by the same property. The new loan may lower the interest rate, shorten the term or convert from an adjustable-rate mortgage to a fixed-rate mortgage.

¹² MPF Announcement 2016-30 (12/22/16)

¹³ MPF Announcement 2017-37 (7/24/17)
MPF Announcement 2016-12 (3/16/17)
MPF Announcement 2016-30 (12/22/16)

¹⁴ MPF Announcement 2023-62 (8/21/23)
MPF Announcement 2022-47 (10/14/22)
PFI Notice 2016-12 (9/1/16)

The proceeds from a limited cash-out refinance may be used for the following:

- Pay off the existing first mortgage, regardless of its age;
- Buy out equity of a co-owner who is a divorced spouse, a former domestic partner, or a family member in an inherited property situation;
- Payoff a non-purchase money subordinate loan that was used for repair of disaster-related property damage or to obtain reimbursement for out-of-pocket expenses used to complete repairs;
- Pay off any junior liens secured by the Mortgaged Property which were used in their entirety to acquire such property;
- Satisfy related closing costs, financing costs and prepaid items; real estate taxes that are less than 60 days delinquent can be included in the new loan amount provided:
 - the real estate taxes must be paid in full through the transaction, and
 - payment for the taxes must be disbursed to the taxing authority through the closing transaction, with no funds used for the taxes disbursed to the Borrower;
- Pay off a land contract, lease with option to buy, or a construction loan; and
- Disburse cash not to exceed the lesser of \$2,000 or 2% of the Principal Balance of the new Mortgage Loan.
- Limited cash-out refinance transactions must meet the following criteria: The transaction is being used to:
 - Payoff of the current mortgage (which may include additional amounts required to pay off the loan, such as prepayment penalties, a deferred balance resulting from completion of a prior loss mitigation solution, and late fees);
 - If the first mortgage is a Home Equity Line of Credit, a copy of the Settlement Statement from the Borrower's purchase of the Mortgaged Property must be provided and retained in the Mortgage Loan File to evidence that the proceeds were fully disbursed on the date of the purchase-money loan and used entirely to acquire the Mortgaged Property.
 - A copy of the Settlement Statement from the Borrower's purchase of the Mortgaged Property must be provided and retained in the Mortgage Loan File evidencing that any subordinate financing being paid off with the new Mortgage Loan was used in its entirety to acquire the Mortgaged Property.
- For mortgage loan applications dated on or after October 1, 2023, at least one Borrower on the new loan must be an owner (on title) of the subject property at the time of the initial application. Exceptions are allowed if the PFI documents that:

- the Borrower acquired the property through an inheritance or was legally awarded the property (such as through a divorce, separation, or dissolution of a domestic partnership); or
- the property was previously owned by an inter vivos revocable trust and the Borrower is the primary beneficiary of the trust.
- The only fees included in the new Mortgage Loan are standard loan fees (e.g., closing costs on the new mortgage; prepaid items such as interest, taxes, insurance, etc.; and points).

The Borrower may be refunded overpaid fees and charges due to federal or state laws or regulations. Refunds such as these are not included in the maximum cash back limitation, provided the Settlement Statement clearly identifies the refund with a notation of the reason and the Mortgage Loan File includes documentation to support the amount and the reason for the refund.

When a new limited cash-out refinance transaction will not satisfy existing subordinate liens or will result in new subordinate financing, the refinance mortgage must meet the eligibility criteria for mortgages that are subject to subordinate financing in Section 2.6.6.

The eligibility requirements for delivery of a limited cash-out refinance used to buy out the equity of a co-owner are as follows:

- The co-owner (other than a family member who inherited an interest in the Mortgaged Property) receiving the buy-out proceeds must have jointly owned the Mortgaged Property with the Borrower for a minimum of twelve (12) months prior to the initial Loan Application;
- All parties (other than parties who inherited an interest in the Mortgaged Property) must provide evidence that they occupied the Mortgaged Property as their Primary Residence from an acceptable source of verification, such as a driver's license, or a bank statement, credit card bill, utility bill, etc. that was mailed to the individual at the address of the Mortgaged Property ;
- The co-owner receiving the buy-out proceeds must provide a written agreement, signed by all parties (including the Borrower), stating the terms of the property transfer and the disposition of the proceeds from the refinance transaction;
- The Borrower who retains ownership of the Mortgaged Property may not receive any buyout proceeds from the refinance transaction; and
- The Borrower who retains ownership of the Mortgaged Property must be able to qualify for the Mortgage Loan under the applicable underwriting guidelines.

When the following conditions exist, the transaction is ineligible as a limited cash-out refinance and must be treated as a cash-out refinance:

- no outstanding first lien on the subject property (except for single-closing construction-to-permanent transactions, which are eligible as a limited cash-out out refinance even though there is not an outstanding lien on the subject property);

- the proceeds are used to pay off a subordinate lien that was not used to purchase the property;
- the Borrower finances the payment of real estate taxes that are more than 60 days delinquent for the subject property in the loan amount; and
- a short-term refinance mortgage loan that combines a first mortgage and a non-purchase-money subordinate mortgage into a new first mortgage or any refinance of that loan within six months.

2.6.2.1.1 Limited Cash-Out Refinance for Major Disaster Impacted Properties (8/13/18)¹⁵

Borrowers impacted by a Major Disaster are afforded certain flexibilities as to the requirements for limited cash-out refinance transactions. To be eligible, the following criteria must be met:

- The Mortgaged Property must be located in any county, municipality or parish that was designated by the Federal Emergency Management Agency (FEMA) as a Declared Disaster area no more than two (2) years prior to the date the Mortgage Loan is delivered into the MPF Program;
- The Mortgaged Property must be a Primary Residence;
- The Mortgaged Property must be appraised “as is” with no conditions that affect the livability, soundness, or structural integrity of the property or appraised subject to completion of the specific repairs, and a completion report must be provided prior to delivery of the new Mortgage Loan;
- There must be no escrow for any incomplete repairs that affect the habitability or structural integrity of the Mortgaged Property prior to delivery into the MPF Program;
- The cash-out amount must be:
 - for reimbursement of documented out-of-pocket expenses for the completed repair of disaster-related property damage in an amount not to exceed the lesser of \$15,000 or ten (10%) percent of the Principal Balance of the new Mortgage Loan; or
 - for documented consolidation any subordinate financing, including draws on HELOCs that post-date the disaster, used to repair disaster-related property damage.

Documentation for the disaster-related repairs must be obtained as evidence that a portion of the subordinate financing and/or the entire requested cash-out amount were used for disaster-related property repairs. Some examples of acceptable documentation are copies of cancelled checks, receipts, work orders, etc., related to the cost of materials and labor. The Borrower may not receive reimbursement for their "sweat equity" in connection with the repairs.

¹⁵ MPF Announcement 2018- 39 (8/13/18)
MPF Announcement 2016-30 (12/22/16)

2.6.2.2 Cash-Out Refinance (8/21/23)¹⁶

A cash-out refinance transaction allows a Borrower to pay off an existing mortgage by obtaining new financing secured by the same property, or allows the Borrower to obtain a mortgage on a property that is currently owned free and clear. In order to be eligible for a cash-out refinance, an existing first mortgage loan must meet the following seasoning requirements*, as measured by the note date of the existing loan to the note date of the new loan:

- new loan note dated prior to May 1, 2023: at least six (6) months
- new loan note dated on or after May 1, 2023: at least twelve (12) months.

*The seasoning requirements do not apply to any existing subordinate liens being paid off through the transaction or when buying out a co-owner pursuant to a legal agreement.

The property must have been purchased or acquired by at least one Borrower no less than six (6) months prior to consummation of the new mortgage transaction, unless one the following exceptions is met:

- The delayed financing requirements are met; or
- The Borrower acquired the property through an inheritance or was legally awarded the property (i.e. divorce, separation, or dissolution of a domestic partnership).
- If an LLC that is majority-owned or controlled by the Borrower(s) owns the property prior to Closing, the time it was held by the LLC may be used to satisfy the Borrower's six month ownership requirement. The ownership of the property must be transferred from the LLC's name to the individual Borrower's name in order to close the Mortgage Loan.
- If the property was owned prior to closing by an inter vivos revocable trust, the time held by the trust may be counted towards meeting the Borrower's six month ownership requirement if the Borrower is the primary beneficiary of the trust.

The Mortgage Loan proceeds from a cash-out refinance may be used for the following:

- Pay off the UPB of the existing first mortgage, so long as the existing first mortgage meets the above seasoning requirements;
- Pay off any junior liens secured by the Mortgaged Property for which proceeds were not used solely to acquire such property;
- Satisfy related closing costs, financing costs and prepaid items; and / or

¹⁶MPF Announcement 2023-62 (8/21/23)
MPF Announcement 2023-23 (4/13/23)
MPF Announcement 2021-11 (2/22/21)
MPF Announcement 2018-18 (3/15/18)
MPF Announcement 2017-37 (7/24/17)
MPF Announcement 2016-30 (12/22/16)

- Pay "cash out" to the Borrower (or any other payee) in an amount that exceeds the lesser of \$2,000 or two percent (2%) of the Principal Balance of the new Mortgage Loan.

The Mortgage Loan may not be subject to any temporary buydown plan.

2.6.2.2.1 Delayed Financing Exception (7/24/17)¹⁷

Borrowers who have purchased the subject property within six (6) months of the disbursement date of the new mortgage loan are eligible for a cash-out refinance if in addition to meeting the eligibility requirements in the Guides, the Borrower also meets all of the following requirements:

- The original purchase transaction was an arms-length transaction;
- The purchase transaction must be documented as confirming no mortgage financing was used to obtain the property, either with a settlement statement or a recorded trustee's deed (or similar alternative) confirming the amount paid by the grantee to trustee;
- The preliminary title search or report must confirm that there are no existing liens on the subject property;
- The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property); and
 - If the source of funds was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the settlement statement for the new loan mortgage loan must reflect that all cash-out proceeds will be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the new mortgage loan. Funds that are received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.
- The new loan amount can be no more than the actual documented amount of the Borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV, CLTV, and HCLTV ratios for the cash-out transaction based on the current appraised value).

2.6.2.3 Unacceptable Refinance Practices

The PFI may not intentionally target Mortgage Loans delivered under the MPF Program for refinance. A PFI may not separate mortgages loans in its own portfolio or sold to other investors from those sold to an MPF Bank for differential treatment in terms of refinance advertising, offers, or practices.

The PFI must incorporate adequate controls in its origination and refinancing procedures to prevent unacceptable refinance practices by the Originator or any of its mortgage brokers and

¹⁷ MPF Announcement 2017-37 (7/24/17)
MPF Announcement 2017-12 (3/16/17)

correspondents. If a PFI has knowledge or reason to believe a mortgage broker, a correspondent, Originator, or the PFI has received an application to refinance or has agreed to refinance a mortgage (either orally or in writing) that would violate the unacceptable refinance practices policy or Applicable Law, it may not deliver such mortgage under the MPF Program. The following are considered unacceptable refinance practices:

- The delivery of any Mortgage Loan that is in the process of being refinanced (even if no agreement for future refinancing was entered into at the time of origination);
- Refinancing activity that is prohibited by an applicable federal, state or local law or regulation; and
- Refinancing activity that causes the refinance loans or the refinance lender to be included within a category defined by applicable federal, state or local law, which is subject to additional restrictions, limitations or requirements as a result of being included in such category. Such categories include but are not limited to high cost loans, high risk loans, and high rate loans;

The PFI must monitor the prepayment levels of its Mortgage Loans, particularly refinance Mortgage Loans. If the PFI becomes aware of circumstances likely to result in unusually high prepayment rates on Mortgage Loans sold to the MPF Bank, it must notify its MPF Bank Representative immediately. If requested to do so by the MPF Bank, the PFI is obligated to cooperate fully and promptly with the MPF Bank personnel and to provide adequate information to determine the reason and solution for any high prepayment rates. The MPF Bank reserves the right to initiate an investigation of high prepayment rates of a particular PFI.

A PFI (i) engaging in unacceptable refinance practices, (ii) knowingly selling or delivering Mortgage Loans to the MPF Bank from mortgage brokers or correspondents it knew, or should have known, were engaging in unacceptable refinance practices, or (iii) failing to maintain proper controls for such Mortgage Loans being sold or delivered to the MPF Bank, will be subject to any and all the remedies available to the MPF Bank at law or in equity or pursuant to the Guides and the PFI Agreement, including, but not limited to, disqualification, suspension and / or requiring the PFI to make the MPF Bank whole for losses, including losses associated with repurchases at par for Mortgage Loans delivered at premium prices.

2.6.3 Construction-to-Permanent Transactions (3/15/18)¹⁸

The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a Borrower for the purpose of replacing construction (or interim) financing that the Borrower has obtained to fund construction of a new property. Construction-to-permanent loans are eligible under the MPF Program, so long as the construction phase is completed and permanent financing is in place prior to delivery to the MPF Bank.

¹⁸ MPF Announcement 2018-18 (3/15/18)

The payoff of a construction loan or conversion to permanent financing may be accomplished in two ways:

- A single Closing; or
- Dual Closings.

2.6.3.1 General Requirements (5/1/19)¹⁹

In addition to all other underwriting requirements in this Guide, the following additional requirements also apply to construction-to-permanent transactions:

- The underwriting analysis must be based upon the terms of the permanent Mortgage Loan and must comply with the MPF Program requirements in effect at the time of conversion to permanent financing, including the age of documentation and age of Appraisal requirements in MPF Traditional Selling Guide sections [5.1.3](#) and [7.3.1](#).
- Appraisal Waivers are not accepted for this type of loan;
- The property type must not be a condo;
- The Mortgage Loan must not be an expedited refinance;
- The certificate of occupancy must have been issued; the Borrower must have accepted the Mortgaged Property as complete, and the loan must be amortizing with regularly scheduled Principal and Interest Payments. In a jurisdiction that does not issue certificates of occupancy or equivalent permission to occupy homes, the certification customary in that jurisdiction may be submitted;
- The Borrower must hold title to the lot, which was acquired previously or acquired as part of the transaction;
- The minimum Borrower contribution must be met unless the Borrower acquired the lot a year or more prior to the Mortgage Loan Application and uses the lot or land as their minimum funds requirement; and
- An Appraisal Update and / or Completion Report ([FNMA Form 1004D / FHLMC Form 442](#)) completed by the appraiser is required for all Appraisals made subject to completion in accordance with plans and specifications.

2.6.3.2 Single Close Transactions (10/14/22)²⁰

¹⁹ MPF Announcement 2019-26 (5/1/19)
MPF Announcement 2018-18 (3/15/18)
MPF Announcement 2017-63 (10/31/17)
MPF Announcement 2017-37 (7/24/17)
MPF Announcement 2016-30 (12/22/16)
PFI Notice 2016-12 (9/1/16)

²⁰ MPF Announcement 2022-47 (10/14/22)
MPF Announcement 2018-18 (3/15/18)

A construction-to-permanent single close loan is a residential Mortgage Loan that allows disbursements for construction of the improvements on the property through the initial phase of the loan. Upon completion of the property improvements, the loan converts to a fixed-rate, fully amortizing loan over the remaining term with an executed rider or modification.

Construction-to-permanent loans with a single Closing are eligible for delivery under the following MPF Traditional Products:

- MPF Original;
- MPF 125; and
- MPF 35.

Single Eligible Close Loan Purposes

Where the Borrower is **not** the owner of record prior to the construction (or interim) financing:

- The transaction must be delivered as a purchase transaction;
- The permanent Mortgage Loan File must contain evidence of the purchase price, which includes cost of the improvements and the lot (if acquired separately); and
- The LTV / TLTV must be based upon the lower of the appraised value or the purchase price.

Where the Borrower **is** the owner of record prior to the construction (or interim) financing,

- The transaction must be delivered as a limited cash-out refinance transaction;
- The permanent Mortgage Loan File must contain evidence of the date title to the lot was acquired; and
- The LTV / TLTV must be based upon the “as completed” appraised value of the lot and improvements.

Conversion to Permanent Financing

The construction financing must be converted to a permanent loan using one of the following methods:

- A construction rider is used subject to the following requirements:
 - The construction rider documents the terms of the construction financing and converts the Note to permanent financing upon completion of construction.
 - The rider must be referenced in and attached to the Uniform Instrument used for the permanent Mortgage Loan.

- The construction provisions of the rider must become null and void at the completion of the construction phase and prior to the permanent Mortgage Loan's delivery under the MPF Program.
- A Loan Modification Agreement (FNMA Form 3179) is used subject to the following requirements:
 - The modification occurs prior to or at the time of conversion to permanent financing;
 - Only the interest rate, loan amount, loan term, and amortization type (from adjustable-rate to fixed-rate) may be modified;

If any other terms of the loan change, then the loan must be closed as a dual close transaction.

 - The loan amount may only be increased to cover documented increases in construction costs; and
 - The Loan Modification Agreement must be recorded in addition to the recording of the original security instrument.

2.6.3.3 Dual Close Transactions (3/15/18)²¹

A construction-to-permanent dual close transaction includes a loan for the interim construction financing of a residential property and a separate loan for the permanent financing. Upon completion of the property improvements, the outstanding balance of the interim loan becomes due, and a new Note must be executed for the permanent financing. The interim loan cannot be modified into long-term financing.

A dual close transaction requires two separate loan Closings and two sets of Closing documents. The Mortgage Loan File must contain both sets of Closing documents.

Construction-to-permanent loans with a dual Closing are eligible for delivery under the following MPF Traditional Products:

- MPF Original;
- MPF 125; and
- MPF 35.

A dual close may be closed as a limited cash-out or cash-out transaction. The LTV/TLTV must be based upon the "as completed" appraised value of the property.

Construction-to-permanent financing for manufactured housing must be completed with dual Closings.

²¹ MPF Announcement 2018-18 (3/15/18)
MPF Announcement 2017-37 (7/24/17)
MPF Announcement 2016-30 (12/22/16)

2.6.4 New York Consolidation, Extension and Modification Agreements (CEMA)

For Mortgaged Properties located in the state of New York that are being refinanced, the new Mortgage Loan may be documented with a Consolidation, Extension and Modification Agreement (CEMA) (FNMA / FHLMC Form 3172), which consolidates into one document the terms of prior notes and mortgages related to the Mortgaged Property, and if new funds are advanced, the terms of the new Note and Security Instrument.

For CEMA, specific instructions for delivering documents to the Custodian can be found in MPF Traditional Selling Guide [15.1.1](#).

2.6.5 Payoff of a Land Contract (8/21/23)²²

A Mortgage Loan in which the proceeds are used to pay off the unpaid balance under a land contract (also known as a contract or bond for deed) may be considered a purchase transaction or a limited cash-out refinance transaction. A Mortgage Loan which is used to pay off a land contract may not be underwritten as a cash-out refinance.

For the transaction to be considered a purchase, the land contract must have been executed less than twelve (12) months prior to the Loan Application Date, and all loan proceeds must be used to pay off the outstanding balance under the land contract, and no loan proceeds may be disbursed to the Borrower.

The LTV ratio for the purchase mortgage loan must be computed based by dividing the new loan amount by the lesser of the following:

- The appraised value at the time the new Mortgage Loan is closed; or
- The total acquisition cost (calculated by adding the purchase price indicated in the original land contract, or contract for deed, to the costs the Borrower has incurred for rehabilitation, renovation, refurbishment or energy conservation improvements). The Mortgage Loan File must contain documentation to support the calculated total acquisition cost.

For the transaction to be considered a limited cash-out refinance, the land contract must have been executed more than twelve (12) months prior to the Loan Application Date and, the LTV ratio for the mortgage loan must be computed based by dividing the new loan amount by the appraised value at the time the new Mortgage Loan is closed.

2.6.6 Subordinate Finance Transactions (12/22/16)²³

Second trust deeds, junior liens and subordinate liens (subordinate financing) are defined as mortgages that have rights that are secondary (inferior) to that of another mortgage on the same

²² MPF Announcement 2023-64 (8/21/23)

MPF Announcement 2022-47 (10/14/22)

MPF Announcement 2016-30 (12/22/16)

²³ MPF Announcement 2016-30 (12/22/16)

property. Subordinate financing, new or existing, is acceptable, provided that, in addition to all other underwriting guidelines provided in this Guide, the following requirements are met:

- The monthly payments on the subordinate loan must be included in calculating the Borrower's monthly housing expense ratio;
- The following types of subordinate financing are acceptable:
 - If a closed-end loan, must be a “safe harbor” QM loan;
 - Open-end periodic payment mortgages, in which the payment amount does not change during the loan term, with a minimum payment that covers the interest due for the corresponding period;
 - Open-end periodic payment mortgages, in which the payment amount may vary from period to period, with the following restrictions:
 - The minimum payment covers the interest due for the corresponding period; and
 - The periodic payment must remain constant for each 12-month period over the term of the secondary mortgage, with the exception of home equity lines of credit (“HELOCs”) which may have monthly payments that do not remain constant for 12-month periods;
- The maximum TLTV ratio for the first and second mortgage must comply with the limits outlined in this Selling Guide;
- The subordination agreement must be recorded concurrently and clearly in second position with the first mortgage/deed of trust, as applicable;
- “Piggy Back” or simultaneous second mortgages that are recorded in a clear second position, evidenced by the closing instructions and the final title policy when issued;
- Seller financed mortgages at a market interest rate and with a minimum payment that covers the interest due for the corresponding period;

Note: If subordinate financing provided by the property seller is more than 2% below the typical interest rate for subordinate financing acquired through a state or federally regulated financial institution, the subordinate financing must be considered a sales concession and must be deducted from the sales price.

- Employer-funded subordinate financing structured in one of the following ways (the financing terms may provide for the employer to require full repayment of the debt if the Borrower’s employment is terminated before the maturity date of the subordinate financing):
 - Fully amortizing, level monthly principal and interest payments;
 - Payments deferred for a certain period before changing to fully amortizing, level principal and interest payments;

- Payments are deferred over the entire term; or
- The debt is forgiven over time.

The following types of subordinate financing are unacceptable:

- Mortgages with negative amortization;
- Mortgages that restricts prepayments, such as with prepayment penalties;
- Mortgages that do not fully amortize under a level monthly payment plan where the maturity or balloon payment date is less than five years after the note date of the new first mortgage;
- Mortgages with “wraparound” terms that combine the indebtedness of the first mortgage with that of the secondary mortgage; and
- Mortgages where the terms of the note provide for future advances (excluding HELOCs);

2.6.6.1 New or Existing Subordinate Finance (6/13/23)²⁴

New subordinate financing may not be provided by an interested party.

The Originator will need the following documentation at time of underwriting:

- Existing: A copy of the executed note, trust deed recordation of a agreement.
- New: A copy of the note that will be executed at closing on the new subordinate financing, if available.

2.6.6.2 Home Equity Lines of Credit (HELOCs) (3/16/17)²⁵

Mortgaged Property secured by subordinate financing in the form of a HELOC is permitted.

The total of the first Mortgage Loan balance plus the HELOC limit may not exceed ninety-five percent (95%) of the Mortgaged Property value.

For the purposes of loan eligibility and Loan Presentment, the TLTV must be calculated using the full HELOC limit, even if undrawn.

The following table provides an example of how to calculate the TLTV for loan eligibility and Loan Presentment:

1) First Mortgage Amount	2) Full HELOC Limit	3) Outstanding HELOC Amount	4) Mortgaged Property Value	TLTV (1+2) / 4

²⁴ MPF Announcement 2023-37 (6/13/23)

²⁵ MPF Announcement 2017-12 (3/16/17)

\$50,000.00	\$40,000.00	\$10,000.00	\$100,000.00	90%
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2.6.7 Property Assessed Clean Energy (PACE) Loans (10/14/22)²⁶

Mortgage Loans secured by a Mortgaged Property with an outstanding PACE or similar program loan, are eligible for delivery under the MPF Program if the PACE or similar program loan's lien is not superior to that of the Mortgage Loan.

An exception to these requirements is permitted if:

- The PACE or similar program's loan was originated before July 6, 2010; and
- The Mortgage Loan is a refinance of a Mortgage Loan acquired by an MPF Bank prior to July 6, 2010 (MPF-to-MPF refinance) that meets the following requirements:
 - The PACE loan must be paid in full if the Borrower has sufficient equity to pay off the PACE loan as part of a limited cash-out refinance or a cash-out refinance; or
 - If the Borrower does not have sufficient equity to pay off the PACE loan, the Mortgage Loan must be underwritten as a limited cash-out refinance with the PACE loan remaining in place. Under this circumstance, the PACE loan is not required to be included in the TLTV calculation; however, the PACE loan payment must be included in the monthly housing expense and DTI calculation.

2.6.8 Non-Arm's Length Transactions

A non-arm's-length transaction is a transaction where there exists a personal or business relationship between the Borrower and any party involved in the transaction.

A non-arm's-length transaction on a newly constructed second home is not permitted.

2.6.9 Temporary Buydowns (12/22/16)²⁷

A temporary buydown occurs when funds are provided to the Originator by the Borrower or a third party for the purpose of reducing the Borrower's monthly Principal and Interest Payment for short periods, such as one to three years. Any buydown that remains in effect for less than the full term of a loan is considered a temporary buydown. The Mortgage Loan must be qualified at the Note Rate.

Fixed-rate / fixed payment Mortgage Loans with temporary buydowns are eligible for delivery under the MPF Program under the following conditions:

²⁶ MPF Announcement 2022-47 (10/14/22)

MPF Announcement 2017-63 (10/31/17)

²⁷ MPF Announcement 2016-30 (12/22/16)

Maximum LTV	Maximum annual buydown schedule
95%	2%-1%-0% ("2-1 Buydown")
90%	3%-2%-1% ("3-2-1 Buydown")
Qualification ratios	28%/36%
Qualification rate	Note Rate

A temporary buydown is not permitted on a cash-out refinance, an expedited (streamlined) refinance, or for a loan secured by manufactured housing.

Temporary buydown example:

Fixed Rate, 30-year loan, Primary Residence; 95% LTV; 2%-1%-0% buydown; Note Rate: 9% (Qualification Rate)	
Year 1:	9% (Note Rate)
	<u>-2% (temporary buydown)</u>
	7% payment rate / 1st year (start rate)
Year 2:	9% (Note Rate)
	<u>-1% (temporary buydown)</u>

	8% payment rate / 2nd year
Year 3:	9% (Note Rate)
	<u>-0% (temporary buydown)</u>
	9% payment rate / 3rd year through term

2.6.10 Texas 50(a)(6) Mortgages (10/14/22)²⁸

A Texas Section 50(a)(6) loan originated in compliance with the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution is eligible for delivery under the MPF Program. Some MPF Banks may impose additional restrictions on delivery of such loans; therefore, PFIs should contact their local MPF Bank before delivery of any Texas 50(a)(6) loans, to ensure compliance with MPF Bank specific requirements.

Because the MPF Program's classification of mortgage transactions as "cash-out refinance" or "limited cash-out refinance" may differ from the way mortgage loans are classified under Texas law, PFIs should not rely on the MPF Program's classification of mortgage transactions for purposes of determining whether compliance with the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution is required.

All Texas 50(a)(6) loans must be delivered with Special Feature Code 304 and must have appraisals. Appraisal Waivers are not acceptable for this type of loan.

2.7 Ineligible Transactions, Products or Attributes (11/30/23)²⁹

Only MPF Traditional product offerings are eligible for delivery under the MPF Traditional product. No other investor products, including those from Fannie Mae and Freddie Mac, are eligible for delivery under the MPF Traditional products.

²⁸ MPF Announcement (10/14/22)

MPF Announcement 2019-26 (5/1/19)

MPF Announcement 2018-18 (3/15/18)

²⁹ MPF Announcement 2023-92(11/30/23)

MPF Announcement 2023-39 (6/13/23)

MPF Announcement 2022-41 (9/2/22)

MPF Announcement 2019-26 (5/1/19)

MPF Announcement 2018-18 (3/15/18)

PFI Notice 2016-12 (9/1/16)

In addition, the following products or attributes are ineligible under the MPF Traditional product, regardless of underwriting method used:

- Co-ops
- Investment properties
- Constructions loans, unless the terms of Construction to Permanent Financing in Chapter [2.6.3](#) are followed.
- ARMs
- Balloon mortgages
- Interest only
- Home improvement/rehabilitation loans
- Condotels
- Time shares
- Unimproved land
- Agricultural properties, such as farms or ranches (other than when secondary use of the property is for insignificant farming activity such as hobby farms, as validated by income and appraisal)
- Properties that are not suitable for year-round occupancy, regardless of location
- Properties on the island of Hawaii located within lava zone 1 or 2, as defined by the U.S. Geological Survey Hawaiian Volcano Observatory
- Fannie Mae's Refi Plus and Freddie Mac's Open Access
- Fannie Mae's HomeReady
- Freddie Mac Home Possible
- Mortgage Loans without an Appraisal, or with a Fannie Mae DU Appraisal Waiver or a Freddie Mac Automated Collateral Evaluations (ACEs) Appraisal Waiver that do not meet Appraisal Waiver requirements outlined in the Guides, including MPF Traditional Selling Guide [4.2.1](#).
- Freddie Mac's Relief Refinance MortgagesSM
- Mortgage Loans with Reduced Mortgage Insurance
- Single-Width Manufactured Homes

2.8 Government Mortgage Loan Eligibility and Underwriting Requirements (7/24/17)³⁰

To be eligible under the MPF Program, Government Mortgage Loans must meet the MPF Program's eligibility requirements in addition to the following:

- Comply with the applicable Government Agency's standards;
- Comply with all Applicable Laws; and
- Maintain the associated Government Agency guaranty and/or insurance at all times until payoff or liquidation of the loan.

Government Mortgage Loans eligible for delivery under the MPF Program are one-to-four family fully amortizing fixed rate mortgages that are:

- FHA insured mortgages;
- HUD guaranteed Section 184 loans with an Indian Loan Guarantee Certificate;
- VA guaranteed mortgages; or
- RHS Section 502 guaranteed mortgages.

The Originator should comply with all of the specific underwriting requirements of the applicable insuring or guaranty Government Agency as identified below:

- For FHA/HUD, visit [<http://portal.hud.gov/hudportal/HUD>]
- For VA, visit [<http://www.benefits.va.gov/homeloans/lenders.asp>]

For Rural Housing Service, visit [<https://www.rd.usda.gov/programs-services/single-family-housing-programs/single-family-housing-guaranteed-loan-program>]

2.8.1 Maximum Loan Limits for Government Mortgage Loans (7/24/17)³¹

The maximum FHA, VA, HUD 184, and RHS 502 loan amounts are those established by the FHA/HUD, VA and RHS. The maximum LTV and TLTV limits for Government Mortgage Loans are those established by the applicable Government Agency.

2.8.2 Eligible Borrowers for Government Mortgage Loans

Eligible Borrowers are those established by the applicable Government Agency.

³⁰ MPF Announcement 2017-37 (7/24/17)

³¹ MPF Announcement 2017-37 (7/24/17)

MPF Announcement 2016-30 (12/22/16)

2.8.3 Eligible Property Types for Government Mortgage Loans (4/6/18)³²

Eligible property types are those established by the applicable Government Agency, other than commercial property. Mortgage Loans sold as Servicing Released must comply with any additional requirements or restrictions the Servicer has for manufactured homes, as is provided for in the applicable Servicer's Manual.

2.8.4 Government Mortgage Loan Streamline Refinances (12/22/16)³³

FHA streamlined refinance loans, VA Interest Rate Reduction Refinance Loans (IRRRLs) and RHS streamlined refinance loans are eligible under the MPF Program.

For all Government Mortgage Loan streamline refinances, Borrower and co-Borrower income must be collected and delivered for the purpose of Loan Presentment, regardless of the requirements of the Government Agency that insures or guarantees the loan. The MPF Program does not require the income be used to qualify the Borrower(s) if the Government Agency does not require its use for qualification purposes.

2.8.5 Properties Impacted by a Major Disaster (8/13/18)³⁴

Originators are required to follow the applicable Government Agency requirements for providing Major Disaster assistance.

³² MPF Announcement 2018-22 (4/6/18)

³³ MPF Announcement 2016-30 (12/22/16)

³⁴ MPF Announcement 2018-39 (8/13/18)

CHAPTER 3. BORROWER ELIGIBILITY

3.1 Borrower Overview

This section describes the types of Borrowers who are eligible under the MPF Program.

3.1.1 OFAC

All Borrowers' names must be checked against Office of Foreign Asset Control (OFAC) lists of known or suspected terrorists or terrorist organizations including the Specifically Designated Nationals and Blocked Persons (SDN) list. The Mortgage Loan is ineligible for delivery under the MPF Program if a match is found.

3.1.2 Eligible Borrowers (8/8/22) ³⁵

The Borrower should be of legal age per local and state jurisdiction and able to enter into a binding contract. All eligible Borrowers must be Natural Persons and have valid and verifiable Social Security numbers (SSN) or Individual Taxpayer Identification Numbers (ITINs). Other forms of taxpayer identification are not allowed. If any discrepancies are found involving Borrowers' SSN or ITIN, these must be resolved before Closing.

The only exceptions to the requirement that Borrowers be natural persons are:

- Inter Vivos Revocable Trust that meets Guide eligibility requirements (see Chapter 3.1.5 for eligibility requirements); or
- Illinois Land Trust that meets Guide eligibility requirements (see Chapter 3.1.6 for eligibility requirements).

The title commitment and title insurance policy must reflect that the Borrower (or one of the above exceptions) is the owner of the Mortgaged Property.

3.1.3 Co-Borrower

The co-Borrower, or joint applicant, is any Borrower other than the primary Borrower who has applied with the Borrower for joint credit. The co-Borrower may, but is not required to, take title to the Mortgaged Property and will sign the Note and/or Security Instrument as their status requires.

3.1.4 Non-Occupant Co-Borrower (12/22/16) ³⁶

The non-occupant co-Borrower applies with the Borrower for joint credit and may take title to the Mortgaged Property, but will not occupy the property. The non-occupant co-Borrower will be required to sign the Note and/or Security Instrument. The non-occupant co-Borrower may not be an interested party (e.g. a real estate agent, builder, or seller).

³⁵ MPF Announcement 2022-37 (8/8/22)
MPF Announcement 2018-60 (12/11/18)

³⁶ MPF Announcement 2016-30 (12/22/16)

The occupant Borrower must be able to qualify for the loan using solely his/her own income with a total debt ratio at or below 43%. Once that requirement is met, the non-occupant co-Borrower's income may be used for qualifying purposes, subject to the following LTV and occupancy requirements:

LTV	Co-Borrower Occupancy Status
>95% (for loans with AHP funds only)	Co-Borrower must occupy the property
90.01%-95%	The co-Borrower must occupy the property, unless the Mortgage Loan was underwritten and approved using DU or Loan Product Advisor
90% or below	The co-Borrower is not required to occupy the property

3.1.5 Inter Vivos Revocable Trust (12/11/18)³⁷

An inter vivos revocable trust is a trust that:

- One or more individuals create during his or her lifetime,
- Becomes effective during the creator's lifetime,
- Can be changed or canceled by its creator at any time for any reason, during that individual's lifetime,
- Names the creator as its beneficiary,
- Has at least one of the creators as a trustee or an institutional trustee that customarily performs trust functions and is authorized to act as trustee under the laws of the applicable state.

Loans where title to the Mortgaged Property is held by an inter vivos revocable trust are eligible if a Borrower is the primary beneficiary of the trust and is the individual establishing the trust.

The Mortgage Loan must be underwritten with one of the individuals establishing the trust as the Borrower or co-Borrower, and the beneficiary must become personally liable on the Note, acknowledge the Security Instrument and occupy the Mortgaged Property.

As evidence that the trust meets state and MPF Program standards, the Mortgage Loan File must contain a copy of the trust agreement or trust certificate and at least one of the following:

³⁷MPF Announcement 2018-60 (12/11/18)
MPF Announcement 2016-30 (12/22/16)

- An attorney's opinion stating the trust meets all applicable state requirements; or
- Certification from a title company evidencing compliance with any applicable state requirements.

The trust agreement must state that the trustee is authorized to borrow money for the purpose of purchase or refinance (as applicable for the transaction being requested), and if consent of the beneficiary is required, such written consent must be obtained and retained in the Mortgage Loan File.

Title to the property must be vested solely in the trustee(s) of the inter vivos revocable trust, jointly in the trustee(s) of the inter vivos revocable trust and in the name of the individual Borrower or in the trustee(s) of more than one inter vivos revocable trust.

In addition, the following requirements must be met:

- The title insurance policy (or attorney's opinion of title) shall not list any exceptions with respect to the trustee holding title to the property or to the trust.
- Title held in the trust must not reduce the MPF Bank's rights, including the right to have full title to the property should foreclosure proceedings be initiated.
- The title insurance policy ensures full title protection to the MPF Bank.
- Title to the security property is vested solely in the trustee(s) of the inter vivos revocable trust, jointly in the trustee(s) of the inter vivos revocable trust and in the name(s) of the individual Borrower(s), or in the trustee(s) of more than one inter vivos revocable trust.

The Originator must ensure that all loan documents are properly executed according to Applicable Law to ensure the granting of a first lien is properly conveyed.

3.1.6 Illinois Land Trust

Loans where title to the Mortgaged Property is held by an Illinois Land Trust are eligible, provided the trust meets the following criteria:

- The land trustee must be a financial institution customarily engaged in the business of acting as trustee under Illinois land trusts (individuals are not acceptable as trustees);
- All primary beneficiaries of the land trust must be a qualifying Borrower and must execute the Note and Security Instrument as individuals, without any reference to the Borrower's status as beneficiary(ies), co-signer(s), guarantor(s), etc., of the trust;
- The land trustee must execute the Note, the Security Instrument, and if applicable, any riders:
 - The land trustee must execute the Security Instrument as trustee under the particular trust agreement dated a specified date and known as a specified trust number;
 - The notary's certificate of acknowledgement should reflect that the execution is by the officer(s) of the institution acting as trustee, and specify the officer's(s') title(s); and

- The land trustee's execution of the Note and Security Instrument may either include a rider or stamp (whichever is customary) indicating that the trustee is not personally liable on the Note or on the Mortgage covenants and that the Mortgagee can only look to trust assets to satisfy those obligations of the trustee. However, the rider or stamp must not be more broadly stated than only relieving the trustee from personal liability.
- The Uniform Instrument, Illinois Mortgage Form 3014, must be amended as follows:
 - In the “Definitions” on page 1, describe “Borrower” as both (i) an institution which is a trustee under the particular trust agreement dated a specified date and known as a specified trust number and (ii) the credit-seeking beneficiary(ies) of the trust.
 - PFI must add the following language to the second paragraph of “Transfer of Rights in the Property:”

“The term “Property” wherever used in this Security Instrument expressly includes all rights of the trust and of any beneficiary of the trust to receive the net proceeds from the rental, sale, hypothecation, or other disposition of the Property, whether or not such rights are classified as real or personal property or such proceeds are otherwise distributable to the beneficiaries of the trust pursuant to a trust agreement. The Borrower warrants that it possesses full power and authority to execute this Security Instrument.”
- The trustee and the beneficiary(ies) must sign an agreement substantially in the form of the “Agreement by Beneficiary and Trustee to Notify Lender of a Sale or Transfer of Interest” (the “Agreement”), Exhibit P, which Agreement amends the trust agreement between the beneficiary(ies) and the trustee in order to protect the Mortgagee from transfers of beneficial interests in the trust without the Mortgagee’s knowledge; or
 - If the PFI cannot obtain an Agreement, an assignment of beneficial interest in lieu of the Agreement is acceptable.

3.1.7 Non-U.S. Citizen

A non-U.S. citizen Borrower, who is lawfully residing in the U.S. as a permanent or non-permanent resident alien, is eligible for a Mortgage Loan on the same terms as a U.S. citizen.

Borrowers must have current acceptable documentation from the Bureau of Citizenship and Immigration Services (BCIS), within the Department of Homeland Security, evidencing the person’s legal residency status in the U.S.

3.1.8 Social Security Number and Individual Taxpayer Identification Number Verification

All Borrowers must have a valid Social Security Number (SSN) or, in the case of permanent or non-permanent resident alien who do not have a SSN, a valid Individual Taxpayer Identification Number (ITIN). The Borrower’s SSN or ITIN must be consistent throughout the Mortgage Loan File. Minor

name variations, such as a Borrower who uses a shortened or abbreviated name are acceptable when the Mortgage Loan File contains documentation that the Borrower is the same person as the name variation(s). When there are inconsistencies or multiple SSNs and/or ITINs for any Borrower(s), acceptable documentation resolving the discrepancies must be included in the Mortgage Loan File by either:

- Verification of the Borrower's SSN and/or ITIN directly through the Social Security Administration (SSA), such as through the submission of Form SSA-89 (or any other form or method accepted by the SSA) to the SSA for validation; or a
- Verification of the Borrower's SSN and/or ITIN through a vendor that validates directly through the SSA.

If the SSN or ITIN cannot be validated with the SSA, the Mortgage Loan is not eligible for delivery under the MPF Program.

3.1.9 Maximum Loans Per Borrower (12/22/16)³⁸

There are no restrictions regarding the maximum number of loans permitted for a single Borrower.

3.2 Ineligible Borrowers

The following types of Borrowers are ineligible:

- Persons without SSNs or ITINs
- Land trusts that are not Illinois Land Trusts
- Any corporate entities such as corporations, general and limited partnerships, "Doing Business As" (d/b/a) entities
- Religious or nonprofit organizations
- Persons with a life estate in the mortgaged property
- Persons who are acting on behalf of another person involved in the transaction as a court appointed guardian.

³⁸ MPF Announcement 2016-30 (12/22/16)

CHAPTER 4. UNDERWRITING STANDARDS

4.1 Permitted Underwriting Methods

Conventional Mortgage Loans and Government Mortgage Loans must be manually underwritten in accordance with the underwriting and eligibility guidelines of the Guides or applicable Government Agency. If a Mortgage Loan is underwritten using an automated underwriting system, the underwriting and eligibility guidelines of the applicable agency must be followed subject to the restrictions specified in this Selling Guide.

4.2 Conventional Mortgage Loans

This section contains guidance for underwriting methods to be used for Conventional Mortgage Loans.

4.2.1 Automated Underwriting Systems (AUS) (11/30/23)³⁹

Mortgage Loans may be underwritten using Fannie Mae's Desktop Underwriter® (DU®) or Freddie Mac's Loan Product Advisor® automated underwriting system. Mortgage Loans underwritten with either AUS must follow the overall program requirements, underwriting requirements, meet all the QM safe harbor requirements including the applicable APR to average prime offer rate (APOR) spread and eligibility requirements of the applicable GSE for that Mortgage Loan and not the manual underwriting guidelines of this Selling Guide. The only MPF Program Requirements that supersede Fannie Mae/DU and Freddie Mac/Loan Product Advisor requirements are the following:

- Max LTV: 95%
- Minimum Representative FICO: 620
- Full Interior/Exterior Appraisal, or a DU or an ACE LPA eligible Appraisal Waiver if the MPF Program and any specific MPF Bank requirements for Appraisal Waivers are met.
- Occupancy Requirements (See Section 6.2 Occupancy Status)
- Property Type Eligibility Criteria (for example: Co-ops are not eligible under the MPF Program. (See Section 6.1.1 Eligible Property Types and 2.7 Ineligible Transactions, Products, or Attributes))
- Products or loan attributes on the ineligible list (see Section [2.7](#) Ineligible Transactions, Products or Attributes, 6.8.2 Ineligible Manufactured Homes, 8.4 Ineligible Projects.))

³⁹ MPF Announcement 2023-92 (11/30/23)
MPF Announcement 2023-26 (5/3/23)
MPF Announcement 2022-41 (9/2/22)
MPF Announcement 2021-49 (6/30/21)
MPF Announcement 2019-36 (7/12/19)
MPF Announcement 2019-26 (5/1/19)

If a loan that is underwritten with an AUS and receives an ineligible recommendation due to guidelines that do not make the loan ineligible under the MPF Program, the PFI should contact its MPF Bank to confirm the Mortgage Loan is acceptable for delivery. If the Mortgage Loan is acceptable to the MPF Bank, the PFI must document the name of the individual from their MPF Bank that provided the approval and the date of approval on the FNMA 1008/FHLMC 1077.

Mortgage loans underwritten using Fannie Mae's DU or Freddie Mac's Loan Product Advisor, must include the system generated representative credit score on the loan submission form (FNMA 1008/FHLMC 1077). Additionally, the original credit report must be included in the Mortgage Loan File showing the score and the credit score determined for each Borrower must be input in the Loan Presentment Form (OG3). The total debt ratio reported for Loan Presentment and any applicable AUS must reflect all the Borrower's obligations.

Automated validation services approved by Fannie Mae or Freddie Mac that are utilized in conjunction with Fannie Mae's DU or Freddie Mac's LPA to validate Borrower income, employment, and asset data are acceptable under the MPF Traditional product. However, unlike Fannie Mae and Freddie Mac, the MPF Program does not provide any representation and warranty relief.

PFI's are not required to obtain tax transcripts for a Borrower when all of that Borrower's income was validated by Fannie Mae's DU or Freddie Mac's LPA validation service. Borrowers that have not had their income validated through the Fannie Mae's DU or Freddie Mac's LPA validation service are still required to obtain the tax transcripts.

In order to be eligible, Mortgage Loans must have received an acceptable DU or LPA recommendation as provided for in this Guide, or must be manually underwritten pursuant to MPF Program underwriting guidelines.

4.2.1.1 Fannie Mae Desktop Underwriter (DU)

Fannie Mae's DU guidelines provided in this Guide do not apply to the use of Fannie Mae's Desktop Originator® (DO®), which is an ineligible AUS System under the MPF Program.

4.2.1.1.1 Loans with an "Approve/Eligible" Recommendation

Mortgage Loans must receive an "Approve/Eligible" recommendation from DU, and any verification messages or approval conditions specified on the Desktop Underwriter Findings Report must be satisfactorily resolved before Closing. Terms and conditions of the closed Mortgage Loan and underwriting information in the Mortgage Loan File must match the data on which the DU recommendation/verification messages are based.

4.2.1.1.2 Appraisal Waivers (9/2/22) ⁴⁰

MPF Traditional Mortgage Loans with no Appraisals that have an eligible Appraisal Waiver issued through DU that is accepted by the loans originator, are eligible for delivery under the MPF Program. Not all MPF Banks accept delivery of loans with no Appraisals, and some MPF Banks may impose additional restrictions on delivery of loans with Appraisal Waiver offers; therefore, PFIs should contact their local MPF Bank before delivery of any loan with an Appraisal Waiver offer, to ensure eligibility and compliance with MPF Bank specific requirements.

The following transactions are not eligible for an Appraisal Waiver:

- properties located in a disaster-impacted area, unless the loan meets MPF Guides and Fannie Mae's requirements for such transactions;
- when the lender has any reason to believe an appraisal is warranted;
- construction and construction-to-permanent loans;
- two- to four-unit properties;
- value of the subject property provided to DU is \$1,000,000 or greater;
- community land trusts or other properties with resale restrictions, which include loan casefiles using the Affordable LTV feature;
- manufactured homes;
- when the mortgage insurance provider requires an appraisal;
- DU loan casefiles that receive an Ineligible recommendation;
- transactions using gifts of equity; and
- Texas Section 50(a)(6) loans.

Rural High-Needs Appraisal Waivers are not eligible.

In addition to confirming the loan meets all DU Appraisal Waiver eligibility criteria, all MPF Guide eligibility requirements and MPF Bank eligibility requirements, when delivering a Mortgage Loan with an Appraisal Waiver offer, the PFI:

- Must receive a valid Appraisal Waiver offer on its final submission to DU;
- Must ensure the date of the DU Appraisal Waiver does not precede the date of the Note and Security Instrument by more than four months;
- Must ensure that, if the Mortgaged Property is located in a Major Disaster area, the Appraisal Waiver offer is obtained at least 120 days after the disaster ended;

⁴⁰MPF Announcement 2022-41 (9/2/22)
MPF Announcement 2019-26 (5/1/19)

- Must select “DU – Approve/Eligible” as the “Automated Underwriting System”, identify the appropriate appraisal type (i.e. Appraisal Waiver) in the eMPF website and leave “Appraiser’s State License Number” blank;
- Must submit the Mortgage Loan using Special Feature Code (SFC) 801;
- Must ensure an Appraisal is not required by Applicable Law (including but not limited to laws relating to the placement of mortgage insurance);
- Must ensure an Appraisal is not required by the mortgage insurance (MI) provider (if applicable);
- Must ensure there are no other factors that would warrant an Appraisal, such as, for example, the occurrence of a natural disaster or event potentially causing damage to the property;
- Must ensure the transaction is not one that DU was unable to identify as having ineligible criteria (for example, Texas 50(a)(6) loans);
- Must ensure an Appraisal was not obtained;
- Must ensure the property is not subject to Article XVI, Section 50(a)(6) of the Texas Constitution;
- Must ensure the loan meets the property eligibility type for sale into the MPF Program;
- Must ensure the condition of the Mortgaged Property meets the requirements of the Guides as of the date of loan delivery into the MPF Program;
- Represents and warrants that no PFI employee or representatives have made any statements to any third party (including a Borrower) that the PFI or another person on behalf of the PFI performed or will perform a property valuation review or obtained an Appraisal of the Mortgage Property;
- Represents and warrants that all data pertaining to the Mortgaged Property submitted through DU is accurate and complete;
- Represents and warrants the property value estimate entered into DU; and
- Represents and warrants that the Mortgage Loan meets all other requirements of the MPF Traditional product as set forth in the Guides and by the MPF Bank.

4.2.1.1.3 Delivery Requirements

Any mortgage loan to be delivered for purchase as a DU underwritten Mortgage Loan must include all applicable DU reports as listed below:

- Underwriting Findings (includes Risk/Eligibility, Findings, Verification Messages/Approval Conditions, and Observations);

- Credit Report Summary; and
- Underwriting Analysis Report.

4.2.1.2 Freddie Mac Loan Product Advisor®

4.2.1.2.1 Loans with An “Accept” Risk Class (9/2/22)⁴¹

Mortgage Loans must receive an “Accept” risk class from Loan Product Advisor, and any verification messages or approval conditions specified on the last Loan Product Advisor Feedback Certificate must be satisfactorily resolved before Closing. However, a full interior/exterior Appraisal is required for all Mortgage Loans underwritten with Loan Product Advisor, regardless of what Appraisal type Loan Product Advisor may allow. Terms and conditions of the closed Mortgage Loan and underwriting information in the Mortgage Loan File must match the data on which the Loan Product Advisor “Accept” risk class is based.

4.2.1.2.2 Appraisal Waivers (9/2/22)⁴²

MPF Traditional Mortgage Loans with no Appraisals that have an eligible ACE Appraisal Waiver issued through LPA that is accepted by the loans’ originator, are eligible for delivery under the MPF Program. Not all MPF Banks accept delivery of loans with no Appraisals, and some MPF Banks may impose additional restrictions on delivery of loans with Appraisal Waiver offers; therefore, PFIs should contact their local MPF Bank before delivery of any loan with an Appraisal Waiver offer, to ensure eligibility and compliance with MPF Bank specific requirements.

The following transactions are not eligible for an Appraisal Waiver:

- properties located in a disaster-impacted area, unless the loan meets MPF Guides and Freddie Mac’s requirements for such transactions;
- when the lender has any reason to believe an appraisal is warranted;
- construction and construction-to-permanent loans, including Construction Conversion and Renovation Mortgages;
- Non-arm's length transactions;
- Purchase of REO properties (as identified in the sales contract);
- two- to four-unit properties;
- mortgage with estimated value or purchase price greater than \$1,000,000;

⁴¹ MPF Announcement 2022-41 (9/2/22)
MPF Announcement 2019-26 (5/1/19)
MPF Announcement 2016-17 (11/29/16)

⁴² MPF Announcement 2022-41 (9/2/22)

- community land trusts or properties with resale restrictions, which include loan casefiles using the Affordable LTV feature;
- manufactured homes;
- leasehold estate;
- when the mortgage insurance provider requires an appraisal;
- LPA Last Feedback Certificate with “Caution” risk class;
- transactions using gifts of equity;
- Freddie Mac Relief Refinance MortgagesSM – Same Servicer or Open Access;
- Cash-out refinance transactions with LTV/TLTV of more than 70% (primary residences) or more than 60% (secondary homes)
- No-cash out refinance transactions with LTV/TLTV of more than 90%
- Purchase transactions with LTV/TLTV of more than 80%
- GreenCHOICE Mortgages
- Cooperative Share Loans; and
- Texas Section 50(a)(6) loans.

Rural High-Needs Appraisal Waivers are not eligible.

In addition to confirming the loan meets all Freddie Mac’s ACE LPA eligibility criteria, all MPF Guide eligibility requirements and MPF Bank eligibility requirements, when delivering a Mortgage Loan with an Appraisal Waiver offer, the PFI:

- Must receive a valid Appraisal Waiver offer on its final submission to LPA;
- Must ensure the date of the ACE LPA Appraisal Waiver does not precede the date of the Note and Security Instrument by more than four months;
- Must ensure that, if the Mortgaged Property is located in a Major Disaster area, the Appraisal Waiver offer is obtained at least 120 days after the disaster ended;
- Must select “LP – Accept” as the “Automated Underwriting System”, and identify the appropriate appraisal type (i.e. Appraisal Waiver) in the eMPF website and leave “Appraiser’s State License Number” blank;
- Must ensure an Appraisal is not required by Applicable Law (including but not limited to laws relating to the placement of mortgage insurance);
- Must ensure an Appraisal is not required by the mortgage insurance (MI) provider (if applicable);

- Must ensure there are no other factors that would warrant an Appraisal, such as, for example, the occurrence of a natural disaster or event potentially causing damage to the property;
- Must ensure the transaction is not one that LPA was unable to identify as having ineligible criteria (for example, Texas 50(a)(6) loans);
- Must ensure an Appraisal was not obtained;
- Must ensure the property is not subject to Article XVI, Section 50(a)(6) of the Texas Constitution;
- Must ensure the loan meets the property eligibility type for sale into the MPF Program;
- Must ensure the condition of the Mortgaged Property meets the requirements of the Guides as of the date of loan delivery into the MPF Program;
- Represents and warrants that no PFI employee or representatives have made any statements to any third party (including a Borrower) that the PFI or another person on behalf of the PFI performed or will perform a property valuation review or obtained an Appraisal of the Mortgage Property;
- Represents and warrants that all data pertaining to the Mortgaged Property submitted through LPA is accurate and complete;
- Represents and warrants the property value estimate entered into LPA; and
- Represents and warrants that the Mortgage Loan meets all other requirements of the MPF Traditional product as set forth in the Guides and by the MPF Bank.

4.2.1.2.3 Loan Product Advisor Delivery Requirements (11/29/16)⁴³

Any Mortgage Loan File delivered as a Loan Product Advisor underwritten Mortgage Loan must include:

- Loan Product Advisor Feedback Certificate; and
- Credit documentation as required by Loan Product Advisor, including all credit reports and all credit scores generated.

Additional submission requirements may apply.

4.2.2 Manual Underwriting (5/3/23)⁴⁴

Conventional Mortgage Loans may be manually underwritten by:

- considering Borrower's current or reasonably expected income or assets other than the value of the dwelling (including any real property attached to the dwelling) that secures the loan,

⁴³ MPF Announcement 2016-17 (11/29/16)

⁴⁴ MPF Announcement 2023- 26 (5/3/23)

MPF Announcement 2021- 49 (6/30/21)

debt obligations, alimony, child support, and DTI ratio or residual income, as provided for in TILA/Regulation Z (including 12 CFR 1026.43), and the underwriting and eligibility guidelines of this Selling Guide, and

- verifying the Borrower's current or reasonably expected income or assets other than the value of the dwelling (including any real property attached to the dwelling) that secures the loan and the consumer's current debt obligations, alimony, and child support, using verification standards relevant provisions from Fannie Mae's Single Family Selling Guide Sections B3-3 through B3-6 as provided for in Regulation Z and as provided for in the Chapter 5 – Underwriting the Borrower of this Guide. To the extent the guidance for verification requirements in this MPF Traditional Selling Guide contradict what is provided in aforementioned sections of Fannie Mae's Single Family Selling Guide, the more restrictive verification policy will supersede. The Fannie Mae Selling Guides should only be used for verification purposes. Nothing in the Fannie Mae guides supersede a PFI's obligation to considering Borrower's current or reasonably expected income or assets other than the value of the dwelling (including any real property attached to the dwelling) that secures the loan, debt obligations, alimony, child support, and DTI ratio or residual income, as provided for in TILA/Regulation Z (including 12 CFR 1026.43), and the underwriting and eligibility guidelines of **the MPF Guides** (including the DTI ratios provided for in 5.17.3 "Debt-to-Income Ratios") .

4.3 Government Mortgage Loans

This section contains guidance for underwriting methods to be used for Government Mortgage Loans.

4.3.1 FHA Mortgage Loans (11/29/16)⁴⁵

FHA Mortgage Loans may be underwritten manually in compliance with the requirements of this Selling Guide as well as FHA requirements, or underwritten using DU or Loan Product Advisor as described below.

4.3.1.1 DU Underwritten FHA Mortgage Loans

Any FHA Mortgage Loan underwritten using DU must comply with the following requirements:

- DU for FHA Mortgage Loans must include the Underwriting Findings report(s) in the file;
- All conditions and requirements identified through DU must be included in the file; and
- Files must be packaged in accordance with FHA published requirements.

Any FHA Mortgage Loan underwritten using DU must comply with the terms of the FHA Lenders Handbook and Fannie Mae's Desktop User Guide.

Any FHA Mortgage Loans underwritten using DU, except a Streamline Refinance and assumption, must be scored through TOTAL Mortgage Scorecard. TOTAL Mortgage Scorecard is not an AUS, but a

⁴⁵ MPF Announcement 2016-17 (11/29/16)

scorecard that interfaces with an AUS such as DU, and provides a Feedback Certificate/Finding Report. The TOTAL Mortgage Scorecard Feedback Certificate/Finding Report used in the underwriting decision must be included in the FHA case binder. All data entered into the AUS must be verified as accurate and complete, and the entire mortgage application must comply with all FHA requirements.

4.3.1.2 Loan Product Advisor Underwritten FHA Mortgage Loans (11/29/16)⁴⁶

Any FHA Mortgage Loan underwritten using Loan Product Advisor must comply with the following requirements:

- Loan Product Advisor Mortgage Files must include:
 - Loan Product Advisor Feedback Certificate;
 - All documents as indicated by the Loan Product Advisor Feedback Certificate, including all conditions.

Any FHA Mortgage Loan, except a Streamline Refinance and assumption, must be scored through TOTAL Mortgage Scorecard. TOTAL Mortgage Scorecard is not an AUS, but a scorecard that interfaces with an AUS such as Loan Product Advisor, and provides a Feedback Certificate/Finding Report. The TOTAL Mortgage Scorecard Feedback Certificate/Finding Report used in the underwriting decision must be included in the FHA case binder. All data entered into the AUS must be verified as accurate and complete, and the entire mortgage application must comply with all FHA requirements.

4.3.2 VA Mortgage Loans (11/29/16)⁴⁷

VA Mortgage Loans may be underwritten manually in compliance with the requirements of this Selling Guide as well as VA requirements, or underwritten using DU or Loan Product Advisor as described below.

4.3.2.1 DU Underwritten VA Mortgage Loans

Any VA Mortgage Loan underwritten using DU must comply with the terms of the VA Lenders Handbook and Fannie Mae's DU requirements.

Any VA Mortgage Loan underwritten using DU must include the Underwriting Reporting the Mortgage Loan File as well as meet all conditions and requirements identified by DU.

4.3.2.2 Loan Product Advisor Underwritten VA Mortgage Loans (11/29/16)⁴⁸

Any VA Mortgage Loan underwritten using Loan Product Advisor must comply with the terms of the VA Lenders Handbook and the Freddie Mac Loan Product Advisor requirements.

⁴⁶ MPF Announcement 2016-17 (11/29/16)

⁴⁷ MPF Announcement 2016-17 (11/29/16)

⁴⁸ MPF Announcement 2016-17 (11/29/16)

Loan Product Advisor Mortgage Files must include:

- Loan Product Advisor Feedback Certificate; and
 - All documents as indicated by the Loan Product Advisor Feedback Certificate, including all conditions

4.4 Affordable Housing Program (AHP) Funds

This section describes the requirements for affordable housing financing that is provided by a Federal Home Loan Bank (FHLB) or provided by another third party.

Mortgage Loans with AHP funds must be a purchase or a limited cash-out refinance transaction.

The maximum LTV for Mortgage Loans with AHP funds is one-hundred percent (100%), with the exception of Conventional High-Balance Mortgage Loans, which are subject to a maximum LTV of ninety percent (90%). The maximum TLTV (first Mortgage Loan plus the grant and any subordinate financing, if applicable) for loans with AHP funds is one-hundred and five percent (105%).

The income limits established by the AHP funds provider must be followed.

4.4.1 FHLB Funds

The FHLB Affordable Housing Program provides subsidies (grants) to member institutions to assist in the creation and preservation of housing for lower income individuals and families.

Mortgage Loans with FHLB AHP funds may be delivered to a participating MPF Bank. Down Payment Plus/Plus Advantage Grants or equivalent funds from an FHLB are eligible.

Prior to the delivery of Mortgage Loans with FHLB funds, the participating MPF Bank's AHP must be approved for use under the MPF Program. The PFI should contact its MPF Bank for more information.

4.4.2 Non-FHLB Funds (3/16/17)⁴⁹

Non-FHLB AHP funds may be provided by:

- A federal agency, municipality, state, or county;
- State or local housing finance agency; or
- A nonprofit organization.

Non-FHLB AHP funds must meet the following requirements:

- AHP funds may not be provided by the property seller or another interested party to the transaction;

⁴⁹ MPF Announcement 2017-12 (3/16/17)
MPF Announcement 2016-30 (12/22/16)

- AHP funds are only permitted for Primary Residences;
- AHP funds cannot be used for manufactured homes; and
- AHP funds may be used toward the Borrower's down payment, closing costs, property renovations, or a permanent interest rate buydown.

The Originator must ensure all AHP second lien programs comply with the requirements in this Guide.

The AHP Checklist (Exhibit U) may be used to assess whether a non-FHLB AHP program is acceptable.

4.4.3 Repayment Terms (12/22/16)⁵⁰

The following repayment terms are acceptable for AHP funds:

- Fully amortizing, level monthly payments;
- Payments deferred for a period of time that are subsequently changed to fully amortizing, level monthly payments;
- Payments deferred for the entire loan term that only become due and payable if the Borrower pays off the mortgage or sells the Mortgaged Property prior to the maturity date of the AHP second; and
- A loan that is forgiven over time.

If the loan terms provide for payments that are deferred for five years or more, then the monthly payment of the AHP second is not required to be included in the debt-to-income ratio. If the payments are deferred for less than five (5) years, then the monthly payment of the AHP second must be included in the debt-to-income ratio.

⁵⁰ MPF Announcement 2016-30 (12/22/16)

CHAPTER 5. UNDERWRITING THE BORROWER (FOR MORTGAGE LOAN APPLICATIONS PRIOR TO JULY 1, 2023)

Effective for Mortgage Loan Applications Dated Prior July 1, 2023 (5/3/23)

The MPF Program has published a new “Chapter 5. Underwriting the Borrower (Effective for Mortgage Loan Applications on or after July 1, 2023)”, implementing updated verification requirements for evaluating Borrowers. PFIs are encouraged to manually underwrite Borrowers in accordance to the new Chapter 5 requirements prior to the effective date, but are required do so for all mortgage loan applications received on or after July 1, 2023.

PFIs who have not yet implemented the updated manual underwriting requirements and are evaluating Borrowers with mortgage loan applications dated prior to July 1, 2023, must only follow all of the underwriting requirements outlined in this “Chapter 5. Underwriting the Borrower (Effective for Mortgage Loan Applications prior to July 1, 2023)”. Underwriting requirements from each version of Chapter 5 may not be combined.

5.1 Documentation Requirements (12/22/16)⁵¹

The following requirements apply when documenting Mortgage Loans:

- The Mortgage Loan File must contain acceptable documentation to support the underwriting decision;
- When standard documentation does not provide sufficient information to support the decision, additional explanatory statements or documentation must be provided;
- For loans underwritten with an AUS, the documentation requirements must comply with the applicable AUS. For loans underwritten manually, the documentation requirements must comply with MPF Program Requirements;
- All required documentation must be verified and retained in the Mortgage Loan File;
- Certified true copies may be individually stamped certified true and exact (the signature must contain at least the first initial of the signer and the full surname), or a “blanket” true and exact certification identifying the loan and the name of the person certifying the documents may be included;
 - Erasures and white-outs are not permitted on any document.
- Tax returns, if required, must be true copies of filed returns and must be signed by all Borrowers. Tax return copies that are signed by a tax preparer are not acceptable;

⁵¹ MPF Announcement 2016-30 (12/22/16)

- W-2 forms that are marked “Employer Copy” are not acceptable;
- Handwritten W-2 forms or paystubs are not acceptable. Tax returns must be obtained if computer-generated documents are not available;
- Letters of explanation regarding financial circumstances must specifically address the financial or credit concern presented and must contain a complete explanation in the Borrower’s own words, and be signed and dated by the Borrower; and
- Any documentation discrepancies must be adequately explained and documented in the Mortgage Loan File.

5.1.1 Complete Applications Required

All Loan Applications (Fannie Mae Form 1003/Freddie Mac Form 65) submitted to underwriting must be accurate and complete with the following information for each Borrower:

- Borrower name;
- A full two-year history of employment and residency;
- Social Security Number or Individual Taxpayer Identification Number;
- Address of the Mortgaged Property;
- Estimate of the property value; and
- Mortgage Loan amount sought.

In addition, a complete Loan Application requires the following:

- All declaration questions must be marked and indicate how the Loan Application was taken.
 - If the interview is conducted face to face, the government monitoring information must be completed. If the Borrower chooses not to participate, the interviewer must complete the government monitoring section based on observation.
- The interviewer’s name and employer must be completed, including NMLS numbers for each.
- The final Loan Application must include the Borrower’s complete and accurate financial information as relied upon by the underwriter, and must be signed and dated by all parties.

All Loan Applications must be reviewed for reasonability as part of the underwriting process. The feasibility of occupancy claims and the overall financial picture of the Borrowers must be reasonable. Where conflicting information exists between or within documents, an adequate explanation must be obtained and documented in the Mortgage Loan File.

5.1.2 Zero Tolerance

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS PRIOR TO JULY 1, 2023)



The MPF Program has a zero tolerance policy on matters relating to fraud or misrepresentation. Originators must have appropriate processes in place to escalate and report suspicious activities.

5.1.3 Age of Documents (1/28/19)⁵²

Information used to make the credit decision must be current. The maximum age of documents at closing is as follows:

Table 5 - 1			
Item	Existing Property Age as of Note Date	New Construction Age as of Note Date	Properties Impacted by a Major Disaster Age as of Note
Initial Application (1003)	120 days	120 days	180 days
Credit Report	120 days	120 days	180 days
Income Documentation	120 days	120 days	180 days
Asset Documentation	120 days	120 days	180 days

Some documents, such as tax returns or divorce decrees, are not subject to these timeframes, as their validity does not change over time.

5.1.4 Direct Written Verifications

Written verifications for employment, deposit accounts and/or mortgage/rental history (VOE/VOD/VOM/VOR) must pass directly between the Originator and employer, financial institution, mortgagor/landlord, as applicable, without being handled by any third party (including the Borrower). Documentation must not contain any alterations, erasures, correction fluid, or correction tape.

5.1.5 Verification of Borrower Identity (12/22/16)⁵³

The Borrower's identity must be confirmed and established with acceptable documentation such as:

- State issued identification (ID), such as a driver's license or state ID with photo; or
- Federally issued identification, such as a passport (may be a foreign passport for legal resident aliens).

Any other documents deemed necessary to comply with federal obligations (birth certificate, social security card, military ID, US alien registration, etc.) must be verified by the Originator.

⁵² MPF Announcement 2019-11 (1/28/19)
MPF Announcement 2017-37 (7/24/17)
MPF Announcement 2016-30 (12/22/16)

⁵³ MPF Announcement 2016-30 (12/22/16)

Copies of government issued identification should not be maintained in the Mortgage Loan File when prohibited by law. The following steps are required to document verification of Borrower's identity:

- Verify the accuracy of the data contained on the ID against the information provided by the Borrower;
- Record the following information on a document to be retained in the Mortgage Loan File:
 - The type of ID provided (state issued I.D., passport, etc.);
 - The expiration date of the ID document provided by the Borrower;
 - Any unique number assigned to the ID by the issuer of the ID (driver's license number, passport number, etc.);
 - Personal data listed on the identification that specifically identifies the Borrower (photograph, home address, social security number, birth date, etc.); and
 - Any additional information regarding other steps or procedures the Originator performed in order to validate the Borrower's identity.

The verification of the documentation should be signed and dated by the individual completing the validation of the Borrower's identity and clearly identify the type of ID used.

5.2 Alternative Documentation

This section provides alternative documentation solutions.

5.2.1 Eligibility Criteria

Alternative documentation provided in lieu of Verifications of Employment and/or Verifications of Deposit are permitted if they are legible originals or certified true and exact copies. The documentation cannot contain any alterations, erasures or white-outs.

Each copy must be stamped and signed by the loan processor or branch manager, certifying that they are true copies of the originals.

5.2.2 FAX or Emailed Copies

Faxed or scanned copies in lieu of original document copies are acceptable subject to the following:

- Verification must be transmitted directly from the Originator to an employer, depository institution, mortgagee or landlord. The employer, depository institution, mortgagee or landlord must transmit the verification directly back to the Originator;
- Photocopies or faxes of documents in the Borrower's control, such as paystubs or bank statements, may be received by the Originator directly from the Borrower; and

- Documents that are emailed or faxed to the Originator must clearly identify the name of the employer, depository institution, mortgagee or landlord as sender, and the source of information—for example, by including that information in the fax banner at the top of the document or email message.

5.2.3 Internet Documentation

Internet documents or downloads of credit reports, as well as income, employment and asset verifications are acceptable. This allowance for internet documents does not change the required content or level of documentation needed. The information must be easy to read, understandable, and have no evidence of alterations, erasures or white-outs, and must make sense based on the Borrower profile and transaction terms.

The following source validation criteria apply to all documents obtained via the internet:

- Documents must identify the Borrower as the employee or owner of the applicable account;
- Documents must identify the credit reporting agency, employer, or depository/investment firm's name and source of information;
- Headers, footers, and the banner portion of the printout of the downloaded web page(s) must reflect the appropriate firm;
- Documents must display the Internet uniform resource locator (URL) address and the date and time printed; and
- When an internet download is sent by fax, the fax header may not cover URL information.

5.2.4 Reverification Authorization

A Borrower's consent must be evidenced by his signature on the appropriate form in order to allow subsequent reverification.

5.3 Automated Validation Services

Automated validation services approved by Fannie Mae or Freddie Mac that are utilized in conjunction with Fannie Mae's DU or Freddie Mac's LPA to validate Borrower income, employment, and asset data are acceptable under the MPF Traditional product. However, unlike Fannie Mae and Freddie Mac, the MPF Program does not provide any representation and warranty relief.

5.4 Credit History (12/22/16)⁵⁴

⁵⁴ MPF Announcement 2016-30 (12/22/16)

Current and past credit histories for all Borrowers on the loan must be analyzed through the review of a credit bureau report prepared by a national credit bureau. If a Borrower does not have a traditional credit history, then the Borrower's nontraditional credit history must be analyzed.

The Originator is responsible for verifying that all credit histories and credit references are valid and that all credit documentation is accurate up until Closing.

When there is an existing fraud alert on a credit bureau report, the Loan Application may not be processed without contacting the individual in accordance with instructions that usually accompany a fraud alert (i.e., a victim's statement), or otherwise employing additional steps to verify the individual's identity.

5.5 Credit Reports

The credit history of the Borrower, as evidenced in the residential mortgage credit report, is critical in analyzing the Borrower's ability to repay the proposed loan.

5.5.1 Age of Reports

A current credit bureau report is required for all applicants. A credit bureau report is current only if it is no more than 120 days old on the date the Note is signed.

The credit report must be analyzed closely and compared to data on the Loan Application.

5.5.2 Credit Report Requirements (12/22/16)⁵⁵

The following is required with respect to Borrower credit reports:

- Credit reports must be obtained for each Borrower on the Loan Application who has an individual credit record. Acceptable report types are a Residential Mortgage Credit Report (RMCR), an in-file credit report, or a merged credit report;
- Reports must include information from all three repositories (Experian, TransUnion and Equifax) and the reports should display credit scores;
- If all three credit reports are not available, the Mortgage Loan File must indicate that all three agencies were accessed and that a report (or score) was not available;
- Each report must be an unaltered original and must include the full name, address and telephone number of the reporting agency and the names of national repositories from which data was drawn;
- For each debt listed, the report must provide the creditor's name, date opened, amount of highest credit balance, current status, required payment, unpaid balance, and payment history.

⁵⁵ PFI Notice 2016-12 (9/1/16)

The historical status must be in a number of times past due format—0X30, 0X60, 0X90 days late. Statements such as “current,” “as agreed” or “satisfactory” are not acceptable by themselves. Additional statements such as “unable to verify” may be included where applicable;

- The credit report must list all inquiries that have been made in the past 90 days;
- The credit reports must indicate the dates the accounts were last updated with the creditor;
- All available public record information such as judgments, foreclosures, tax liens and bankruptcies must be included, with source of information;
- Residence history and most recent two years’ employment history are required to appear on credit reports;
- Frozen credit is not permitted. If unfrozen by the Borrower after application, a new three-file merged report must be obtained;
- The credit report must reflect all open credit account lists on the Loan Application. For any debts listed on the Loan Application that do not appear on the credit reports, an independent written verification must be obtained;
- The credit report must reflect a twelve-month (12) mortgage or rental payment history for all properties owned or rented in the most recent twelve (12) months. If this information is not included in a traditional credit report, alternative credit references may be submitted. Refer to Chapter 5.5.5 for list of supplemental documents that may be utilized for Borrowers with limited or no traditional credit history.
- Credit reports must show a minimum of three (3) trade lines with a 12 month history of satisfactory payment; and
- Foreign credit reports are not permitted.

5.5.3 Adverse Credit (12/22/16)⁵⁶

When significant adverse credit is identified in a Borrower’s credit history, documentation must be provided evidencing whether the derogatory information was due to extenuating circumstances, and that an acceptable credit history has been re-established.

Documentation to support a Borrower's claim of extenuating circumstances should confirm the nature of the event that led to the adverse credit issue and should demonstrate that the Borrower had no other reasonable option than to default on his/her financial obligations. Examples of extenuating circumstances include loss of employment, serious long-term illness and medical bills, which are not covered by insurance.

⁵⁶ MPF Announcement 2016-30 (12/22/16)

5.5.4 Disputed Information

If a Borrower indicates that any significant information in the credit report is not accurate, the information must be reviewed with the Borrower in detail and the credit-granting company should be contacted to confirm accuracy.

If the credit reporting company confirms that the disputed information is incorrect or incomplete and underwriting of the Loan Application needs to be completed before the credit files can be corrected, the Originator cannot use the credit score(s) in the underwriting of the Loan Application. The credit risk assessment must be based on a review of the Borrower's traditional credit history, typically through manual underwriting.

Use of a "Credit Repair" company is not acceptable.

5.5.5 Limited or No Traditional Credit History (10/31/17)⁵⁷

If a Borrower has limited or no traditional credit history as required in this Guide, four (4) credit references from the credit report and / or alternative sources should be documented as open, and active for at least twelve (12) months for each Borrower whose income is being used for qualification.

Non-traditional mortgage credit reports may not be used to offset derogatory references or to enhance a poor credit history as reported through traditional credit providers.

A twelve-month (12) mortgage or rental payment history is required for all properties owned or rented in the most recent twelve (12) months and must be verified using:

- Copies of the Borrower's cancelled checks for last twelve (12) months; or
- A Verification of Mortgage or Verification of Rent.

In order of importance, the following obligations can be used to develop alternative credit sources:

- Housing payments (mortgage or rental); and
- Utilities (if not included in housing payment), such as electricity, gas, water, or cable and telephone service payments.

If four (4) credit references cannot be obtained from the credit sources listed above, then the references listed below should be supplemented in order to obtain the requisite number of credit references.

- Medical insurance coverage payments (excluding payroll deductions);

⁵⁷ MPF Announcement 2017-63 (10/31/17)
MPF Announcement 2016-30 (12/22/16)

- Automobile insurance payments;
- Life insurance policy payments (excluding payroll deductions);
- Homeowner's (or renter's) insurance payments;
- Local store payments (department, furniture, appliance);
- Rental payments or loan payments related to durable goods (including automobiles);
- Medical bill payments;
- School tuition payments;
- Child care payments (if paid to an individual, must be verified with cancelled checks); and/or
- Payments on a loan obtained from an individual (repayment terms must be documented in a written agreement and verified with cancelled checks).

For all credit sources, acceptable documentation (e.g. verification of credit, cancelled checks, or bills marked paid by the creditor) must be obtained indicating that payments are made in a consistent, continual nature.

5.5.6 Credit Inquiries (12/22/16)⁵⁸

If there are any credit inquiries on the credit report from the last ninety (90) days, the inquirer must provide a detailed explanation that specifically addresses both the purpose and outcome of each credit inquiry within the last ninety (90) days.

If a new account has been established, the terms, balance and monthly payment must be obtained and verified.

5.5.7 Delinquent Payments

Late payments are not considered significant when they have occurred only sporadically and if all of the following exist:

- The late payments were not recent;
- The late payments did not extend beyond one month;
- The number and size of delinquent accounts is not large in relation to the overall credit;
- The credit history does not show multiple revolving accounts with high balances-to-limits or high overall utilization of revolving credit; and

⁵⁸ MPF Announcement 2016-30 (12/22/16)

- All other credit has been paid as agreed.

Histories displaying evidence of late charges being imposed on mortgage related debts, even when not shown on a credit report as being thirty (30) days delinquent, will require a satisfactory explanation and may preclude Borrowers from obtaining new financing. Sporadic 30-day delinquent payments on non-mortgage related trade lines that have not occurred within the past twelve (12) months do not need an explanation if all other credit is paid as agreed.

5.5.8 Revolving Accounts

In the absence of a stated payment on a revolving account, or a copy of the monthly statement indicating the required payment, 5% of the outstanding balance must be used to calculate the debt-to-income ratio.

5.5.9 Authorized User Accounts

A Borrower listed as an authorized user of a credit account is only acceptable if:

- Another Borrower in the Mortgage Loan transaction is the owner of the credit account;
- The Borrower's spouse is the owner of the credit account; or
- The Borrower can provide written documentation (e.g. canceled checks, payment receipts, etc.) that he or she has been the actual and sole payer of the monthly payment on the account for at least the twelve (12) months preceding the date of the Loan Application.

If there is written documentation of the Borrower's monthly payments as an authorized user, then the payment history (particularly any late payments that are indicated) must be considered in the credit analysis, and the monthly payment obligation must be included in the debt-to-income ratio.

5.5.10 Consumer Credit Counseling (12/22/16)⁵⁹

Consumer credit counseling services are not required, although they may be beneficial for some Borrowers.

5.5.11 Reestablishing Credit (9/1/16)⁶⁰

A Borrower must provide a written explanation for any adverse credit events. The explanation should include a period that matches the time of the delinquency.

Acceptable re-established credit following a major credit incident, such as bankruptcy or a foreclosure-related action, is defined as:

⁵⁹ MPF Announcement 2016-30 (12/22/16)

⁶⁰ PFI Notice 2016-12 (9/1/16)

- A minimum of four (4) accounts with at least one traditional credit reference on the credit report and one housing-related reference;
- At least three (3) of the four (4) accounts must have been opened and active for the most recent twenty-four (24) months;
- For installment and revolving accounts, no more than two (2) 30-day late payments during past twenty-four (24) months;
- For housing-related payments, no late payments since the adverse credit event;
- No new bankruptcies, foreclosures, unpaid judgments, or collections; and
- All payments on the credit report must be current at the time of the Loan Application.

Additional consideration should be given to Borrowers demonstrating stable income and a savings history. For Borrowers who have been through credit counseling, twelve (12) months of re-established credit from the conclusion of the counseling is required.

5.6 Credit Scores (12/22/16)⁶¹

A current credit score is required for each Borrower. The three major credit repositories offer a product that scores each consumer's credit history using the Fair Isaac model. Trademark names of scores derived from the Fair Isaac model include the Experian "Fair Isaac Credit Score" (FICO), Trans Union "Empirical Score" and Equifax "Beacon Score." All are acceptable and are referred to as the credit score.

The term "Underwriting Representative FICO Score" refers to the overall credit score applicable to a specific Mortgage Loan transaction, as determined using the "middle, lower, then lowest" credit score selection methodology.

5.6.1 FICO Scores

FICO (credit) scores are an objective and consistent measure of credit risk. Credit scores should not be used as a substitute for underwriting judgment. The Originator is responsible for determining that each score received was based on credit reports that are sufficient and accurate.

Credit scores based on the Fair Isaac model may be obtained from any of the three major credit repositories:

- Equifax Credit Information Services;
- Experian Information Systems and Services; and

⁶¹ MPF Announcement 2016-30 (12/22/16)

- Trans Union Credit Information Company.

The lowest primary credit score of all of the Borrowers' primary credit scores must be used if there is more than one Borrower on the Loan Application.

5.6.2 Minimum Credit Score

Whether the loan is underwritten manually or using an AUS, the minimum FICO score is the greater of a score required in other sections of this Guide or 620.

Exceptions to the minimum FICO score requirement(s) are:

- The Borrower has an unusable FICO score. If unable to obtain a FICO score, the PFI may determine Borrower eligibility for established credit or non-established credit; or
- The Borrower lacks traditional credit and therefore a FICO score is unobtainable.

For High-Balance Mortgage Loans, in addition to the credit score requirements in this Guide, each Borrower must have a valid FICO score based on an established credit history. The use of alternative credit references is not allowed in lieu of a valid FICO score. The lowest primary credit score for all Borrowers must meet the required minimums.

5.6.3 Credit Score Selection (12/11/18) ⁶²

The following criteria should be used to determine each individual Borrower's credit score:

- If there are three valid credit scores for a Borrower, the middle score of the three scores is used;
- If there are three valid credit scores for a Borrower, but two of the scores are the same, the duplicate score is used;
- If there are two valid scores for a Borrower, the lower of the two scores is used; and
- If there is one valid score for a Borrower, that score is used.

The credit score determined for each individual Borrower must be input in the Loan Presentment Form (OG3).

After selecting the appropriate credit score for each Borrower, the Underwriting Representative FICO Score must then be determined as follows:

- If there is more than one Borrower, the lowest selected middle credit score among all Borrowers is the Underwriting Score; or

⁶² MPF Announcement 208-60 (12/11/18)

- When there is only one Borrower, the selected credit score for that Borrower is also the Underwriting Representative FICO Score.

If the loan was underwritten using Fannie Mae's DU or Freddie Mac's Loan Product Advisor, the system generated score must be reflected on the loan submission form (FNMA 1008/FHLMC 1077). Additionally, the original credit report must be included in the Mortgage Loan File showing the score.

5.6.4 Unobtainable Credit Score

If a FICO score is unobtainable due to a lack of traditional credit history, Borrower eligibility should be determined in accordance with the requirements of Selling Guide Chapter [5.5.5](#) for non-established credit.

If a FICO score cannot be obtained, See Selling Guide Chapter [11.1.4](#) and Loan Presentment Request (Form OG3) Instructions for data delivery in lieu of a FICO score.

5.7 Significant Adverse Credit Events (4/20/17)⁶³

A Borrower who has previously had an adverse credit event such as a bankruptcy, short sale, deed-in-lieu, or foreclosure is acceptable as long as the Borrower meets the guidelines outlined in the below table. The PFI must also review the Borrower's adverse credit event and determine the cause and significance of the event, verify that a sufficient waiting period has passed since the date of the adverse event, and confirm that the Borrower has re-established an acceptable credit history. The waiting period begins on the completion, discharge or dismissal date of the adverse credit event and ends on the disbursement date the new loan.

If an adverse credit event is not accurately reported or if the PFI is unable to clearly identify an adverse event on a Borrower's credit report, the PFI must obtain the appropriate documentation to verify the adverse event. The documentation must confirm the completion date of any prior short sale, deed-in-lieu, foreclosure, or date of the charge-off of a mortgage account. For bankruptcies the documentation must identify the bankruptcy discharge or dismissal date, identify any debts that were not satisfied by the bankruptcy, and confirm that any debts that were not satisfied by the bankruptcy are paid in full or have an established repayment schedule.

Table 5 - 2		
Derogatory Event	Waiting Period Requirements	Waiting Period with Extenuating Circumstances*
Ch. 7 or 11 Bankruptcy	4 years	2 years

⁶³ MPF Announcement 2017-18 (4/20/17)
MPF Announcement 2016-30 (12/22/16)

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS PRIOR TO JULY 1, 2023)



Table 5 - 2		
Derogatory Event	Waiting Period Requirements	Waiting Period with Extenuating Circumstances*
Ch. 13 Bankruptcy	2 years from discharge date 4 years from dismissal date	2 years from discharge date 2 years from dismissal date
Multiple bankruptcy filings	5 years if more than one filing within the past 7 years	3 years from the most recent discharge or dismissal date
Foreclosure	7 years	3 years Additional requirements after 3 years up to 7 years: <ul style="list-style-type: none"> • 90% maximum LTV ratios • Purchase, principal residence • Limited cash-out refi, all occupancy types <i>Note: The purchase of second homes cash-out refinances (any occupancy type) are not permitted until a 7-year waiting period has elapsed.</i>
Deed-in-Lieu or Pre-foreclosure/Short	4 years	2 years

* Extenuating circumstances are nonrecurring events that are beyond the Borrower's control, and result in a sudden, significant and prolonged reduction in income or a catastrophic increase in financial obligations. Documentation to support a Borrower's claim of extenuating circumstances should confirm the nature of the event that led to the adverse credit issue and should demonstrate that the Borrower had no other reasonable option than to default on his/her financial obligations. Examples of extenuating circumstances include loss of employment, serious long-term illness and medical bills that are not covered by insurance.

5.8 Liabilities (7/1/21) ⁶⁴

If a current liability is not reflected on the credit report, it must be verified by acceptable documentation.

⁶⁴ MPF Announcement 2021-41 (5/24/21)
MPF Announcement 2018-60 (12/11/18)

If a current liability appears on the credit report but is not on the application, the Borrower should provide a reasonable explanation for the undisclosed debt. Documentation may be required to support the Borrower's explanation.

All of the Borrower's obligations outstanding at the time of Closing must be included in the determination of the Borrower's ability to repay the Mortgage Loan and the calculation of the total debt ratio. The total debt ratio reported for Loan Presentment and any applicable AUS must reflect all the Borrower's obligations.

PFI's are required to verify the Borrower's debt obligations and liabilities pursuant to the applicable verification requirements outlined in Fannie Mae Single Family Selling Guide Sections B3-3 through B3-6 as provided for in Regulation Z. To the extent the guidance for verification requirements in this MPF Traditional Selling Guide contradict what is provided in aforementioned sections of Fannie Mae's Single Family Selling Guide, Fannie Mae's guide will supersede the policies in this Guide as to the verification standards.

The Fannie Mae Selling Guides should only be used for verification purposes. Nothing in the Fannie Mae guides supersede a PFI's obligation to considering Borrower's current or reasonably expected income or assets other than the value of the dwelling (including any real property attached to the dwelling) that secures the loan, debt obligations, alimony, child support, and DTI ratio or residual income, as provided for in TILA/Regulation Z (including 12 CFR 1026.43), and the underwriting and eligibility guidelines of the MPF Guides (including the DTI ratios provided for in 5.17.3 "Debt-to-Income Ratios").

Any liability incurred after the application but prior to Closing not considered when underwriting a Mortgage Loan that, when taken into account, renders the loan ineligible under the MPF Program, will result in the loan being subject to repurchase.

5.8.1 Revolving Accounts

The monthly payment on every revolving and open-end account with a balance, regardless of the apparent number of payments remaining, must be included in the Borrower's long-term debt-to-income ratio calculation.

If an account is to be paid off by the Borrower at or prior to Closing, the outstanding balance is not required to be included in the debt-to-income ratio. However, if the account is not paid in full at or prior to Closing, then the revolving account or line of credit must be included in the debt-to-income ratio.

When the revolving account is required to be included in the Borrower's monthly debt obligations, the minimum monthly payment for the revolving account must be used, which may be found on the

credit report or may be verified by the creditor. If no minimum monthly payment is given, then the greater of five percent (5%) of the outstanding balance or ten dollars (\$10) must be used.

5.8.2 Installment Debt (10/31/17)⁶⁵

Installment debts and garnishments with ten (10) or more remaining monthly payments must be included in the debt-to-income ratio. Installment debts and garnishments with fewer than ten (10) remaining monthly payments are not required to be included in the debt-to-income ratio, unless the debt affects the Borrower's ability to repay the Mortgage Loan.

Note: lease payments must always be included in the debt-to-income ratio regardless of the number of remaining monthly payments.

5.8.3 Business Debt

A business debt is a financial obligation of a business and may be the sole responsibility of the business, or personally secured by the business owner, which makes that person liable for the debt.

If the Borrower is personally liable for a business debt, whether the debt is reflected on the Borrower's personal credit report or not, the Borrower is personally liable and the debt must be included in the debt-to-income ratio.

If the Borrower can provide twelve (12) months' proof of payment/canceled checks drawn against a business account, this debt need not be included in the debt-to-income ratio.

5.8.4 Student Loans (3/16/17)⁶⁶

Student loans deferred to a period beyond twelve (12) months from Closing are not required to be included in the Borrower's total monthly debt calculation.

Student loans must be included in the Borrower's total monthly debt calculation if ten (10) or more monthly payments remain. However, student loans with fewer than ten (10) remaining monthly payments must be included in the total monthly debt calculation if the payments affect the Borrower's ability to repay the loan.

When the monthly student loan payment is not provided on the credit report, documentation supporting the required payment must be provided. If documentation of the payment cannot be provided, then the monthly payment must be based on 1% of the outstanding balance of the student loan.

5.8.5 Past Due, Collections and Charge-Off Accounts

⁶⁵ MPF Announcement 2017-63 (10/31/17)

⁶⁶ MPF Announcement 2017-12 (3/16/17)

Single events of a past judgment, tax lien, collection, charge-off, or repossession of \$250 or more, and multiple events with past due amounts totaling more than \$1,000 must be paid in full at or prior to Closing.

If an AUS is used, and requires that the amount be paid, the AUS rule supersedes these requirements.

5.8.6 Loans Secured by Retirement Accounts (12/22/16)⁶⁷

Payments on loans secured by the Borrower's 401(k) or SIP (Savings Investment Plan) are not included in long-term debt because they are voluntary payments; however, these payments should be considered in terms of their possible impact on cash flow and debt ratios. The Borrower should indicate plans for debt repayment if the inclusion of a 401(k) or SIP loan payment in the monthly debts would result in a very high total debt-to-income ratio or negative cash flow.

Only the balance of the asset that exceeds the loan amount may be used to satisfy any reserve requirements.

5.8.7 Open-End Lines of Credit (HELOCs)

The monthly payment on every HELOC with a balance, regardless of the apparent number of payments remaining, must be included in the Borrower's total debt calculation.

The monthly HELOC payment may be found on the credit report or may be verified by the creditor. If no minimum monthly payment is given, then the greater of five percent (5%) of the outstanding balance or ten dollars (\$10) must be used.

5.8.8 Deferred Payment Accounts (12/22/16)⁶⁸

Some debts may have deferred payments or be in a period of forbearance. These debts must be included in the qualifying ratios if there are ten (10) or more months of payments remaining. If there are fewer than ten (10) monthly payments remaining, the debt is not required to be included in the total monthly debt calculation, unless the debt affects the Borrower's ability to repay the Mortgage Loan.

Payments that are deferred more than twelve (12) months from the Closing date are not required to be included in the Borrower's total monthly debt calculation if the Borrower can provide documentation of the deferment.

When payments on an installment debt are not given on the credit report or are listed as deferred, documentation supporting the required payment must be provided. If documentation of the payment cannot be provided, then the monthly payment must be based on 2% of the outstanding balance.

⁶⁷ MPF Announcement 2016-30 (12/22/16)

⁶⁸ MPF Announcement 2016-30 (12/22/16)

5.8.9 Contingent Liabilities (7/24/17)⁶⁹

Contingent liabilities are debts (including, but not limited to, auto loans, student loans, or mortgages) that the Borrower is not currently required to pay but may be required to pay in the future (e.g., court-ordered payments, a previous residence sold through assumption of mortgage with no release of liability).

A contingent liability may be disregarded if the Borrower provides conclusive evidence from the creditor that there is no possibility that the creditor will pursue debt collection against the Borrower should the other party on the debt default.

5.8.10 Co-Signed Loans

The monthly payment on a co-signed loan may be excluded from long-term debt only with evidence of timely payments being made for the previous twelve (12) months by the primary obligor.

5.8.11 Assumption with No Release of Liability

When a Borrower remains obligated on an assumed mortgage that is secured by property that (i) has been sold or traded within the last twelve (12) months without a release of liability; or (ii) is to be sold on assumption without a release of liability being obtained, the assumed mortgage need not be considered a contingent liability and included in the total monthly debt if:

- The servicer of the assumed mortgage provides a payment history showing that the mortgage has been current during the previous twelve (12) months; or
- The LTV of the assumed mortgage is seventy-five percent (75%) or less of the lower of (1) the appraised value of the property, as established by an Appraisal that meets the requirements of Selling Guide Chapter 7; or (2) the sales price on the final Settlement Statement from the sale of the property.

5.8.12 Court Order

If the obligation to make payments on a debt has been assigned to another person by court order, such as a divorce decree, and transfer of ownership of any related property has taken place, the payment may be excluded from long-term debt. The following documents are required:

- A copy of the court order; and
- For mortgage debt, a copy of the recorded documents transferring ownership of the property (e.g.: Quit Claim Deed).

⁶⁹ MPF Announcement 2017-37 (7/24/17)

If a transfer of ownership has not taken place, late payments associated with the loan repayment of the debt owing on the property should be taken into account when reviewing the Borrower's credit profile.

5.8.13 Lease Payments

The monthly payment associated with a rental or auto lease must be included in the total monthly obligations, regardless of the number of payments remaining until the end of the lease term. If the lease is near the end of its term, the new lease payment should be determined and included in the total monthly debt.

5.8.14 Housing Payment History

Housing payment history verification is required for all mortgages not reported on the credit report.

- All private mortgages must be seasoned for twelve (12) months. The history must be documented by providing canceled checks;
- All mortgage trade lines must be updated within thirty (30) days of application; and
- Rental history must be verified.

5.8.15 Tax Debt and Tax Liens

All outstanding debt owed to a state or the IRS for income or property tax must be paid off, at or prior to Closing, regardless of whether or not the debt has become an actual lien.

All state and IRS tax liens on the subject property and other properties are required to be paid whether or not they currently affect title.

No payment plans or subordination is allowed.

Documentation of the satisfaction of these liabilities, along with verification of funds sufficient to satisfy these obligations must be obtained.

5.8.16 Balloon Loan Payments (12/22/16)⁷⁰

Balloon-payment notes that come due within twelve (12) months of Closing must be included in the total debt ratio.

5.8.17 Installment Debts from Virtual Currency (8/8/22)⁷¹

Debt that is secured by virtual currency must be included in the liabilities. Payment on any debt secured by virtual currency must be included when calculating the debt-to-income ratio.

⁷⁰ MPF Announcement 2016-30 (12/22/16)

⁷¹ MPF Announcement 2022-37 (8/8/22)

5.9 Verification of Employment (8/8/22)⁷²

The employment income of all Borrowers who will be obligated for the mortgage debt must be verified for at least the most recent two (2) years, unless otherwise indicated in the Guides. If the Borrower indicates that they were in school or the military for the most recent two (2) years, the Borrower must supply supporting documentation, such as college transcripts or military discharge paperwork.

The Borrower must provide a written explanation for any employment gaps of thirty (30) days or more.

Depending on the type of employment, various documentation requirements may be applied, based on full documentation or alternative documentation, and whether the Borrower is salaried, commissioned, or self-employed, etc.

In lieu of a verbal or written Verification of Employment (VOE) for military personnel, the Originator may either obtain a Military Leave and Earnings Statement dated within 120 calendar days prior to the Note date or a verification of employment through the Defense Manpower Data Center.

Employment and income for a salaried employee must be verified by obtaining all of the following documentation:

- The Borrower's W-2 forms for the past two (2) years, complete and legible;
- Paystubs covering a 30-day period. If paystubs are not available, then a written VOE must be obtained; and
- A verbal VOE.

A Wage and Income Transcript from the IRS is an acceptable substitute for actual W-2 forms.

5.9.1 Verbal Verification of Employment (12/11/18)⁷³

A verbal VOE is required for all Borrowers, no more than ten (10) business days prior to Closing for employment income and within one hundred twenty (120) calendar days prior to Closing for self-employed income. This policy applies to all income types with the exception of passive income.

The verbal VOE for employment income must be documented on Exhibit R or an equivalent form that includes the following:

⁷² MPF Announcement 2022-37 (8/8/22)
MPF Announcement 2016-30 (12/22/16)
PFI Notice 2016-12 (9/1/16)

⁷³ MPF Announcement 2017-62 (10/27/17)
MPF Announcement 2017-12 (3/16/17)
MPF Announcement 2018-60 (12/11/18)

- Name and title of the person who completed the verification for the employer;
- Employer's phone number;
- Source of the phone number; Applicant's name;
- Applicant's dates of employment;
- Applicant's current employment status;
- How applicant is related to the owner of the business, if applicable;
- Applicant's percentage of ownership in the business, if applicable;
- Name and title of the person who confirmed the employment for the Originator; Name of the Originator; and
- Date of the call.

For self-employed Borrowers, the Originator must verify the existence of the Borrower's business. Acceptable verification of the existence of the business includes, but is not limited to, the following:

- Third Party Verification, such as:
 - CPA;
 - Regulatory Agency; or
 - Licensing Bureau.
- Phone listing found via internet, phone book, or directory assistance.

The source of the verification of the existence of the business must be documented, as well as the name and title of the Originator's employee who obtained the verification.

5.9.2 Written Verification of Employment (9/1/16)⁷⁴

When a written VOE is required, it must contain the following information:

- Dates of employment;
- Position;
- Prospect of continued employment, when available;
- Base pay amount and frequency; for employees paid on an hourly basis, the verification must state the hourly wages, including the number of hours worked each week; and

⁷⁴ PFI Notice 2016-12 (9/1/16)

- Additional salary information which itemizes bonus, overtime, tip, gratuity, or commission income, if applicable.

If the employer completes the VOE form but does not indicate whether the employment will continue, the employment may be considered as likely to continue.

If a written VOE is used, it must be mailed or e-mailed directly to the employer, to the attention of the personnel department. Verifications of employment should never be mailed to a particular person's attention. If the Borrower indicates this is necessary, the file must contain verification that the employer was independently contacted and verified. The return address on the verification must be the lender's address. Hand-carrying verifications is strictly prohibited.

5.9.3 VOE Provided by a Third-Party Employment Verification Vendor

Employment and income verification may be received directly from a third-party employment verification vendor. These VOEs are acceptable if:

- The Borrower provided proper authorization for the use of this verification method;
- The date of the completed verification is no more than 120 days old at Closing.

If necessary, the Originator must supplement these verifications by obtaining any missing information from the Borrower or his employer.

5.9.4 Self-Employment Confirmation (3/16/17)⁷⁵

Verification of the existence of a self-employed Borrower's business must be performed within one hundred twenty days (120) days of the Note date and must meet at least one of the following:

- Verification of the existence of the Borrower's business from a third party, such as a CPA, regulatory agency, or the applicable licensing bureau;
- Verification of the listing and address for the Borrower's business using a telephone book, the Internet, or directory assistance; or
- Verification from the Secretary of State website.

If contact is made orally with a third party, the source of the information must be documented, with the name and title of the Originator employee performing the verification.

5.9.5 Paystubs

The paystub must clearly identify the following:

⁷⁵ MPF Announcement 2017-12 (3/16/17)

- Borrower as the employee;
- Borrower's gross earnings for the most recent pay period and year-to-date earnings;
- If the Borrower is paid hourly, the number of hours for the pay period must be noted on the pay stub;
- Paystubs must be dated no earlier than thirty (30) days prior to the initial Loan Application Date; and
- Paystubs must be computer-generated (not handwritten). If the employer does not provide an acceptable computer-generated pay stub, the most recent year's income tax return is required.

Paystubs that are issued electronically, via e-mail or downloaded from the internet are acceptable and must include the following:

- Internet Uniform Resource Locator (URL internet address) identifying the source of the information;
- Date and time printed; and
- Documents downloaded directly from the Internet to a Word document or Excel spreadsheet are not acceptable.

5.9.6 W-2 Forms

W-2 forms must clearly identify the Borrower as the employee, and must be the employee's copy provided by the employer.

5.9.7 Tax Return (12/8/20)⁷⁶

This section addresses the standards that apply when using Income Tax Returns to verify income.

Additional information may be requested such as a business license, business tax returns, a profit and loss statement and/or balance sheet, if it is necessary to further support the determination of the stability of the Borrower's income.

Personal Income Tax Returns must be:

- Complete with all schedules and W-2 Forms, IRS Forms 1099, K-1 schedules, etc.;
- Signed and dated; and
- The Borrower's copy filed with the IRS.

⁷⁶ MPF Announcement 2020-81 (12/8/20)
MPF Announcement 2016-30 (12/22/16)

MPF Traditional Selling Guide Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS PRIOR TO JULY 1, 2023)



Business Income Tax Returns must be:

- Complete with all schedules;
- Signed and dated; and
- The Borrower's copy filed with the IRS.

If tax returns are not signed and dated by the Borrower, one of the following must be obtained:

- Documentation confirming that the tax returns were filed electronically;
- A completed IRS Form 4506-C (signed by the Borrower) for the year in question; or
- IRS transcripts that validate the tax return.

Tax returns that are amended and filed by the Borrower after the Loan Application Date are not allowed. Tax returns that are amended and filed by the Borrower prior to the Loan Application Date with the IRS are acceptable in the following circumstances:

- Both the original filed return and the amended return are obtained; and/or
- If the return was amended sixty (60) days or less prior to the application, evidence of payment must also be provided, if applicable.

The original tax return and the amended tax return must be carefully compared for consistency to determine whether the use of the amended return is warranted. Any discrepancies between the tax transcripts and the tax returns must be explained and documented in the Mortgage Loan File.

Tax returns amended solely for the purpose of qualifying are not acceptable.

Back tax years must be filed prior to the Loan Application Date.

5.9.8 4506-C and Tax Transcripts (8/8/22)⁷⁷

If tax transcripts are not obtained during the origination process, the PFI is required to obtain the tax transcripts from the IRS (or designee) using the Form 4506-C signed at Closing for all Mortgage Loans the MPF Program selects for a post-Closing QC review (including targeted reviews as applicable), regardless of the type of income documentation provided in the Mortgage Loan File. PFIs are not

⁷⁷MPF Announcement 2022-37 (8/8/22)
MPF Announcement 2022-10 (3/1/22)
MPF Announcement 2021-71 (10/12/21)
MPF Announcement 2021-50 (7/1/21)
MPF Announcement 2020-81 (12/8/20)
MPF Announcement 2017-18 (4/20/17)
MPF Announcement 2017-12 (3/16/17)
MPF Announcement 2016-30 (12/22/16)

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS PRIOR TO JULY 1, 2023)



required to obtain tax transcripts for a Borrower when all of that Borrower's income was validated by Fannie Mae's DU or Freddie Mac's LPA validation service. Borrowers that have not had their income validated through the Fannie Mae's DU or Freddie Mac's LPA validation service are still required to obtain the tax transcripts.

If tax returns were used in the underwriting of the Mortgage Loan, the PFI must obtain transcripts for the same tax years as documented by the tax returns. For self-employed Borrowers whose income documentation includes both individual and business tax returns, the PFI must obtain transcripts for both the individual and the business returns. The PFI must reconcile the transcript information received from the IRS with the income documents in the Mortgage Loan File. PFIs are required to provide express consent from the taxpayers as permitted by applicable law, this includes the Taxpayer First Act.

Failure to obtain the tax transcripts will be cited as a QC exception, the severity of which will be determined by the MPF Bank and/or Investor.

When the Originator requests tax transcripts prior to Closing, the transcripts must be returned/mailed directly to the Originator's underwriting or processing staff.

Transcripts must match the tax returns exactly.

The following table shows the minimum transcript information to request from the IRS under four typical income documentation scenarios:

The 4506-C Request must be for the most recent filing(s) of:				
If the level of income documentation used for underwriting the loan and reported on the Loan Presentment is:	1040	1120 or 1065	1099	W-2
YTD Paystub & Two W-2s				2 years
YTD Income Information & Two 1099s/1040s	2 years		2 years	
Two Years Personal Returns	2 years			

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS PRIOR TO JULY 1, 2023)



The 4506-C Request must be for the most recent filing(s) of:				
If the level of income documentation used for underwriting the loan and reported on the Loan Presentment is:	1040	1120 or 1065	1099	W-2
Two Years Personal Returns & Two Years Business Returns	2 Years	2 Years		

If a second home Borrower owns five (5) to ten (10) financed properties, and the rental income is reflected on the Borrower's tax returns, tax transcripts must be obtained to validate the accuracy of the tax returns prior to closing. If the five (5) to ten (10) financed properties were acquired since the Borrower's last tax return was filed (and therefore not reported as rental income), tax transcripts are not required.

When tax transcripts are obtained prior to Closing, the level of income documentation selected for Loan Presentment should be: Documentation Type 20 = "24 months or more income/employment verification & tax transcripts acquired using IRS Form 4506-C" (See OG3 Instructions for additional information to complete a Loan Presentment). In order to use this Documentation Type Code, the transcripts must validate the income documentation used to calculate the Borrower's income.

The IRS tax return transcripts are not to be used to calculate the Borrower's income. They are only to be used to validate the income documentation provided by the Borrower that was used as income verification during the underwriting process.

5.10 Income Analysis (7/1/21)⁷⁸

The income of all Borrowers who will be obligated for the Mortgage Loan debt must be analyzed to determine whether their income level can be reasonably expected to continue at least the first three (3) years from the Note date. Income that does not have a defined expiration date should be considered as likely to continue.

- PFIs must consider Borrower's current or reasonably expected income or assets other than the value of the dwelling (including any real property attached to the dwelling) that secures

⁷⁸ MPF Announcement 2021-41 (5/24/21)
MPF Announcement 2016-30 (12/22/16)

the loan, debt obligations, alimony, child support, and DTI ratio or residual income, as provided for in TILA/Regulation Z (including 12 CFR 1026.43), and the underwriting and eligibility guidelines of this Selling Guide, and

- PFI's are required to verify the Borrower's current or reasonably expected income or assets, pursuant to the applicable verification requirements outlined in Fannie Mae Single Family Selling Guide Sections B3-3 through B3-6 as provided for in Regulation Z. To the extent the guidance for verification requirements in this MPF Traditional Selling Guide contradict what is provided in aforementioned sections of Fannie Mae's Single Family Selling Guide, Fannie Mae's guide will supersede the policies in this Guide as to the verification standards. The Fannie Mae Selling Guides should only be used for verification purposes. Nothing in the Fannie Mae guides supersede a PFI's obligation to considering Borrower's current or reasonably expected income or assets other than the value of the dwelling (including any real property attached to the dwelling) that secures the loan, debt obligations, alimony, child support, and DTI ratio or residual income, as provided for in TILA/Regulation Z (including 12 CFR 1026.43), and the underwriting and eligibility guidelines of the MPF Guides (including the DTI ratios provided for in 5.17.3 "Debt-to-Income Ratios").

5.10.1 Stable Monthly Income (12/22/16)⁷⁹

Considerations in determining stable monthly income are the type of income received, the length of time received and whether the income is likely to continue. In addition, for salaried Borrowers, considerations in determining stable monthly income are the length of time employed in the current position and in a current profession. Borrowers who change jobs frequently within the same line of work but who advance in income and benefits are considered to have stable income.

5.10.2 Returning to Work After an Extended Absence (12/22/16)⁸⁰

Income from a Borrower returning to work after an extended absence of six (6) months or more may be considered in qualifying if the following requirements are met:

- The Borrower has been employed in the current job for six (6) months or longer;
- The Borrower can document a two (2) year work history prior to the absence using:
 - The Borrower's W-2 forms for the past two (2) years, complete and legible;
 - Paystubs covering a 30-day period. If paystubs are not available, then a written VOE must be obtained; and
 - A verbal VOE.

⁷⁹ MPF Announcement 2016-30 (12/22/16)

⁸⁰ MPF Announcement 2016-30 (12/22/16)

A Wage and Income Transcript from the IRS is an acceptable substitute for actual W-2 forms.

5.10.3 Calculating Income

Borrowers receiving a fixed regular annual income paid either monthly, semimonthly, biweekly, weekly or by the hour, are known as wage earners. All receive regular compensation in the form of a paycheck with income reported at year end to the IRS on form W-2.

Borrowers who are re-entering the workforce after an extended leave must have a minimum of six months employment with evidence of a two-year previous employment history.

The following table shows to how to determine the Borrower's monthly income:

Table 5 - 3	
Pay Interval	Calculation
Hourly:	Hourly rate X Average # hours X 52 weeks divided by 12 months
Weekly:	Weekly base X 52 weeks divided by 12 months
Biweekly:	Biweekly base X 26 pay periods divided by 12 months
Semimonthly:	Semimonthly base X 24 weeks divided by 12 months
Monthly:	Monthly base as shown on paystub
Annually:	Annual rate of pay divided by 12 months

Note: All of the above calculations must be compared with the documented year-to-date base earnings (and past year earnings, if applicable) to determine if the income amount appears to be consistent.

5.10.4 Unacceptable Types of Income

The following are unacceptable sources of income:

- Income based on trailing spouse income;
- Draw income;
- VA education benefits;
- Income derived from illegal activity;
- Taxable income not listed on tax returns;
- Any income that cannot be documented and/or verified;
- Passive income from partnerships and S corporations;
- Income that is not stable;
- Grants; and

- Virtual Currency and/or Cryptocurrency.

5.11 Wage and Salary Income

Stable salary or wage income from employment can be reasonably expected to continue if the Borrower's employer verifies current employment and income, and does not indicate that employment has been, or is set to be terminated. The income cannot be used if a verification of current employment includes an affirmative statement that the employment is likely to cease, such as a statement that indicates the Borrower has given (or been given) notice of employment suspension or termination.

5.11.1 Primary Employment Less than 40-Hour Work Week

When a Borrower's primary employment is less than a typical 40-hour work week, the Originator should evaluate the stability of that income as regular, on-going primary employment. This is not considered part-time income.

5.12 Bonus, Overtime, and Commission Income

This section addresses the requirements for using bonus, commission, and overtime income to qualify the Borrower.

5.12.1 Bonus and Overtime Income (12/22/16)⁸¹

Bonus and/or overtime income can be used if the Borrower has received bonus or overtime income for the past twelve (12) to twenty-four (24) months and the income is likely to continue. If the employer completes the VOE form but does not indicate whether the bonus income is likely to continue, the income may be considered as likely to continue. However, if the employer indicates the income is likely to cease, then the income may not be used to qualify the Borrower.

When calculating stable or increasing bonus or overtime income, an average of the last two (2) years, as documented in the tax returns, should be used as income. Bonus or overtime income received for less than two (2) years is acceptable, provided the Originator can justify and document in writing the reason for using the income for qualifying purposes.

If either type of income shows a continual decline, the Originator must document in writing a sound rationalization for including the income when qualifying the Borrower.

A period of more than two (2) years must be used in calculating the average overtime and bonus income if the income varies significantly from year to year.

⁸¹ MPF Announcement 2016-30 (12/22/16)

5.12.2 Commission Income (7/31/19)⁸²

Commission income fluctuates from year to year. An average of the last two (2) years should be calculated to determine the commission income to qualify.

Commission income that has been received for twelve (12) to twenty-four (24) months may be considered acceptable if other compensating factors exist to offset the short employment history. Commission income earned for less than twelve (12) months is ineligible, unless the Borrower's compensation was changed from salary to commission within a similar position with the same employer.

One of the following must be obtained to document commission income:

- a completed Written Verification of Employment, or
- the Borrower's most recent paystubs and IRS w-2 forms covering the most recent two-year period.

If there is a decline in commission income, this is not considered stable and the worst case scenario must be used.

5.12.3 Automobile Allowance (7/31/19)⁸³

Automobile allowance income may be used for qualifying a Borrower, if the Borrower has received payments for at least two years. The full amount of the allowance must be added to the Borrower's monthly income, and the full amount of the lease or financing expenditure must be added to the Borrower's monthly debt obligations. To determine the amount of gross income, the following documentation must be obtained:

- Borrower's paystub or checks from the Borrower's employer; and
- Verification from the employer that the payments will continue.

If the Borrower uses the standard per-mile rate to calculate automobile expenses, the portion that the IRS considers depreciation may be added toward the income.

5.13 Part-Time and Seasonal Income

⁸² MPF Announcement 2019-39 (7/31/19)
MPF Announcement 2017-63 (10/31/17)
MPF Announcement 2016-30 (12/22/16)

⁸³ MPF Announcement 2019-39 (7/31/19)
MPF Announcement 2016-30 (12/22/16)

Part-time or seasonal income may be considered stable if it has been received uninterrupted for the previous two years, is documented in the tax returns, and the employer indicates this income is likely to continue.

Part time income received for less than two (2) years, but no less than twelve (12) months may be included as qualifying income, provided that the Originator justifies and documents the strong likelihood that the income is likely to continue at a similar rate.

5.14 Self-Employment Income (10/31/17)⁸⁴

A self-employed Borrower is an individual who has twenty-five percent (25%) or greater ownership interest in a business or receives a 1099 statement to document income.

The Borrower must have at least two (2) consecutive years of self-employment in the same business entity in the same location, and ongoing, stable income. Income from a Borrower who has been self-employed between one (1) and two (2) years may be considered if the Borrower has at least two (2) years of documented previous, successful employment in the same line of work in which the Borrower is now self-employed. A combination of one (1) year of employment and formal education or training in the same line of work is also acceptable. If the Borrower has been self-employed for less than one (1) year, the income may not be used in qualifying.

A stable trend in earnings must be established. Significant decreases in income cannot be averaged using a previous higher income level.

Significant increases could affect the stability of the Borrower's income and require a satisfactory explanation and documentation that the increase is stable and likely to continue.

To determine a self-employed Borrower's income, an Income Analysis Form (Form 1084/Fannie Mae, Form 91/Freddie Mac) or equivalent must be completed and included in the Mortgage Loan File.

Income must be averaged as determined by the income documentation type.

The Originator is not required to analyze self-employment income or loss when the self-employment income is a secondary and a separate income source. Where such self-employment income is not analyzed, the Originator must qualify the Borrower using their primary source of income and other income that is not derived from self-employment. Additionally, the Originator is not required to analyze self-employment income or loss for a co-Borrower when the co-Borrower is not using the income in qualifying.

⁸⁴ MPF Announcement 2017-63 (10/31/17)
MPF Announcement 2016-30 (12/22/16)

5.14.1 Self-Employment Income Documentation Requirements (3/12/21)⁸⁵

When self-employment income is used in qualifying, the Originator must document the effect the business income or loss has on the Borrower's income. To determine a self-employed Borrower's income, an Income Analysis Form (Form 1084/Fannie Mae, Form 91/Freddie Mac) or equivalent must be completed and included in the Mortgage Loan File in addition to any of the items required within this section.

For sole proprietorships, the most recent two (2) years of signed federal tax returns, with all applicable tax schedules and year-to-date profit and loss (P&L) statements and balance sheets must be obtained to document self-employment income.

For a corporation, limited liability company, "S" corporation, or a partnership, the most recent two (2) years of the Borrower's signed federal business income tax returns, with all applicable tax schedules and year-to-date P&L statements and balance sheets must be obtained to document self-employment income.

If the income on the P&L is to be used to qualify the Borrower, the P&L must be reviewed or prepared by the Borrower's accountant.

If the Borrower owns a twenty-five percent (25%) or greater interest in a corporation or partnership, business tax returns must also be furnished.

In addition to the documentation of self-employed income, the existence of the self-employed Borrower's business must be verified within thirty (30) Business Days prior to Closing.

Acceptable verification of the existence of the business includes, but is not limited to, the following:

- Third Party Verification, such as:
 - CPA;
 - Regulatory Agency; or
 - Licensing Bureau.
- Phone listing and address for the Borrower's Business can be verified using a telephone book, the Internet, or directory assistance.

⁸⁵ MPF Announcement 2021-23 (3/12/21)
MPF Announcement 2017-63 (10/31/17)

The source of the verification must be documented, as well as the name and title of the Originator's employee who obtained the verification.

5.14.2 Business Structures of Self-Employed Borrowers

5.14.2.1 Sole Proprietorship

A sole proprietorship is an unincorporated business that is individually owned and managed. The individual has unlimited personal liability for all debts of the business. If the business fails, the Borrower will have to replace his income, as well as satisfy the outstanding obligations of the business.

Since no distinction is made between the owner's personal assets and the assets used in the business, creditors may take either (or both) to satisfy the Borrower's business obligations.

The income, expenses, and taxable profits of a sole proprietorship are reported on the Profit and Loss from Business (Schedule C) on the owner's Individual Federal Tax Return.

The individual tax return must be evaluated to determine if there is a sufficient cash flow to sustain the business and cover the mortgage payments. In addition, the business must have sufficient funds to support any withdrawals the Borrower may make to cover the mortgage payments.

5.14.2.2 Partnership or Limited Liability Company (LLC)

A partnership is an arrangement between two or more individuals who have pooled their assets and skills to form a business and who will share profits and losses. A partnership may be a general partnership or a limited partnership.

An LLC is a hybrid business structure which offers its member-owners the tax efficiencies of a partnership and the limited liability advantages of a corporation.

The partnership or LLC must report its profit or loss on the U.S. Partnership Return of Income (IRS form 1065). Each partner's or member-owner's share of the profit or loss is reported on the Partner's Share of Income, Credits, Deductions, etc. (Schedule K-1, IRS form 1065). Each partner or member-owner uses the information from Schedule K-1 to report his share of the limited liability company's net profit or loss on his Federal Income Tax Return.

IRS form 1065 must be evaluated to determine the overall viability of the business. The Originator must determine whether withdrawal of cash from the partnership will affect the financial condition of the partnership.

Depreciation and depletion may be added back to the qualifying income in proportion to the Borrower's share of the partnership's income.

Total obligations payable by the partnership in less than one (1) year must be proportionately deducted from the Borrower's income.

5.14.2.3 Corporations

A corporation is a state-chartered legal entity that exists separately and distinctly from its owners, who are stockholders or shareholders. It is the most flexible form of business organization for purposes of obtaining capital. A corporation can sue, be sued, hold, convey or receive property, enter into contracts under its own name, and does not dissolve when its ownership changes.

Corporations must report income and losses on the Corporation Income Tax Return (IRS form 1120), and pay taxes on the income.

In order to determine a Borrower's self-employed income from a corporation the adjusted business income must be determined and multiplied by the Borrower's percentage of ownership. The table below describes the items found on IRS Form 1120 for which an adjustment must be made in order to determine adjusted business income.

Adjustment Item	Description
Fiscal vs. Calendar Year	If the corporation operates on a fiscal year that differs from the calendar year, an adjustment must be made to associate corporate income to the income on the Borrower's Form 1040.
Depreciation and Depletion	Add the corporation's depreciation and depletion back to the after-tax income
Taxable Income	Taxable income is the corporation's net income before federal income taxes. Reduce taxable income by the tax liability.
Cash Withdrawals	The withdrawal of cash from the corporation may have a negative impact on the corporation's ability to continue to operate. The PFI must analyze the cash withdrawal's effect on the overall financial condition of the corporation.

5.14.2.4 "S" Corporations

An “S” corporation is a legal entity that has a limited number of stockholders and elects not to be taxed as a regular corporation. Business gains and losses are passed on to the stockholders. Stockholders are taxed at their individual tax rates for their proportionate share of ordinary income, capital gains, and other taxable items.

The ordinary income for the “S” corporation is reported on the Income Tax Return for an “S” Corporation (IRS form 1120S), with each shareholder’s share of the income reported on the Shareholder’s Share of Income, Credits, Deductions, etc. (Schedule K-1). Because this income from the distribution of corporate earnings may or may not be distributed to the individual shareholders, it must be determined whether the Borrower actually received a cash distribution from the “S” corporation.

IRS form 1120S must be evaluated to determine the overall viability of the business. The originator must determine whether withdrawal of cash from the partnership will affect the financial condition of the partnership.

Depreciation and depletion may be added back to the qualifying income in proportion to the Borrower’s share of the partnership’s income.

Total obligations payable by the partnership in less than one (1) year must be proportionately deducted from the Borrower’s income.

5.15 Tax-Exempt Income

If income is tax-exempt, it may be adjusted upward (“grossed up”), no higher than the appropriate tax rate, using the Borrower’s tax rate from the prior year if the Borrower supplies evidence of his / her tax rate with documents such as signed federal tax returns. If the Borrower is not required to file a federal tax return, the tax-exempt income may be grossed up by a maximum of twenty-five percent (25%) if it is likely to continue to remain tax exempt. Additional allowances for dependents are not acceptable.

The amount, source, and stability of any non-taxable income that was grossed up must be documented.

The following types of income are examples of income that may be tax-exempt:

- Some portion of social security income;
- Some federal government employee retirement income;
- Railroad retirement benefits;
- Some state government retirement income;

- Certain types of disability and public assistance payments;
- Child support;
- Military allowances; and
- Other income that is documented as being exempt from Federal income taxes.

5.16 Other Types of Income

This section addresses how other types of income not derived from wages or salaries may be used to qualify the Borrower.

5.16.1 Alimony, Child Support, Maintenance (12/22/16)⁸⁶

When a Borrower has received full, regular, and timely payments for child support or alimony for twelve (12) months with a three (3) year continuance from the Note date, the income will be considered stable. Child support may be “grossed up” under the same provisions as non-taxable income.

This income must be supported by a divorce decree or separation agreement with evidence of receipt such as deposit slips, court records, bank statements, or tax returns to show twelve (12) months’ receipt of this income.

Income received for less than twelve (12) but more than six (6) months may be used to qualify the Borrower for the Mortgage Loan provided the Originator can adequately document the payer’s ability and willingness to make timely payments. If full or partial payments are received for less than six (6) months or made on an inconsistent or sporadic basis, the income is not acceptable for qualifying the Borrower.

5.16.2 Boarder Income

A boarder is a non-Borrower who currently lives in the Borrower's Primary Residence — not in a rental unit — in exchange for regular, timely rent payments. Boarder income may be used to qualify if:

- A history of generating boarder income for two (2) years can be established by signed federal tax returns;
- The income is expected to continue; and
- Documentation supports the boarder's address being the same as the Borrower's address.

⁸⁶ MPF Announcement 2016-30 (12/22/16)

If the rent paid by the boarder is not reported on the Borrower's tax returns, the income may not be used to qualify the Borrower.

5.16.3 Disability Income

This section does not apply to disability income received from the Social Security Administration (SSA) (see Social Security Income for disability income received from the SSA).

Long term disability income must be verified by the Borrower's disability policy or benefits statement obtained from the benefits payer (insurance company, employer, or other qualified disinterested party) to determine the Borrower's eligibility for the disability benefits, the amount and frequency of payments, and if there is a contractually established termination or modification date. Long term disability must be expected to continue (must not have a defined expiration date). A re-evaluation date is not considered a defined expiration date.

5.16.4 Employer-Paid Mortgage Interest Subsidy (12/22/16)⁸⁷

In an employment relocation situation, an employer may provide assistance by paying all or part of the Note rate differential between the employee's present Mortgage Loan payment and new Mortgage Loan payment. This subsidy is considered gross income and may be used as qualifying income (rather than to offset the Mortgage payment), provided the subsidy will continue for a minimum of three (3) years from the Note date. This subsidy must be verified with documentation from the employer indicating the amount, duration, and frequency of payments.

5.16.5 Employment by a Relative or Transaction Participant (12/22/16)⁸⁸

If the Borrower is employed by a relative, a closely-held family business, the Mortgaged Property seller, real estate agent, or any party to the real estate transaction, the following documentation must be obtained:

- Borrower's signed and completed personal federal income tax returns for the most recent two-year period; and
- Paystubs with W-2 forms.

Current income reported on the paystub may be used if it is consistent with W-2 earnings reported on the tax returns. If the tax returns do not include W-2 earnings or income is substantially lower than the current paystub, further investigation is needed to determine whether income is stable.

The Borrower's personal tax returns must be used to verify that the Borrower is not an owner of the business. If this is not evident from the personal tax returns, the Borrower must provide a signed

⁸⁷ MPF Announcement 2016-30 (12/22/16)

⁸⁸ MPF Announcement 2016-30 (12/22/16)

copy of the partnership or corporate tax return showing the ownership percentages, verifying that the Borrower is not an owner of the business.

5.16.6 Employment Offers or Contracts

A Mortgage Loan may close prior to the Borrower beginning new employment and receiving income if the Borrower will begin the new job within sixty (60) days of Closing. However, the Mortgage Loan is not eligible for delivery under the MPF Program until the Borrower begins employment and has received income.

The Mortgage Loan File must contain:

- Documentation of the Borrower's past income and employment history;
- The Borrower's new guaranteed, non-revocable employment contract or offer;
- A paystub, obtained and dated prior to the Funding Date, that verifies the level of income used to qualify the Borrower; and
- Verification of sufficient income or cash reserves to support the Mortgage Loan payment and any other obligations between Closing and the start of employment.

5.16.7 Foreign Income (12/22/16)⁸⁹

Foreign Income is acceptable only if income can be verified on U.S. personal tax returns for the last two (2) years. The Originator must verify the income using the standard documentation required for the source and type of income.

Foreign income should be paid in U.S. currency; however, income paid in foreign currency may be considered on a case-by-case basis if it is converted into U.S. currency.

Foreign income must be documented on statements translated to English.

5.16.8 Foster Care Income (12/22/16)⁹⁰

Foster care income received from a county, state, or federal government agency is acceptable, provided that the following requirements are met:

- Letters are obtained from the organization providing the foster care income; and
- The Borrower has received this income for at least two (2) years. If the Borrower does not have a two (2) year history of receiving this income but has received the income for at least twelve (12) months, then the income may not represent more than 30% of the qualifying income for the loan.

⁸⁹ MPF Announcement 2016-30 (12/22/16)

⁹⁰ MPF Announcement 2016-30 (12/22/16)

5.16.9 Interest and Dividend Income

Interest and dividend income may be used if documented by signed federal tax returns for the past two (2) years and proof of continuance for the next three (3) years from the Note date.

An average of the past two (2) years, as documented in the tax returns, may be used as stable income.

Any funds from interest and dividends that are used for down payment or closing costs must be subtracted before calculating the projected interest or dividend income.

5.16.10 Military Income/VA Benefits

In addition to base pay, income from military entitlement (such as flight or hazard pay, rations, clothing allowance, quarters allowance, and proficiency pay) is recognized as part of a Borrower's monthly income. The probability of the continued receipt of these additional forms of military pay must be verified in writing.

Military income paid to military reservists while they are satisfying their reserve obligations is acceptable if it meets the income stability and continuation requirements for a second or part-time job and is verified by the VOE allowed for military personnel.

Direct compensation for service-related disabilities from the Department of Veterans Affairs (VA) is eligible income, provided the documentation is provided by the VA. VA education benefits used to offset education expenses are not an acceptable form of income.

5.16.11 Mortgage Credit Certificates

Certain states and municipalities offer Mortgage Credit Certificate (MCC) programs. These programs typically grant first-time homebuyers a federal income tax credit.

For first time home buyers that have applied for a Mortgage Loan to purchase their Primary Residence, the applicable amount of income tax credit must be added to the Borrower's monthly income (the Mortgage Loan payment cannot be reduced by the amount of the income tax credit) using this formula:

$$((\text{Mortgage Amount}) \times (\text{Note Rate}) \times (\text{MCC \%})) / 12 = \text{Amount added to Borrower's monthly income.}$$

A copy of the MCC and the calculation of the adjustment to the Borrower's income must be retained in the Mortgage Loan File.

For refinance transactions, the MCC may remain in place as long as verification is received from the MCC issuer that the MCC applies to the new Mortgage Loan. A copy of the reissue certification must be maintained in the Mortgage Loan File.

5.16.12 Notes Receivable, Installment Sales, and Land Contracts (12/22/16)⁹¹

Notes receivable, installment sales, and/or land contracts may be considered qualifying income if the Mortgage Loan File contains a copy of the note or contract and evidence that the Borrower is entitled to receive payments on the note and has received payments on a regular monthly basis for the most recent twelve (12) months. Notes receivable income must be expected to continue for at least the next three (3) years from the Note date.

5.16.13 Public Assistance Income (12/22/16)⁹²

Public assistance income must be verified by the appropriate state or federal government agency with letters or exhibits from the paying agency that state the amount, frequency and duration of the benefit payments. If the income does not have a defined expiration date, it should be considered as likely to continue for three (3) years from the Note Date.

A monthly homeownership subsidy received directly by the Borrower may be used as qualifying income if the Borrower is receiving subsidies under a housing choice voucher homeownership option from a public housing agency. The income may be treated as tax-exempt income.

5.16.14 Retirement, Government Annuity, and Pension Income (12/22/16)⁹³

The Originator must not ask the Borrower about any future, possible retirement, unless the Borrower volunteers such information.

Retirement or pension income is an acceptable source of stable income as long as the Borrower's regular receipt of payment is confirmed.

If the Borrower does not have a history of draws on the employment-related asset, then the income may only be considered if the following requirements are met:

- The LTV/TLTV does not exceed 70%;
- The transaction is a purchase or limited cash-out (cash-out refinance transactions are ineligible);
- The total "net documented assets" must be divided by 360 months, regardless of the Borrower's age or the Mortgage Loan's term; and

⁹¹ MPF Announcement 2016-30 (12/22/16)

⁹² MPF Announcement 2016-30 (12/22/16)

⁹³ MPF Announcement 2016-30 (12/22/16)

- The Originator must verify that the asset is liquid and available to the Borrower without penalty.

Retirement income must be verified by letters from the organization, Employer Letter, Award Letter, IRS W-2, 1099, or signed federal tax returns for proof of receipt.

If any retirement income, such as employer pension or 401(k) will cease within the first full three (3) years from the Note date, such income may not be used in qualifying the Borrower. There must be a likelihood of continuance for a minimum of three (3) years from the Note date.

5.16.15 Royalty Income

Royalty income may be used for qualifying purposes, provided the following requirements are met:

- A copy of the royalty agreement is obtained which states the amount, frequency, and duration of the royalty payments;
- A copy of the Borrower's most recent federal tax returns are obtained, which must include the IRS Form 1040, Schedule E; and
- The Borrower can verify receipt of royalty income for at least twelve (12) months;
- The income is expected to continue for at least three (3) years from the Note date.

5.16.16 Social Security Income

Social Security income can be verified with the Social Security Awards letter from the Social Security Administration (SSA). Nontaxable Social Security income may be grossed up by 25%.

If the SSA benefit verification letter does not indicate a defined expiration date, the income will be considered eligible and likely to continue for three (3) years from the Note date.

Retirement or long-term disability Social Security income will not have a defined expiration date and must be expected to continue. Pending or current re-evaluation of medical eligibility for benefit payments is not considered an indication that the benefit payments are not likely to continue.

Social Security income that has a defined expiration date must have a remaining term of at least three (3) years from the Note date.

The Originator may not request any additional information from the Borrower or the Borrower's physician regarding the nature of the disability.

5.16.17 Temporary Leave Income (12/22/16)⁹⁴

⁹⁴ MPF Announcement 2016-30 (12/22/16)

Temporary leave from work is generally short in duration, for reasons of maternity or paternity leave, short-term medical disability or other temporary leave types that are acceptable by law or the Borrower's employer.

Originators must not ask the Borrower about possible, future maternity leave, unless the Borrower volunteers such information.

Temporary leave income must be verified in accordance with Applicable Laws, including fair lending laws.

5.16.18 Tip Income

Tip income may be included as qualifying income if the Borrower has received the income for the last two (2) years, as verified on a VOE, or on recent paystubs and W-2 forms from the past two (2) years. If the amount received fluctuates, the income trend must be evaluated to determine the amount most likely to continue for the next three (3) years from the Note date.

In some cases, the full amount of the tip income earned by the Borrower may not be reported by the employer on the VOE, paystub and W-2 form, and the Borrower may report additional tip income to the IRS using Form 4137 (Social Security and Medicare Tax on Unreported Tip Income), when filing tax returns.

5.16.19 Trust Income

Trust income may be considered qualifying income if documented with the amount, frequency and duration of payments. A copy of the trust agreement or a statement from the trustee confirming the amount, frequency and duration of payments is required. It must be verified that trust income will continue for at least three (3) years from the Note date.

5.16.20 Unemployment Income

Unemployment income must be documented for two (2) years, and must be expected to continue.

5.16.21 Upcoming Increases in Income

Projected or hypothetical income may be used for qualifying purposes when the Borrower is scheduled to receive an increase in income from their employer, such as a cost-of-living adjustment, a performance raise, or will receive a bonus. In order for this income to be considered for qualifying purposes, written verification must be obtained from the employer of the following:

- The amount of the cost-of-living adjustment, performance raise, or bonus; and
- That the increase in income will begin and/or the bonus will be received by Borrower within sixty (60) days of Closing.

5.16.22 Rental Income from the Borrower's Two- to Four-Unit Primary Residence (9/2/22)⁹⁵

Stable rental income from the unit(s) in the Borrower's 2- to 4-Unit Primary Residence that are not occupied by the Borrower may be used to qualify the Borrower but cannot be used to directly offset the Mortgage Loan's PITIA. Rental payments on the lease must be reflected in U.S. dollars and cannot be virtual currency.

The stability of the rental income must be documented with:

- A current lease(s) or agreement(s) to lease;
- A rental history from the previous twenty-four (24) months with gaps less than three (3) months; or
- A rental history from the previous twenty-four (24) months with gaps greater than three (3) months that are explained. Explanations may include student housing, seasonal rentals, military renters, or property rehabilitation.

The amount of the rental income must be verified with:

- IRS Form 1040 Schedule E; and
- Current lease(s) or agreement(s) to lease.

For refinance transactions where the Mortgaged Property was acquired after the most recent federal income tax filing, a copy of the current lease(s) or agreement(s) to lease must be used to document income.

If tax returns are used to verify rental income, the rental income (or loss) will be the income (or loss) before depreciation, mortgage interest, taxes and property insurance.

If the current lease(s) or agreement(s) is used to verify rental income, no more than seventy-five percent (75%) of the gross rental income supported by the Appraisal or the property value used to obtain a DU or ACE LPA Appraisal Waiver offer being relied on to originate the Mortgage Loan, may be considered as income unless the Borrower's most recent signed federal tax return clearly supports the use of a higher percentage of rental income.

⁹⁵ MPF Announcement 2022-41 (9/2/22)
MPF Announcement 2022-37 (8/8/22)
MPF Announcement 2019-26 (5/1/19)
PFI Notice 2016-12 (9/1/16)

Any net rental income should be added to the Borrower's total income, and any net rental loss should be added to the Borrower's total monthly debt when calculating the total debt ratio.

5.16.23 Rental Income from an Existing Investment Property (12/22/16)⁹⁶

Stable rental income from an existing investment property owned by the Borrower may be used to qualify the Borrower but cannot be used to directly offset the Mortgage Loan's PITIA.

The stability of the rental income must be documented with:

- A current lease or an agreement to lease;
- A rental history from the previous twenty-four (24) months with gaps less than three (3) months; or
- A rental history from the previous twenty-four (24) months with gaps greater than three (3) months that are explained. Explanations may include student housing, seasonal rentals, military renters, or property rehabilitation.

The amount of the rental income must be verified with:

- IRS Form 1040 Schedule E; and
- Current lease(s) or agreement(s) to lease.

Depending upon the length of time the property has been owned, income must be documented with either leases or tax returns, in accordance with the requirements for rental income in a two- to four-unit Primary Residence.

If tax returns are used to verify rental income, the rental income (or loss) will be the income (or loss) before depreciation, mortgage interest, taxes, and property insurance.

If the current lease(s) or agreement(s) is used to verify rental income, no more than seventy-five percent (75%) of the gross rental income supported by the current lease(s) may be considered as income unless the Borrower's most recent signed federal tax return clearly supports the use of a higher percentage of rental income.

Any monthly net rental income should be added to the Borrower's total income, and any monthly net rental loss must be added to the Borrower's total monthly debt when calculating the total debt ratio.

⁹⁶ MPF Announcement 2016-30 (12/22/16)
PFI Notice 2016-12 (9/1/16)

A separate schedule of real estate is not required for rental properties as long as all properties are documented on the Uniform Residential Loan Application.

5.16.24 Rental Income from a Primary Residence Converted into an Investment Property (12/22/16)⁹⁷

If the Borrower is purchasing a Primary Residence and is retaining the current Primary Residence as an investment property, rental income earned from the current Primary Residence may be considered for qualification purposes only if the Borrower is relocating with a new employer or being transferred by the current employer, to a location not within a reasonable and locally-recognized commuting distance. Rental income cannot be used to directly offset the Mortgage Loan's PITIA.

In order for rental income from a Primary Residence converted into an investment property to be used to qualify the Borrower, there must be at least 30% equity in the property. The equity must be calculated by dividing the total amount of all of the outstanding liens on the current Primary Residence by the property's value. The Originator must determine the value of the current Primary Residence by obtaining an appraisal (interior or exterior-only inspection) with an effective date that is no more than six (6) months prior to the Note date and that meets the same standards listed in the appraisal independence requirements in the Guides. The Originator cannot use a value supplied by the Borrower or any other interested party.

The Originator must confirm that the current Primary Residence will be leased by obtaining:

- A copy of a fully executed lease agreement of at least one (1) year's duration after the Note date;
- Evidence the Borrower has received a security deposit from the tenant (such as a copy of the check written to the Borrower);
- A copy of the Borrower's bank statement showing the deposit of the security funds;
- Evidence the Borrower has received the first month's rent from the tenant (such as a copy of the check written to the Borrower); and
- A copy of the Borrower's bank statement showing the deposit of the rent funds.

Net rental income must be calculated according to the following requirements after the Originator obtains the above documentation:

- For a one unit property: 75% of the gross rental income may be used to qualify;
- For a two to four unit property: 75% of the gross rental income for the unit previously occupied by the Borrower may be used to qualify. This net rental income should be added to the net rental

⁹⁷ MPF Announcement 2016-30 (12/22/16)
PFI Notice 2016-12 (9/1/16)

income that was calculated for the remaining units that were not previously occupied by the Borrower.

5.16.25 Rental Income from a Second Home (9/1/16)⁹⁸

Rental income from a second home may not be used for Borrower qualification. Examples include, but are not limited to, rental income from private lease agreements, timesharing, or rental pool agreements.

5.16.26 Parsonage or Housing Income (7/24/17)⁹⁹

Parsonage or housing allowance may be added to income but may not be used to offset the monthly housing payment when there is acceptable documentation that verifies the allowance has been received for the most recent 12 months and is likely to continue for the next three years.

5.17 Qualifying Ratios

Debt ratios are calculations used to determine whether the Borrower will be able to meet the expenses involved in home ownership. There are two ratios used to assess the Borrower's eligibility—housing-to-income ratio and debt-to-income ratio.

5.17.1 Housing Expense Ratios

The Borrower's monthly housing expense is needed in order to calculate the debt-to-income ratio. Monthly housing expense includes the following:

- Principal and interest for the mortgage that is secured by the Borrower's Primary Residence;
- Monthly amounts for:
 - Subordinate financing on the subject property;
 - Hazard insurance;
 - Real estate taxes;
 - Mortgage insurance premiums; and/or
 - Assessments
- When applicable:
 - Homeowners association dues;
 - Optional credit insurance;
 - Leasehold payments;

⁹⁸ PFI Notice 2016-12 (9/1/16)

⁹⁹ MPF Announcement 2017-37 (7/24/17)

- Special assessments;
- Flood insurance fees; and/or
- Tax abatements.

The housing-to-income ratio is calculated by dividing the sum of all monthly housing expenses by the total of stable monthly income of all Borrowers.

monthly housing expense ratio = $\frac{\text{monthly housing expense}}{\text{total monthly income}}$

5.17.2 Calculating Monthly Real Estate Tax Payment

The calculation of real estate taxes must be based on at least the current assessed value. The real estate taxes are generally listed in the title commitment. However, the future real estate taxes must be estimated if the property is new construction. In this case, a reasonable estimate of the real estate taxes based on the value of the land and completed improvements and the local real estate tax rate is required. Historical real estate taxes on the unimproved land may not be used to qualify the Borrower.

5.17.3 Debt-to-Income Ratios (8/8/22)¹⁰⁰

The debt-to-income ratio is the sum of the Borrower's monthly housing expenses plus the following items, divided by the Borrower's stable monthly income:

- Payments on revolving debt;
- Installment debt with more than ten (10) months remaining;
- Leases;
- Monthly PITIA and operating expenses for any additional properties owned by the Borrower, including second homes and investment properties, that are not income-producing;
- Rental loss, if any, from an investment property;
- Ongoing contributions to a pooled savings arrangement should be considered a debt;
- Current real estate taxes, property insurance premiums, and HOA dues, if applicable, on properties owned free and clear;

¹⁰⁰ MPF Announcement 2022-37 (8/8/22)
MPF Announcement 2017-63 (10/31/17)
MPF Announcement 2016-30 (12/22/16)
MPF Announcement 2016-17 (11/29/16)
PFI Notice 2016-12 (9/1/16)

- Child support, alimony, and separate maintenance payments with more than ten (10) months remaining; and/or
- Monthly payments on installment debts secured by virtual currency.

The maximum allowable debt-to-income ratios are listed in the following table:

Underwriting Method	Maximum Debt-to-Income Ratio
Manually underwritten	43%
Loan Product Advisor Accept	Allowable by AUS
DU Approve	Allowable by AUS

A Mortgage Loan with a debt-to-income ratio of 43.01% is considered in excess of 43% and is not eligible for delivery if manually underwritten.

5.17.4 Loan-to-Value Ratios

Refer to the MPF Program eligibility grid for maximum LTV and TLTV ratios.

5.18 Assets and Reserves (9/27/19)¹⁰¹

All down payment funds, cash to close, and reserves must be documented per the AUS findings or meet the MPF Program Requirements. When assets are used for income and closings costs or reserves, the amount needed for closing costs and reserves must be subtracted before the remaining amount can be used toward income.

Asset documentation must be examined for signs of fabrication or alteration. Analyzing the documentation to calculate interest, and reviewing deposits against income levels and sources are necessary to validate the documents.

5.18.1 Down Payment Requirements (12/22/16)¹⁰²

The minimum Borrower contribution for each transaction is described in the following table.

¹⁰¹ MPF Announcement 2019-52 (9/27/19)

MPF Announcement 2016-30 (12/22/16)

¹⁰² MPF Announcement 2016-30 (12/22/16)

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS PRIOR TO JULY 1, 2023)



Property Type	LTV/TLTV Ratio	Minimum Borrower Contribution Requirements
One- to four-unit Primary Residence or one-unit second home	80% or less	No minimum contribution from the Borrower's own funds is required.
One-unit Primary Residence	More than 80%	No minimum contribution from the Borrower's own funds is required.
Two- to four-unit Primary Residence or one-unit second home	More than 80%	A minimum contribution of 5% must come from the Borrower's own funds.

5.18.2 Reserves

Reserves are an indication of the Borrower's capacity to demonstrate a savings pattern. Reserves are those liquid assets that are available to the Borrower after the Mortgage Loan closes. Liquid reserves include cash and other assets that are easily converted to cash. Reserves must come from the Borrower's own funds and must be documented and verified.

For manually underwritten conventional Mortgage Loans with an LTV less than or equal to 80%, PFIs are expected to determine the level of reserves to require based on overall risk assessment of the Mortgage Loan. If the LTV is greater than 80% then the PFI must meet the reserve requirements of the MI company.

For second home occupancy types, a minimum of two (2) months PITIA cash reserves are required. The reserve requirements may not be waived.

Reserves are measured by the number of months of monthly housing expense that they represent, including:

- Principal and interest;
- Hazard, flood, and mortgage insurance premiums, if applicable;
- Real estate taxes;
- Ground rent;
- Special assessments;
- Homeowners association dues (excluding any utility charges that apply to the individual unit); and
- Subordinate financing payments on mortgages secured by the Mortgaged Property.

For Mortgage Loans underwritten using DU or Loan Product Advisor, the automated findings will determine the reserve requirements based on the overall risk assessment of the loan.

Reserves, in the form of cash, stock, bonds or other liquid financial assets, should be adequate to cover risk factors present in the Loan Application, such as, but not limited to, LTV, debt ratios, and income stability. Reserves used as a compensating factor or input to an AUS must be verified.

For cash reserves in the form of loans secured by financial assets (such as 401k loans, margin accounts, or CD loans) or non-cash reserves, see Selling Guide Chapter [5.20](#).

For retirement accounts that prohibit withdrawals as of the Closing date, none of the funds may be used as reserves. Examples of prohibited withdrawals include but are not limited to: restrictions due to Borrower not yet reaching retirement age, the retirement account is used as security for an outstanding loan or the account's trustee or management prohibits a withdrawal for any other reason.

For stock options or non-vested restricted stock, none of the funds may be used as reserves.

The documentation used to verify the value of all reserves must meet the documentation age requirements as stated in Selling Guide Chapter [5.1.3](#).

5.18.3 Prepaid Costs

Prepaid settlement costs that are normally paid by the Borrower are any of the following:

- Per diem interest charges from the date of disbursement through the end of the month;
- Real estate taxes covering any period after the date of settlement;
- Property insurance premiums and reserves toward future premiums; and/or
- Escrow accruals required for the renewal of the MI premium.

The property seller (or the Borrower's employer) may pay the following prepaids:

- Interest charges from date of disbursement through the end of the month;
- Real estate taxes covering any period after the date of settlement;
- Hazard insurance premiums and reserves toward future premiums; and/or
- The escrow accruals required for the renewal of the MI premiums.

The amount an interested party pays toward prepaid items must be included in total contribution limits. The amount that the Borrower's employer pays towards the prepaid it is not included in total contribution limits.

5.19 Bank Statements (3/15/18)¹⁰³

Funds on deposit in savings accounts, checking accounts, certificate of deposits, and money market accounts may be used for the down payment, closing costs, and reserves. Accounts which do not allow the Borrower to have immediate access to the funds for these purposes are not acceptable assets.

Two (2) most recent monthly bank statements with all pages or a Verification of Deposit and one month's bank statement is the minimum documentation required for the Borrower's assets. An explanation and supporting documentation are required for any significant change in an account balance or for any account opened within the last two (2) months.

Bank statements must be dated within 120 days of Closing. Bank statements must clearly identify:

- Name and address of the depository or investment institution;
- Name of account owners;
- At least the last four (4) digits of the account number;
- Time period covered by the statement;
- All deposits and withdrawal transactions for depository account or all purchase and sale transactions for a financial portfolio account; and
- Ending account balance.

If a supplemental statement is necessary, any bank-generated form (such as deposit or withdrawal slips) that shows a machine-printed account number, balance, and date is acceptable. Supplemental information must be on a bank form indicating the name of the Originator or on bank letterhead signed by a bank representative.

Bank statements may be online account or portfolio statements obtained by the Borrower, provided such are printed and the Internet Uniform Resource Locator (URL) address is included identifying the source of information as well as all of the other information listed above for standard bank statements.

¹⁰³ MPF Announcement 2018-18 (3/15/18)

5.19.1 Review of Bank Account Statements

Any indications of borrowed funds must be investigated. Indications of borrowed funds include the following:

- A recently opened account;
- A recently received large deposit (greater than 50% of the total monthly qualifying income for the loan); and/or
- An account balance that is considerably greater than the average balance over the previous few months.

When there is a recently opened account or a large increase in an existing account on a purchase transaction, the source of funds must be explained by the Borrower and verified.

If a large deposit is from another account that is verified in the Mortgage Loan file, that account must be verified after the withdrawal to assure that the assets are not counted twice. All large deposits must be sourced and verified. Unverified funds are not acceptable sources for the down payment, closing costs, and/or reserves.

Asset documentation must be examined for signs of fabrication or alteration. Analyzing the documentation to calculate interest, and reviewing deposits against income levels and sources are necessary to validate the documents.

5.19.2 Joint Accounts (10/31/17)¹⁰⁴

Funds held in a joint checking or joint savings account are acceptable since the Borrower has access to all funds in the account at all times.

5.20 Acceptable Sources of Assets

This section addresses various asset types.

5.20.1 Liquid Assets

The section addresses acceptable sources of liquid assets.

In addition to liquid assets, the following are considered to be cash assets at 100% of the verified amounts:

- A gift or grant from a municipality, nonprofit religious organization, nonprofit community organization, or the Borrower's employer;

¹⁰⁴ MPF Announcement 2017-63 (10/31/17)

- Group savings;
- Pooled funds;
- Proceeds from the sale of the Borrower's personal property; and
- Individual Development Account.

5.20.2 U.S. Savings Bond

U.S. Savings bonds should be valued at their purchase price unless redemption value can be determined and verified.

5.20.3 Pooled Funds (12/22/16)¹⁰⁵

Funds for the down payment may come from pooled savings if the Borrower can document regular contributions to the savings fund. Acceptable documentation includes:

- Confirmation of the arrangement from the person managing the pooled savings; and
- Account information for the Borrower's contributions.

For purposes of calculating the total debt ratio, ongoing contributions by the Borrower to a pooled savings arrangement should be considered a debt.

5.20.4 Sale of Personal Property

The following documentation is required to evidence the sale of personal assets for funds to close:

- For personal property previously liquidated, a bill of sale is required, evidencing the following:
 - The date of sale;
 - The description of the asset sold;
 - The sales price;
 - The signatures of buyer and seller; and
 - A copy of the check from the purchaser of the asset or the Borrower's bank statement verifying the deposit of proceeds from the sale.
- For personal property to be liquidated, documentation is required evidencing the following:
 - The existence of the asset and the Borrower's ownership of the asset (e.g., car title);
 - The value of the asset through a third-party source (e.g., appraisal or blue book); and

¹⁰⁵ MPF Announcement 2016-30 (12/22/16)

- A letter of intent, contract, or other evidence that a buyer exists at the specified price.

Evidence of the actual sale, sufficient proceeds received from the sale, and proof that any outstanding liability owed against the asset was paid in full, is required to be obtained at Closing.

5.20.5 Trust Accounts

Funds disbursed from a trust account where the Borrower is the beneficiary are acceptable if the Borrower has immediate access to them and if trust assets survive for a minimum of thirty-six (36) months after the Note date. The trust manager or trustee must verify the value of the trust account and confirm the conditions under which the Borrower has access to the funds. When using trust income for qualifying, the effect of the withdrawal must be documented.

5.20.6 Retirement Accounts

IRA, SEP IRA, 401(k), KEOGH, 403(b), and other IRS qualified retirement plans may be verified with a copy of the most recent monthly or quarterly statement evidencing the Borrower as the owner and the value of the account.

When funds from these sources are used for the down payment or closing costs, the funds must be withdrawn and proof of withdrawal and receipt of funds must be provided.

When using retirement accounts as reserves, 100% of the vested value may be used.

For retirement accounts that prohibit withdrawals as of the Closing date, none of the funds may be used as reserves. Examples of prohibited withdrawals include but are not limited to: restrictions due to Borrower not yet reaching retirement age, the retirement account is used as security for an outstanding loan or the account's trustee or management prohibits a withdrawal for any other reason.

5.20.7 Stocks and Bonds

The value of stocks, bonds, or mutual funds must be documented by a current statement, a photocopy of the stock certificate accompanied by a current newspaper, an internet stock list or VOD.

Government bonds should be valued at their purchase price unless redemption value can be determined and verified.

Verification of liquidation and receipt of funds is required when the sale of stocks or bonds is used for down payment, closing costs, or other costs.

100% of the value of the asset is permitted when determining available reserves, including mutual funds and retirement accounts. If these are used for down payment and closing costs, no documentation of liquidation is required if the value of the asset is at least 20% more than the total funds needed.

Stock options and non-vested restricted stocks are not an eligible asset source for reserves.

5.20.8 Real Estate Proceeds (12/22/16)¹⁰⁶

To use proceeds from the sale of a property for closing costs or cash reserves, the following requirements must be met:

- The closing of the real estate transaction must take place prior to or simultaneous with the Closing; and
- The net proceeds to the Borrower must be verified with the executed Settlement Statement from the sale of the property, which should be retained in the Mortgage Loan File.

5.20.9 Use of Business Funds

Business funds can only be used for down payment and/or closing costs if the Borrower is self-employed. The Borrower's individual tax returns, and business returns if applicable, must be evaluated for that particular business. A business cash flow analysis must confirm that the withdrawal of funds for this transaction will not have a negative impact on the business. The Borrower must be authorized to withdraw funds from the account and the account must be verified in accordance with the requirements for verifying individual bank accounts.

5.20.10 Earnest Money (8/8/22)¹⁰⁷

If earnest money is equal to fifty percent (50%) or more of the down payment, verification of the source of the earnest money payment must be provided.

Earnest money deposits must be documented with the following:

- A copy of the canceled check; and
- Verification of sufficient funds on deposit in a depository account for the down payment, closing costs, etc.

Virtual currency may not be used for the deposit on a purchase contract (earnest money) for the purchase of the subject property.

¹⁰⁶ MPF Announcement 2016-30 (12/22/16)

¹⁰⁷ MPF Announcement 2022-37 (8/8/22)

MPF Announcement 2016-30 (12/22/16)

5.20.11 Sweat Equity (12/22/16)¹⁰⁸

Sweat equity is credit given by the builder or seller for labor performed or material furnished by the Borrower on the Mortgaged Property. Sweat equity may be considered up to a maximum of five percent (5%), provided a minimum contribution of three percent (3%) of the funds invested in the transaction comes from the Borrower's own funds.

5.20.12 Trade Equity (9/1/16)¹⁰⁹

The Borrower's trade equity in his / her previously owned home is determined by subtracting any outstanding liens on the previously owned residence, plus any transfer costs, from the lesser of the appraised value of the previously owned residence or its trade price as shown in the trade contract. The net proceeds of the trade of the Borrower's previously owned home may be considered if the trade value is verified by:

- A current appraisal of the previously owned residence; and
- A copy of the trade contract.

5.20.13 Lease/Rent with Option to Buy (9/1/16)¹¹⁰

In a "lease / rent with option to buy" agreement, only the portion of the actual lease / rent payment in excess of market rent is acceptable as the Borrower's own funds for down payment. The arrangement must be part of a pre-existing agreement, which is documented by a copy of the lease / rent agreement and verification of the rent paid. The appraiser must provide documentation of market rents for the Mortgaged Property.

5.20.14 Lot Value (9/1/16)¹¹¹

Either the acquisition cost or the current appraised value of the lot that a Borrower is building on may be applied toward down payment, depending upon the length of time the Borrower has owned the lot according to the construction-to-permanent guidelines.

5.20.15 Borrowed Funds (12/22/16)¹¹²

Borrowed funds from a loan secured by a verified Borrower asset are an acceptable source of the Borrower's own funds. The value of the asset must be commensurate with the Borrower's equity in the asset. Monthly payments for the loan must be included as a debt when calculating the Borrower's monthly debt-to-income ratio, unless the loan is secured by a financial asset.

¹⁰⁸ MPF Announcement 2016-30 (12/22/16)

¹⁰⁹ PFI Notice 2016-12 (9/1/16)

¹¹⁰ PFI Notice 2016-12 (9/1/16)

¹¹¹ PFI Notice 2016-12 (9/1/16)

¹¹² MPF Announcement 2016-30 (12/22/16)

PFI Notice 2016-12 (9/1/16)

5.20.16 Bridge Loan Financing (9/1/16)¹¹³

A bridge (or swing) loan is short term financing secured by the Borrower's previous residence, which is usually for sale. No cross collateralization between the Borrower's previous residence and the new Mortgaged Property may exist. By using funds from a bridge loan, the Borrower may close on a new home before selling the previous home.

The Borrower must be able to qualify carrying all debts involved, including the monthly and the balloon payment (if any) on the bridge loan and the payments on the new Mortgage Loan.

5.20.17 Cash on Hand (12/22/16)¹¹⁴

Cash on hand is an acceptable source of the Borrower's own funds if the following requirements are met:

- The amount of cash on hand is consistent with the Borrower's income and employment;
- The Borrower has a history of paying cash; and
- The Borrower has a limited credit history with no checking or savings accounts.

5.20.18 Virtual Currency (8/8/22)¹¹⁵

Virtual currency that has been exchanged into U.S. dollars is acceptable for the down payment, closing costs, and reserves provided the following requirements have been met:

- There is documentation in the loan that the virtual currency has been exchanged into U.S. dollars and is held in a U.S. or state regulated financial institution, and
- The funds are verified in U.S. dollars prior to the loan closing.

A large deposit may be from virtual currency that was exchanged into U.S. dollars. Sufficient documentation must be obtained to verify the funds originated from the Borrower's virtual currency account.

5.21 Verification of Deposit (3/15/18)¹¹⁶

A Verification of Deposit (VOD) completed by the depository or investment institution should be obtained. Each VOD must provide the name and address of the depository or investment institution, as well as the following for each account listed:

- Names of account holders;

¹¹³ PFI Notice 2016-12 (9/1/16)

¹¹⁴ MPF Announcement 2016-30 (12/22/16)

¹¹⁵ MPF Announcement 2022-37 (8/8/22)

¹¹⁶ MPF Announcement 2018-18 (3/15/18)

- At least the last four (4) digits of the account number;
- Type of account;
- Opening date;
- Account balance as of the date of the VOD;
- Average balance for the previous two months;

In cases where average balances are not available, the most recent two months' bank statements must be provided.

The VOD must be mailed or emailed directly to, and returned from, the institution. VODs should never be mailed to a particular person's attention. If the Borrower indicates this is necessary, the Mortgage Loan File must contain verification that an employee of the Originator independently contacted the depository and verified this requirement. The return address on the verification must be the Originator's address. The hand-carrying of verifications is strictly prohibited.

5.21.1 Direct Verification by a Third-Party Asset Verification Vender

Direct verification by a third-party asset verification vendor is acceptable if the following requirements are met:

- The Borrower provided proper authorization for the use of this verification method;
- The verified information provided conforms with information that would be provided on a VOD or bank statement; and
- The date of the completed verification is no more than 120 days old at Closing.

5.22 Unacceptable Sources of Assets

The following are unacceptable sources of assets:

- Cash on hand for which the source cannot be verified;
- Donated funds in any form, such as cash or bonds, donated by the seller, builder, or selling agent outside of approved financing contributions in the seller concession;
- Proceeds of a personal or unsecured loan, or a gift that must be repaid in full or in part;
- A cash advance on a revolving charge account or unsecured line of credit;
- Cash proceeds from a cash-out refinance on the Mortgaged Property;
- Restricted retirement funds—those with prohibitive withdrawal penalties or that are not permitted to be withdrawn;

- Salary advances;
- Funds in a Custodial or “In Trust For” Account; and
- Non-employment-related assets in the form of virtual currency.

5.23 Gifts (12/22/16)¹¹⁷

The Borrower may use funds obtained as a gift from a relative, established nonprofit organization, municipality, or employer to satisfy part of the cash requirement for closing, provided the minimum Borrower contribution for the loan type is met and provided that no part of the gift must be repaid.

For one-unit Primary Residences, all funds needed to complete the transaction may come from a gift.

For two- to four-unit Primary Residences and seconds homes with an LTV less than or equal to 80%, all funds needed to complete the transaction may come from a gift.

For two- to four-unit Primary Residences and second homes with an LTV greater than 80%, gift funds are only permitted if the Borrower makes a minimum contribution of 5% from their own funds.

Verification is required to document that sufficient funds to cover the gift are in the donor’s account or have been transferred to the Borrower’s account.

5.23.1 Personal Gifts (1/28/19)¹¹⁸

The donor of the gift must be a relative, domestic partner, or fiancé/fiancée of the Borrower. Examples of a relative are a spouse, child or dependent, or any other person related to the Borrower genetically, through marriage, adoption, or legal guardianship. A gift letter is required listing the donor’s name, address (city, state and zip), phone number, relationship to the Borrower, and the dollar amount of the gift. The gift letter must be signed by the donor.

If the gift is from a relative, fiancé/fiancée, or domestic partner who has resided with the Borrower for at least the last twelve (12) months and intends to continue to reside with the Borrower, then the gift may be considered the Borrower’s own funds, and, therefore, no gift letter is needed. The Originator must also verify that the occupancy requirements are met, which may include obtaining additional documentation or information.

¹¹⁷ MPF Announcement 2016-30 (12/22/16)

¹¹⁸ MPF Announcement 2019-11 (1/28/19)

MPF Announcement 2017-63 (10/31/17)

MPF Announcement 2017-18 (4/20/17)

MPF Announcement 2016-30 (12/22/16)

PFI Notice 2016-12 (9/1/16)

When the gift funds are received prior to the initial verification of assets (i.e. bank statement balance includes gift funds), the Mortgage Loan File must contain the following documentation:

- Verification of funds in the Borrower's account; and
- Verification of the transfer of the gift funds from the donor to the Borrower.

When the gift funds are received after the initial verification of assets, the Mortgage Loan File must contain the following documentation:

- Verification of the transfer of the gift funds from the donor to the Borrower; and
- A copy of the donor's withdrawal slip and Borrower's deposit slip, or by a copy of the donor's canceled check and evidence of deposit into Borrower's account.

When the gift funds are transferred at Closing, the Mortgage Loan File must contain the following documentation:

- Verification of the transfer of the gift funds from the donor to the Borrower; and
- Transfer of funds verified by a copy of the donor's check with proof it came from the donor's account, or wire transfer reflecting the donor as the remitter and one line of the settlement statement clearly indicating the exact amount of the gift funds received from the donor.

5.23.2 Gift or Grant from a Municipality, Nonprofit Organization, or Employer

A gift or grant from a municipality, nonprofit religious organization, nonprofit community organization, or the Borrower's employer must be evidenced by a copy of:

- The award letter sent to the Borrower; or
- The legal agreement that specifies the terms and conditions of the gift or grant.

An employer may provide financing to a transferred employee or a newly hired employee who is purchasing a Primary Residence at a new job location. The definition of employee includes military personnel. Employer financing must be made pursuant to an established corporate employee relocation program that is administered by the employer or its agent. The employer financing may consist of any of the following:

- A buydown or subsidy of the Note Rate;
- Funds to cover the down payment and/or closing costs;
- The funding of a below-market Note Rate or no-interest bridge loan; and/or
- Payment of the difference between the property tax and/or Note obligation for the employee's previous Primary Residence and the employee's new Primary Residence.

If the gift or grant is from the Borrower's employer, the employer's formal gift program must be verified. Examples of acceptable documentation include, but are not limited to the following:

- Copy of gift program guidelines from employee handbook; and
- Letter from employer's human resources department.

The Mortgage Loan File must contain the following evidence of the transfer of the funds:

- The award letter or the legal agreement verifying all of the following:
 - That repayment of the gift or grant is not required;
 - How the funds will be transferred (e.g., to Borrower, closing agent, lender, etc.); and
 - The fact that there will be no lien placed against the property as a result of the gift or grant.

5.23.3 Gift of Equity (10/31/17)¹¹⁹

Where all or part of the down payment was supplied by a gift from the property seller, the following conditions must be met:

- The property seller must be a relative of the Borrower;
- A gift letter must be obtained which is signed by the donor and which indicates (1) the dollar amount and date of the gift; (2) the donor's name, address, telephone number, and relationship to the Borrower; and (3) the donor's statement that no repayment is required; and
- The gift of equity must be reflected on the final Settlement Statement.

5.24 Contributions

Any portion of the fees and services, or any other item related to the transaction that would normally be paid by the Borrower but are paid by the interested party, are considered contributions.

Because excessive contributions can negatively impact the transaction, contributions are limited. A contribution amount that exceeds the limit is considered a sales concession.

5.24.1 Interested Party Contributions (IPCs)

IPCs are payments of costs that would normally be made by the Borrower, but are being made by another party who has a financial interest in the transaction. Interested parties may be the seller, builder, real estate agent or broker or other affiliate who may benefit from the sale. IPCs may not be applied to the Borrower's down payment, to meet financial reserve requirements, or to meet minimum Borrower contribution requirements.

¹¹⁹ MPF Announcement 2017-63 (10/31/17)

The maximum allowable IPCs are based on the lesser of the purchase price or appraised value, as follows:

Occupancy Type	LTV/TLTV	Max Contribution
Primary Residence or Second Home	> 90%	3%
	> 75 ≤ 90%	6%
	≤ 75%	9%

IPCs in excess of these limits must be considered as seller or sales concessions.

5.24.2 Sales Concessions (12/22/16)¹²⁰

Sales concessions must be deducted from the sales price to reflect the amount of contribution that exceeds the maximum allowable IPCs, and the maximum LTV/TLTV ratios must be recalculated using the reduced sales price or appraised value.

The following are examples of sales concessions:

- Non-real estate items such as moving expenses, furniture, and decorator allowances;
- Contributions that exceed the allowable limits for IPCs are also considered sales concessions; and
- Personal property or “giveaways” (such as furniture, decorator items, automobiles, club membership, etc.).

5.24.3 Payment Abatements (12/22/16)¹²¹

A payment abatement is where an interested party pays or reimburses the Borrower in whole or in part for one or more monthly mortgage payments. The monthly payments may include principal, interest, taxes, insurance, and assessments. Homeowners association fees paid for by an interested party in an amount equal to or greater than twelve (12) months are considered a payment abatement. Homeowners association fees paid for by an interested party in an amount less than twelve (12) months are considered an IPC.

Any mortgage loan with payment abatements of any type is not eligible for delivery under the MPF Program.

¹²⁰ MPF Announcement 2016-30 (12/22/16)

¹²¹ MPF Announcement 2016-30 (12/22/16)

CHAPTER 5. UNDERWRITING THE BORROWER (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)

Effective for Mortgage Loan Applications Dated on or After July 1, 2023 (5/3/23)

122

The updated verification requirements for evaluating Borrowers outlined in this “Chapter 5. Underwriting the Borrower (For Mortgage Loan Applications on or After July 1, 2023)”, are effective for all mortgage loan applications dated on or after July 1, 2023. PFIs are encouraged to evaluate Borrowers in accordance to the requirements in this Chapter 5 prior to the effective date, but are required do so for all mortgage loan applications received on or after July 1, 2023.

PFIs with mortgage loan applications dated prior to July 1, 2023, who have not yet implemented the updated manual underwriting requirements outlined in this chapter must only follow all of the underwriting requirements in “Chapter 5. Underwriting the Borrower (Effective for Mortgage Loan Applications prior to July 1, 2023)”. Underwriting requirements from each version of Chapter 5 may not be combined.

5.1 Documentation Requirements

The following requirements apply when documenting Mortgage Loans underwritten manually:

- The Mortgage Loan File must contain acceptable documentation to support the underwriting decision;
- When standard documentation does not provide sufficient information to support the decision, additional explanatory statements or documentation must be provided;
- Documentation requirements must comply with MPF Program Requirements;
- All required documentation must be verified and retained in the Mortgage Loan File;
- Certified true copies may be individually stamped certified true and exact (the signature must contain at least the first initial of the signer and the full surname), or a “blanket” true and exact certification identifying the loan and the name of the person certifying the documents may be included;
 - Erasures and white-outs are not permitted on any document.
- Letters of explanation regarding financial circumstances must specifically address the financial or credit concern presented and must contain a complete explanation in the Borrower’s own words, and be signed and dated by the Borrower; and

¹²² MPF Announcement 2023-26 (5/3/23)

- Any documentation discrepancies must be adequately explained and documented in the Mortgage Loan File.

5.1.1 Complete Applications Required (8/29/23) ¹²³

All Loan Applications (Fannie Mae Form 1003/Freddie Mac Form 65) submitted to underwriting must be accurate and complete with the following information for each Borrower:

- Borrower name;
- A full two-year history of employment and residency;
- Social Security Number or Individual Taxpayer Identification Number;
- Address of the Mortgaged Property;
- Estimate of the property value; and
- Mortgage Loan amount sought.

In addition, a complete Loan Application requires the following:

- All declaration questions must be marked and indicate how the Loan Application was taken.
 - If the interview is conducted face to face, the government monitoring information must be completed. If the Borrower chooses not to participate, the interviewer must complete the government monitoring section based on observation.
- The interviewer's name and employer must be completed, including NMLS numbers for each.
- Supplement Consumer Information Form (SCIF) (Fannie Mae/Freddie Mac Form 1103) (NOTE: PFIs must retain a copy of the completed form in the Mortgage File in accordance with Section 10.1.1)
- The final Loan Application must include the Borrower's complete and accurate financial information as relied upon by the underwriter, and must be signed and dated by all parties.

All Loan Applications must be reviewed for reasonability as part of the underwriting process. The feasibility of occupancy claims and the overall financial picture of the Borrowers must be reasonable. Where conflicting information exists between or within documents, an adequate explanation must be obtained and documented in the Mortgage Loan File.

5.1.2 Zero Tolerance

The MPF Program has a zero tolerance policy on matters relating to fraud or misrepresentation. Originators must have appropriate processes in place to escalate and report suspicious activities.

¹²³ MPF Announcement 2023-66 (8/29/23)

MPF Traditional Selling Guide Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



5.1.3 Age of Documents

Information used to make the credit decision must be current. The maximum age of documents at closing is as follows:

Table 5 - 1			
Item	Existing Property Age as of Note Date	New Construction Age as of Note Date	Properties Impacted by a Major Disaster Age as of
Initial Application (1003)	120 days	120 days	180 days
Credit Report	120 days	120 days	180 days
Income Documentation	120 days	120 days	180 days
Asset Documentation	120 days	120 days	180 days

Some documents, such as tax returns or divorce decrees, are not subject to these timeframes, as their validity does not change over time.

5.1.4 Allowable Age of Federal Income Tax Returns (6/13/23)¹²⁴

For some types of sources of income, the MPF Program requires PFIs to obtain copies of federal income tax returns (personal returns and, if applicable, business returns). The “most recent year’s” tax return is defined as the last return scheduled to have been filed with the IRS. For example,

If Today’s Date is....	Then the Most Recent Year’s Tax Return would be...
February 15, 2023	2021
April 16, 2023	2022
December 15, 2023	2022

The following table describes the requirements for documenting the most recent year's tax return based on the application date and disbursement date of the loan. The mortgage loan file must always

¹²⁴ MPF Announcement 2023-36 (6/13/23)

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



include the last tax return filed by the Borrower and the minimum number of years of tax returns required by as noted in various sections of this Selling Guide for manually underwritten loans.

Application Date	Disbursement Date	Documentation Required
October 15 ¹ , [current year minus 1] to April 14 ² , current year	October 15 ¹ [current year minus 1] to April 14 ² , current year	The most recent year's tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.
	April 15 ¹ , current year to June 30, current year	The most recent year's tax return is recommended; however, the previous year(s) is also acceptable. In the event the most recent year's tax return is not obtained, the loan file must include a completed and signed IRS Form 4506-C for transcripts of tax returns provided by the Borrower to the PFI.
	July 1, current year to October 14 ² , current year	The most recent year's tax return is recommended; however, the previous year(s) is also acceptable. In the event the most recent year's tax return is not obtained, the PFI must perform all of the following:
April 15 ¹ , current year to October 14 ² , current year	April 15 ¹ , current year to December 31, current year	<ul style="list-style-type: none"> Obtain one of the following documents from the Borrower: <ul style="list-style-type: none"> copy of IRS Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Income Tax Return) filed with the IRS. proof of the e-filing of Form 4868, or

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



Application Date	Disbursement Date	Documentation Required
		<ul style="list-style-type: none"> confirmation of electronic payment(s), including confirmation number, of all or part of the estimated income taxes. Review the total tax liability reported on IRS Form 4868 or paid by the borrower and compare it with the Borrower's tax liability from the most recent year obtained as a measure of income source stability and continuance. An estimated tax liability that is inconsistent with previous years may make it necessary for the PFI to require the current returns in order to proceed. Obtain IRS response from the filing of IRS Form 4506-C confirming that no transcripts are available for the applicable tax year. (Alternatives, PFIs may, at their own discretion, rely on Borrower provided evidence that no transcripts are available for applicable tax years when that evidence is obtained directly from the IRS website). <p>Note: Any documents provided by the Borrower must clearly identify the source of information including identifying information in the internet banner on the document.</p>
	January 1, [current year plus 1] to April 14 ² ,	The most recent year's tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



Application Date	Disbursement Date	Documentation Required
	[current year plus 1]	

1 Or the April/October filing dates for the year in question as published or extended by the IRS.

2 Or the day prior to the April/October filing dates for the year in question as published or extended by the IRS.

Exception for business tax returns, if the Borrower's business uses a fiscal year (a year ending on the last day of any month except December), the PFI may adjust the dates in the above chart to determine what year(s) of business tax returns are required in relation to the application date/disbursement date of the new mortgage loan.

5.1.5 Direct Written Verifications

Written verifications for employment, deposit accounts and/or mortgage/rental history (VOE/VOD/VOM/VOR) must pass directly between the Originator and employer, financial institution, mortgagor/landlord, as applicable, without being handled by any third party (including the Borrower). Documentation must not contain any alterations, erasures, correction fluid, or correction tape.

5.1.6 Verification of Borrower Identity

The Borrower's identity must be confirmed and established with acceptable documentation such as:

- State issued identification (ID), such as a driver's license or state ID with photo; or
- Federally issued identification, such as a passport (may be a foreign passport for legal resident aliens).

Any other documents deemed necessary to comply with federal obligations (birth certificate, social security card, military ID, US alien registration, etc.) must be verified by the Originator.

Copies of government issued identification should not be maintained in the Mortgage Loan File when prohibited by law. The following steps are required to document verification of Borrower's identity:

- Verify the accuracy of the data contained on the ID against the information provided by the Borrower;
- Record the following information on a document to be retained in the Mortgage Loan File:

- a. The type of ID provided (state issued I.D., passport, etc.);
- b. The expiration date of the ID document provided by the Borrower;
- c. Any unique number assigned to the ID by the issuer of the ID (driver's license number, passport number, etc.);
- d. Personal data listed on the identification that specifically identifies the Borrower (photograph, home address, social security number, birth date, etc.); and
- e. Any additional information regarding other steps or procedures the Originator performed in order to validate the Borrower's identity.

The verification of the documentation should be signed and dated by the individual completing the validation of the Borrower's identity and clearly identify the type of ID used.

5.1.7 Blanket Authorization

A Borrower's consent to verification and subsequent reverification must be evidenced by a signed form. If a blanket authorization form is obtained from the Borrower, the PFIs must attach a copy of the executed blanket authorization form to each Verification of Deposit or Verification of Employment forms sent to the verifying institution. The information must be requested directly from the institution. The completed form(s) must be signed and dated, and must be sent directly from the verifying institution to the Originator/requesting institution, not the Borrower.

5.2 Automated Validation Services

Automated validation services approved by Fannie Mae or Freddie Mac that are utilized in conjunction with Fannie Mae's DU or Freddie Mac's LPA to validate Borrower income, employment, and asset data are acceptable under the MPF Traditional product. However, unlike Fannie Mae and Freddie Mac, the MPF Program does not provide any representation and warranty relief.

5.3 Income Assessment

To ensure QM Status, PFIs are required to verify the Borrower's current or reasonably expected income, pursuant to TILA/Regulation Z (including 12 CFR 1026.43). The verification requirements outlined in this section and this Guide are intended to meet TILA/Regulation Z and its official commentary which permits Originators to rely on GSE validation standards to provide reasonably reliable evidence (specifically Fannie Mae Single Family Selling Guide Sections B3-3). Any deviations in this Guide from the GSE's verification standards were only intended to impose more restrictive requirements, and not intend to be more permissive. In some circumstances more restrictive, which are provided within this section. To the extent the guidance for verification requirements in this MPF Traditional Selling Guide contradict what is provided in aforementioned sections of Fannie Mae's

Single Family Selling Guide, the more restrictive policy will supersede. The Fannie Mae Selling Guides should only be used for verification purposes. Nothing in the Fannie Mae guides supersede a PFI's obligation to considering Borrower's current or reasonably expected income as provided for in TILA/Regulation Z (including 12 CFR 1026.43), and this is the stated intent for verification standards only, as a result, the underwriting and eligibility guidelines of the MPF Guides apply to MPF Traditional mortgage loans. While this is the stated intent for verification standards, only the underwriting and eligibility guidelines in the MPF Guides apply to MPF Traditional mortgage loans.

5.3.1 General Income Information

5.3.1.1 Stable and Predictable Income

The MPF Program underwriting guidelines emphasize the continuity of a Borrower's stable income. The stable and reliable flow of income is a key consideration in mortgage loan underwriting. Individuals who change jobs frequently, but who are nevertheless able to earn consistent and predictable income, are also considered to have a reliable flow of income for qualifying purposes.

To demonstrate the likelihood that a consistent level of income will continue to be received for Borrowers with less predictable sources of income, the PFI must obtain information about prior earnings. Examples of less predictable income sources include commissions, bonuses, substantial amounts of overtime pay, or employment that is subject to time limits, such as contract employees or tradesmen. Considerations in determining stable monthly income are the type of income received, the length of time received and whether the income is likely to continue. In addition, for salaried Borrowers, considerations in determining stable monthly income are the length of time employed in the current position and in a current profession. Borrowers who change jobs frequently within the same line of work but who advance in income and benefits are considered to have stable income.

5.3.1.2 Variable Income

All income that is calculated by an averaging method must be reviewed to assess the Borrower's history of receipt, the frequency of payment, and the trending of the amount of income being received. Examples of income of this type include income from hourly workers with fluctuating hours, or income that includes commissions, bonuses, or overtime.

History of Receipt: Two or more years of receipt of a particular type of variable income is recommended; however, variable income that has been received for 12 to 24 months may be considered as acceptable income, as long as the Borrower's loan application demonstrates that there are positive factors that reasonably offset the shorter income history.

Frequency of Payment: The PFI must determine the frequency of the payment (weekly, biweekly, monthly, quarterly, or annually) to arrive at an accurate calculation of the monthly income to be used in the trending analysis (see below). Examples:

If a Borrower is paid an annual bonus on March 31st of each year, the amount of the March bonus should be divided by 12 to obtain an accurate calculation of the current monthly bonus amount. Note that dividing the bonus received on March 31st by three months produces a much higher, inaccurate monthly average. If a Borrower is paid overtime on a biweekly basis, the most recent paystub must be analyzed to determine that both the current overtime earnings for the period and the year-to-date overtime earnings are consistent and, if not, why. There are legitimate reasons why these amounts may be inconsistent yet still eligible for use as qualifying income. For example, Borrowers may have overtime income that is cyclical (transportation employees who operate snow plows in winter, package delivery service workers who work longer hours through the holidays). PFIs must investigate the difference between current period overtime and year-to-date earnings and document the analysis before using the income amount in the trending analysis.

Income Trending: After the monthly year-to-date income amount is calculated, it must be compared to prior years' earnings using the Borrower's W-2's or signed federal income tax returns (or a standard Verification of Employment completed by the employer or third-party employment verification vendor).

- 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 the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any variable income should be used, but in no instance may it be averaged over the period when the declination occurred.

5.3.1.3 Continuity of Income (11/30/23)¹²⁵

Unless the PFI has knowledge to the contrary, if the income does not have a defined expiration date and the applicable history of receipt of the income is documented (per the specific income type), the PFI may conclude that the income is stable, predictable, and likely to continue. The PFI is not expected to request additional documentation from the Borrower.

If the income source does have a defined expiration date or is dependent on the depletion of an asset account or other limited benefit, the PFI must document the likelihood of continued receipt of the income for at least three years.

¹²⁵ MPF Announcement 2023-91 (11/30/23)

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



If the PFI is notified that the Borrower is transitioning to a lower pay structure, for example due to pending retirement or a new job, the PFI must use the lower amount to qualify the Borrower.

The following table contains examples of income types with and without defined expiration dates. This information is provided to assist PFIs in determining whether additional income documentation may be necessary to support a three-year continuance. Note that PFIs remain responsible for making the final determination of whether the Borrower's specific income source has a defined expiration date.

Expiration Date Not Defined	Defined Expiration Date
<p>PFI does not need to document 3-year continuance</p> <ul style="list-style-type: none"> • automobile allowance • base salary • bonus, overtime, commission, or tip income • capital gains income • corporate retirement or pension • disability income — long-term • foster-care income • interest and dividend income (unless other evidence that asset will be depleted) • military income • mortgage credit certificates • part-time job, second job, or seasonal income • rental income • self-employment income 	<p>PFI must document 3-year continuance</p> <ul style="list-style-type: none"> • alimony, child support, or separate maintenance • distributions from a retirement account – for example, 401(k), IRA, SEP, Keogh • mortgage differential payments • notes receivable • public assistance • royalty payment income • Social Security (not including retirement or long-term disability) • VA benefits (not including retirement or long-term disability)

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



Expiration Date Not Defined	Defined Expiration Date
<ul style="list-style-type: none"> Social Security, VA, or other government retirement or annuity 	

Trust Income: Note that continuity of income for trust income must be based on the type of income received through the trust. For example, if the income from the trust is derived from rental income, then three-year continuance is not required. However, if the income is a fixed payment derived from a depleting asset, then three-year continuance must be determined.

Income sources that are not listed above will require PFI judgment to determine if documentation of continuance must be obtained.

5.3.1.4 Determining the Need for Federal Income Tax Returns

The PFI must obtain copies of the Borrower's signed federal income tax returns filed with the IRS for the past one or two years (depending on the income type) for the following sources of income or employment.

Tax returns are required if the Borrower:

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



- is employed by family members (two years' returns);
- is employed by interested parties to the property sale or purchase (two years' returns);
- receives rental income from an investment property;
- receives income from temporary or periodic employment (or unemployment) or employment that is subject to time limits, such as a contract employee or a tradesman;
- receives income from capital gains, royalties, or other miscellaneous non-employment earnings reported on IRS Form 1099;
- receives income that cannot otherwise be verified by an independent and knowledgeable source (two years' returns);
- uses foreign income to qualify;
- uses interest and dividend income to qualify;
- uses tip income reported on IRS Form 4137 that was not reported by the employer on the W-2 to qualify; or
- receives income from sole proprietorships, limited liability companies, partnerships, or corporations, or any other type of business structure in which the Borrower has a 25% or greater ownership interest. Borrowers with a 25% or greater ownership interest are considered self-employed. The PFI must document and underwrite the loan application using the requirements for self-employed Borrowers, as described in this Guide.

5.3.1.5 Verification of Income for Non-U.S. Citizen Borrowers

The following table describes income verification requirements for Borrowers who are non-U.S. citizens:

Employment Type	Employment and Income Verification Requirements
Salaried or commissioned Borrower employed by a U.S. company or individual	Same as for a U.S. citizen, as provided for in this Guide.

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



Employment Type	Employment and Income Verification Requirements
Self-employed	Same as for a U.S. citizen, as provided for in this Guide.
Employed by a foreign corporation or a foreign government and paid in foreign currency ("foreign income")	<p>The PFI must obtain:</p> <ul style="list-style-type: none"> • copies of the Borrower's signed federal income tax returns filed with the IRS for the most recent two-year period, and • documentation to satisfy the standard documentation requirements in this Chapter. <p>Note: All income must be translated to U.S. dollars.</p>

5.3.1.6 Using Nontaxable Income to Adjust the Borrower's Gross Income

The PFI should give special consideration to regular sources of income that may be nontaxable, such as child support payments, Social Security benefits, workers' compensation benefits, certain types of public assistance payments, and food stamps.

The PFI must verify that the particular source of income is nontaxable. Documentation that can be used for this verification includes award letters, policy agreements, account statements, or any other documents that address the nontaxable status of the income.

If the income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, the PFI may develop an "adjusted gross income" for the Borrower by adding an amount equivalent to 25% of the nontaxable income to the Borrower's income.

If the actual amount of federal and state taxes that would generally be paid by a wage earner in a similar tax bracket is more than 25% of the Borrower's nontaxable income, the PFI may use that amount to develop the adjusted gross income, which should be used in calculating the Borrower's qualifying ratio.

5.3.1.7 Income Paid in Virtual Currency

Any income paid to or earned by the Borrower in the form of virtual currency, such as cryptocurrencies, is not eligible to be used to qualify for the loan.

5.3.2 Standards for Employment Documentation

PFIs must verify employment income for all Borrowers whose income is used to qualify for the mortgage loan. This verification can be provided by the Borrower, by the Borrower's employer, or by a third-party employment verification vendor.

5.3.2.1 Employment Documentation Provided by the Borrower

The following table provides requirements for documentation provided by the Borrower.

✓	Requirements — Paystubs and W-2s
	<p>The paystub must be dated no earlier than 30 days prior to the initial loan application date and it must include all year-to-date earnings. Additionally, the paystub must include sufficient information to appropriately calculate income; otherwise, additional documentation must be obtained.</p> <p>Paystubs must comply with the allowable age of documentation requirements of this Guide. See 5.1.3 Age of Documents.</p>
	<p>IRS W-2 forms must cover the most recent one- or two-year period, based on the documentation requirements for the particular income type. The W-2 forms must clearly identify the Borrower as the employee.</p> <p>"Most recent" W-2 is defined as the W-2 for the calendar year prior to the current calendar year. Alternative documentation, such as an IRS Wage and Income (W-2) Transcript, a written Request for Verification of Employment (PFIs may use Fannie Mae's Form 1005 or Form 1005(S)) (see below) or the final year-to-date paystub, may be used as long as adequate information is provided.</p>
	<p>Documents must be computer-generated or typed by the Borrower's employer(s), although paystubs that the Borrower downloads from the Internet are also acceptable. Documents must clearly identify the employer's name and source of information.</p>

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



✓	Requirements — Paystubs and W-2s
	The documents must clearly identify the Borrower as the employee.
	The information must be complete and legible.
	The original source of the information must be a third party, such as the Borrower's human resources department, personnel office, payroll department, company's payroll vendor, or supervisor.
✓	Requirements — Tax Returns
	When required, personal federal income tax returns must be copies of the original returns that were filed with the IRS. All supporting schedules must be included. Alternatively, the PFI may obtain applicable transcripts of federal income tax returns. “Most recent” tax return is defined as the last return scheduled to have been filed with the IRS.
	The information must be complete and legible.
	Each tax return must be signed by the Borrower unless the PFI has obtained one of the following signature alternatives: <ul style="list-style-type: none"> • documentation confirming that the tax returns were filed electronically, • a completed IRS Form 4506-C (signed by the Borrower) for the year in question, or

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



✓	Requirements — Paystubs and W-2s
	<ul style="list-style-type: none"> IRS transcripts that validate the tax return.

5.3.2.2 Employment Documentation provided by the Borrower's Employer

PFIs may use Fannie Mae's *Request for Verification of Employment* ([Form 1005](#) or [Form 1005\(S\)](#)) or its equivalent that at minimum contains the same information as the [Form 1005](#) or [1005 \(S\)](#) to document income for a salaried or commissioned Borrower. The date of the completed form must comply with Section 5.1.3 Age of Documents and 5.1.4 Allowable Age of Federal Income Tax Returns requirements of this Guide.

The information on the [Form 1005](#) or [Form 1005\(S\)](#) or equivalent must be legible.

The following fields on the form are optional:

Field #	Title of Optional Field
11	Probability of continued employment
14	If overtime or bonus is applicable, is its continuance likely?
16	Date of applicant's next pay increase
17	Projected amount of next pay increase

MPF Traditional Selling Guide Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



Field #	Title of Optional Field
18	Date of applicant's last pay increase
19	Amount of last pay increase
24	Reason for leaving (Part III — Verification of Previous Employment)

The remaining fields on the form must be completed as applicable to the Borrower. For example, overtime may not be completed if the Borrower is in a position that does not pay overtime.

When the Borrower authorizes the PFI to obtain verifications of employment and income directly from the employer, the PFI must have the Borrower sign [Form 1005](#) or [Form 1005\(S\)](#) or its equivalent.

5.3.2.3 Employment Documentation Provided by a Third Party Employment Verification Vendor

The PFI may receive employment and income verification directly from a third-party employment verification vendor. These verifications are acceptable as long as:

- the Borrower provided proper authorization for the PFI to use this verification method,
- the date of the completed verification is in compliance with Age of Document requirements of this Guide,
- the PFI has determined that the vendor has made provisions to comply with reasonable quality control requests from both the PFI and any subsequent mortgagee, and
- the PFI understands it will be held accountable for the integrity of the information obtained from this source.

If necessary, the PFI must supplement these verifications by obtaining any missing information from the Borrower or his or her employer.

5.3.3 Base Pay (Salary or Hourly), Bonus, and Overtime Income

The following table provides verification requirements for base pay, bonus, and overtime income:

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



✓	Verification of Base Pay, Bonus, and Overtime Income
	<p>A minimum history of two years of employment income is recommended. However, income that has been received for a shorter period of time may be considered as acceptable income, as long as the Borrower's employment profile demonstrates that there are positive factors to reasonably offset the shorter income history.</p> <p>Borrowers relying on overtime or bonus income for qualifying purposes must have a history of no less than 12 months to be considered stable.</p>
	<p>Base Pay (Salary and Hourly):</p> <p>Obtain the following documents:</p> <ul style="list-style-type: none"> • a completed Request for written Verification of Employment or • the Borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.
	<p>Bonus or Overtime:</p> <p>Obtain the following documents:</p> <ul style="list-style-type: none"> • a completed written Verification of Employment , or • the Borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.
	<p>See 5.3.1.2 Variable Income, for additional information on calculating variable income (applies to hourly paid employees with fluctuating hours and bonus and overtime).</p>

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



✓	Verification of Base Pay, Bonus, and Overtime Income
	If the Borrower has recently changed positions with his or her employer, determine the effect of the change on the Borrower's eligibility and opportunity to receive bonus or overtime pay in the future.
	If a Borrower who has historically been employed on a part-time basis indicates that he or she will now be working full-time, obtain written confirmation from the Borrower's employer.
	A verbal VOE is required from each employer. See 5.3.7 Verbal Verification of Employment, for specific requirements.
	See 5.3.2 Standards for Employment Documentation, for additional information about verifying employment income.

5.3.3.1 Base Income Calculation Guidelines

After the applicable income documentation has been obtained, the PFI must calculate the Borrower's eligible qualifying base income. The following table provides guidance for standard employment documentation:

How Often Paid	How to Determine Monthly Income
Annually	Annual gross pay / 12 months
Monthly	Use monthly gross payment amount

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



How Often Paid	How to Determine Monthly Income
Twice Monthly	Twice monthly gross pay x 2 pay periods
Biweekly	(Biweekly gross pay x 26 pay periods) / 12 months
Weekly	(Weekly gross pay x 52 pay periods) / 12 months
Hourly	(Hourly gross pay x average # of hours worked per week x 52 weeks) / 12 months
All of the above calculations must be compared with the documented year-to-date base earnings (and past year earnings, if applicable) to determine if the income amount appears to be consistent.	

5.3.3.2 Military Income

Military personnel may be entitled to different types of pay in addition to their base pay. Flight or hazard pay, rations, clothing allowance, quarters' allowance, and proficiency pay are acceptable sources of stable income, as long as the PFI can establish that the particular source of income will continue to be received in the future. To verify military base pay and entitlements, the PFI must obtain the Borrower's most recent Leave and Earnings Statement (LES).

Income paid to military reservists while they are satisfying their reserve obligations also is acceptable if it satisfies the same stability and continuity tests applied to secondary employment.

5.3.4 Commission income

The following requirements apply for verifying commission income:

- A minimum history of 2 years of commission income is recommended; however, commission income that has been received for 12 to 24 months may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history.

- One of the following must be obtained to document commission income:
 - a completed Request for Verification of Employment (Form 1005 or Form 1005(S)) or its equivalent ,or
 - the Borrower’s recent paystub and IRS W-2 forms covering the most recent two-year period.
- A verbal VOE is required from each employer. See 5.3.7 Verbal Verification of Employment, for specific requirements.

See 5.3.1 General Income Information, for additional information about calculating variable income.

See 5.3.2 Standards for Employment Documentation, for additional information about verifying employment income.

5.3.5 Secondary Employment Income (Second Job and Multiple Jobs) and Seasonal Income

5.3.5.1 Documentation Requirements

The income sources discussed in this topic must be documented by obtaining the following:

- a completed *Request for Verification of Employment* ([Form 1005](#) or [Form 1005\(S\)](#)) or its equivalent; or
- the Borrower’s recent paystub and IRS W-2 forms covering the most recent two-year period. (Signed federal income tax returns may also be required to verify unemployment income related to seasonal employment.)

A verbal VOE is also required from each employer. See 5.3.7 Verbal Verification of Employment, for specific requirements.

As these income types may be hourly or seasonal, refer to 5.3.1 General Income Information, for additional information on calculating variable income. Also refer to 5.3.2 Standards for Employment Documentation, for additional information about verifying employment income.

5.3.5.2 Verification of Secondary Employment Income

Secondary employment income is income that is derived from a second job or multiple jobs the Borrower may have. The PFI must verify the following.

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



✓	Verification of Secondary Employment Income
	Verification of a minimum history of two years secondary employment income is recommended. However, income that has been received for a shorter period of time (but, no less than 12 months) may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history.
	A Borrower may have a history that includes different employers, which is acceptable as long as income has been consistently received. In no instance may the Borrower have any gap in employment greater than one month in the most recent 12-month period, unless the secondary employment is considered seasonal income (subject to the requirements below).

5.3.5.3 Verification of Seasonal Income

The PFI must verify the following for seasonal income:

- Verify the Borrower has at least a two-year history of seasonal employment and income.
- For seasonal unemployment compensation, verify that it is appropriately documented, clearly associated with seasonal layoffs, expected to recur, and reported on the Borrower's signed federal income tax returns. See 5.3.9 Other Sources of Income, for more information on unemployment benefits.

5.3.6 4506-C and Tax Transcripts

If tax transcripts are not obtained during the origination process, the PFI is required to obtain the tax transcripts from the IRS (or designee) using the Form 4506-C signed at Closing for all Mortgage Loans the MPF Program selects for a post-Closing QC review (including targeted reviews as applicable), regardless of the type of income documentation provided in the Mortgage Loan File.

If tax returns were used in the underwriting of the Mortgage Loan, the PFI must obtain transcripts for the same tax years as documented by the tax returns. For self-employed Borrowers whose income documentation includes both individual and business tax returns, the PFI must obtain transcripts for both the individual and the business returns. The PFI must reconcile the transcript information received from the IRS with the income documents in the Mortgage Loan File. PFIs are required to provide express consent from the taxpayers as permitted by applicable law, this includes the Taxpayer First Act.

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



Failure to obtain the tax transcripts will be cited as a QC exception, the severity of which will be determined by the MPF Bank and/or Investor.

When the Originator requests tax transcripts prior to Closing, the transcripts must be returned/mailed directly to the Originator's underwriting or processing staff.

Transcripts must match the tax returns exactly.

The following table shows the minimum transcript information to request from the IRS under four typical income documentation scenarios:

The 4506-C Request must be for the most recent filing(s) of:				
If the level of income documentation used for underwriting the loan and reported on the Loan Presentment is:	1040	1120 or 1065	1099	W-2
YTD Paystub & Two W-2s				2 years
YTD Income Information & Two 1099s/1040s	2 years		2 years	
Two Years Personal Returns	2 years			
Two Years Personal Returns & Two Years Business Returns	2 Years	2 Years		

If a second home Borrower owns five (5) to ten (10) financed properties, and the rental income is reflected on the Borrower's tax returns, tax transcripts must be obtained to validate the accuracy of the tax returns prior to closing. If the five (5) to ten (10) financed properties were acquired since the Borrower's last tax return was filed (and therefore not reported as rental income), tax transcripts are not required.

When tax transcripts are obtained prior to Closing, the level of income documentation selected for Loan Presentment should be: Documentation Type 20 = "24 months or more income/employment

verification & tax transcripts acquired using IRS Form 4506-C” (See OG3 Instructions for additional information to complete a Loan Presentment). In order to use this Documentation Type Code, the transcripts must validate the income documentation used to calculate the Borrower’s income.

The IRS tax return transcripts are not to be used to calculate the Borrower’s income. They are only to be used to validate the income documentation provided by the Borrower that was used as income verification during the underwriting process.

5.3.7 Verbal Verification of Employment

PFI must obtain a verbal verification of employment (verbal VOE) for each Borrower using employment or self-employment income to qualify. The verbal VOE must be obtained within 10 business days prior to the Note date for employment income, and within 120 calendar days prior to the Note date for self-employment income. The verbal VOE requirement is intended to help PFIs mitigate risk by confirming, as late in the process as possible, that the Borrower remains employed as originally disclosed on the loan application. A change in the Borrower’s employment status could have a significant impact on that Borrower’s capacity to repay the mortgage loan and must be fully reevaluated.

Alternatively, PFIs may obtain the verbal VOE after closing, confirming that the Borrower remains employed as originally disclosed on the loan application, up to the time of loan delivery. If the verbal VOE cannot be obtained prior to delivery, the loan is ineligible for delivery.

Note: If the employer confirms the Borrower is currently on temporary leave, the PFI must consider the Borrower “employed.” See 5.3.9 Other Sources of Income, for details on temporary leave.

The following table describes verbal VOE requirements:

Type of Income	Verbal VOE Requirements
Hourly, Salary, and Commission Income (Non-Military)	<p>Requirements:</p> <ul style="list-style-type: none"> The PFI must independently obtain a phone number and, if possible, an address for the Borrower's employer. This can be accomplished by using a telephone book, the Internet, directory assistance, or by contacting the applicable licensing bureau.

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



Type of Income	Verbal VOE Requirements
	<ul style="list-style-type: none"> The PFI must contact the employer verbally and confirm the Borrower's current employment status within 10 business days prior to the Note date. <p>Note: If the employer confirms the Borrower is currently on temporary leave, the PFI must consider the Borrower "employed." See 5.3.9 Other Sources of Income, for details on temporary leave.</p> <ul style="list-style-type: none"> The conversation must be documented. It should include the following: <ul style="list-style-type: none"> name and title of the person who confirmed the employment for the PFI, name and title of the person who completed the verification for the employer, applicant's dates of employment, applicant's current employment status, how applicant is related to the owner of business, if applicable applicant's percentage of ownership in business, if applicable date of the call, and the source of the phone number. <p>Alternative Methods to Verify Employment:</p> <ul style="list-style-type: none"> If the employer will not verbally verify employment, the PFI can obtain <ul style="list-style-type: none"> a written verification (other than an additional paystub) confirming the Borrower's current employment status within the same time frame as the verbal VOE requirements. The written

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



Type of Income	Verbal VOE Requirements
	<p>documentation must include the name and title of the person who completed the verification for the employer.</p> <ul style="list-style-type: none"> an email exchange with the Borrower's employer from the employer's work email address within the same time frame as the verbal VOE requirements. <ul style="list-style-type: none"> The PFI must conduct additional due diligence to confirm that the email address for the employer is accurate. Examples of due diligence include, but are not limited to, searches of domain name on employer website (review for match to employer email address), employer directory on the internet, or other professional networking or business profile websites. The email exchange must include Borrower's name and employer's name; name, title, and work email address of the individual contacted at the employer; date of contact; and Borrower's current employment status. If the Borrower is a union member who works in an occupation that results in a series of short-term job assignments (such as a skilled construction worker, longshoreman, or stagehand), and the union facilitates the Borrower's placement in each assignment, the PFI may obtain the verbal VOE from the union. If the employer uses a third-party employment verification vendor, the PFI must obtain written

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



Type of Income	Verbal VOE Requirements
	<p>verification from the vendor of the Borrower's current employment status within the same time frame as the verbal VOE requirements.</p> <p>Note: Because third-party vendor databases are typically updated monthly, the verification must evidence that the information in the vendor's database was no more than 35 days old as of the Note date.</p>
Military Personnel	<p>If the Borrower is in the military, in lieu of a verbal or written VOE, the PFI must obtain either</p> <ul style="list-style-type: none"> • a military Leave and Earnings Statement dated within 120 calendar days prior to the note date, or • a verification of employment through the Defense Manpower Data Center.
Self-Employed Income	<p>Requirements:</p> <ul style="list-style-type: none"> • The PFI must verify the existence of the Borrower's business within 120 calendar days prior to the note date <ul style="list-style-type: none"> • from a third party, such as a CPA, regulatory agency, or the applicable licensing bureau, if possible; or • by verifying a phone listing and address for the Borrower's business using a telephone book, the internet, or directory assistance. • The PFI must document the source of the information obtained and the name and title of the PFIs employee who obtained the information.

5.3.8 Rental Income

In conjunction with the policies in this topic, PFIs must also comply with, as applicable, but not limited to, the policies in the following:

- 5.3.1.3 Continuity of Income;
- 5.7.1 Minimum Reserve Requirements;
- 5.14.5 Qualifying Impact of Other Real Estate Owned.

5.3.8.1 Eligible Properties

Rental income is an acceptable source of stable income if it can be established that the income is likely to continue. If the rental income is derived from the subject property, the property must be a two- to four-unit principal residence property in which the Borrower occupies one of the units.

If the income is derived from a property that is not the subject property, there are no restrictions on the property type. For example, rental income from a commercial property owned by the Borrower is acceptable if the income otherwise meets all other requirements.

5.3.8.2 Ineligible Properties

Generally, rental income from the Borrower's principal residence (a one-unit principal residence or the unit the Borrower occupies in a two- to four-unit property) or a second home cannot be used to qualify the Borrower. However, there are certain exceptions to this policy for boarder income.

5.3.8.3 General Requirements for Documenting Rental Income

If a Borrower has a history of renting the subject or another property, generally the rental income will be reported on IRS Form 1040, Schedule E of the Borrower's personal tax returns or on Rental Real Estate Income and Expenses of a Partnership or an S Corporation form (IRS Form 8825) of a business tax return. If the Borrower does not have a history of renting the subject property or if, in certain cases, the tax returns do not accurately reflect the ongoing income and expenses of the property, the PFI may be justified in using a fully executed current lease agreement. Examples of scenarios that justify the use of a lease agreement are

- purchase transactions;
- refinance transactions in which the Borrower purchased the rental property during or subsequent to the last tax return filing; or
- refinance transactions of a property that experienced significant rental interruptions such that income is not reported on the recent tax return (for example, major renovation to a property occurred in the prior year that affected rental income).

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



When the subject property is a two- to four-unit property that will generate rental income used for qualifying purposes, PFIs must use Small Residential Income Property Appraisal Report (Form 1025/Freddie Mac Form 72) or an equivalent form containing at minimum the same information required in the GSE form.

Note: The rental payment on the lease must be reflected in U.S. dollars (cannot be in virtual currency).

5.3.8.4 Documenting Rental Income from a 2-4 unit Primary Residence Subject Property

PFI must obtain documentation that is used to calculate the monthly rental income generated from a subject property that is a 2-4 unit primary residence, used for qualifying purposes. The documentation may vary depending on whether the Borrower has a history of renting the property, and whether the prior year tax return includes the income.

Does the Borrower Have a History of Receiving Rental Income From the Subject Property?	Transaction Type	Documentation Requirements
Yes	Refinance	<p>Fannie Mae Form 1025/Freddie Mac Form 72, as applicable, and either</p> <ul style="list-style-type: none"> the Borrower's most recent year of signed federal income tax returns, including Schedule 1 and Schedule E, or copies of the current lease agreement(s) if the Borrower can document a qualifying exception (see Reconciling Partial or No Rental History on Tax Returns below).

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



Does the Borrower Have a History of Receiving Rental Income From the Subject Property?	Transaction Type	Documentation Requirements
No	Purchase	<p>Fannie Mae Form 1025/Freddie Mac Form 72, as applicable, and</p> <ul style="list-style-type: none"> copies of the current lease agreement(s). <p>If the property is not currently rented, lease agreements are not required and Fannie Mae Form 1025/Freddie Mac Form 72 may be used.</p> <p>If there is a lease on the property that is being transferred to the Borrower, see Section 9.6 Acceptable Title Exceptions.</p>
No	Refinance	<p>Fannie Mae Form 1025/Freddie Mac Form 72, as applicable, and</p> <ul style="list-style-type: none"> copies of the current lease agreement(s).

If the Borrower is not using any rental income from the subject property to qualify, the gross monthly rent must still be documented for PFI reporting purposes.

5.3.8.5 Documenting Rental Income from Property Other than the Subject Property

When the Borrower owns property – other than the subject property – that is rented, the PFI must document the monthly gross (and net) rental income with the Borrower’s most recent signed federal income tax return that includes Schedule 1 and Schedule E. Copies of the current lease agreement(s)

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



may be substituted if the Borrower can document a qualifying exception. See Reconciling Partial or No Rental History on Tax Returns below.

5.3.8.6 Reconciling Partial or No Rental History on Tax Returns

In order for the PFI to determine qualifying rental income, the PFI must determine whether or not the rental property was in service for the entire tax year or only a portion of the year. In some situations, the PFIs analysis may determine that using alternative rental income calculations or using lease agreements to calculate income are more appropriate methods for calculating the qualifying income from rental properties. This policy may be applied to refinances of a subject rental property or to other rental properties owned by the Borrower.

If the Borrower is able to document (per the table below) that the rental property was not in service the previous tax year, or was in service for only a portion of the previous tax year, the PFI may determine qualifying rental income by using

- Schedule E income and expenses, and annualizing the income (or loss) calculation; or
- fully executed lease agreement(s) to determine the gross rental income to be used in the net rental income (or loss) calculation.

If ...	Then ...
the property was acquired during or subsequent to the most recent tax filing year,	<p>the PFI must confirm the purchase date using the settlement statement or other documentation.</p> <ul style="list-style-type: none"> • If acquired during the year, Schedule E (Fair Rental Days) must confirm a partial year rental income and expenses (depending on when the unit was in service as a rental). • If acquired after the last tax filing year, Schedule E will not reflect rental income or expenses for this property.
the rental property was out of service for an extended period,	<ul style="list-style-type: none"> • Schedule E will reflect the costs for renovation or rehabilitation as repair expenses. Additional documentation may be required to ensure that

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



If ...	Then ...
	<p>the expenses support a significant renovation that supports the amount of time that the rental property was out of service.</p> <ul style="list-style-type: none"> Schedule E (Fair Rental Days) will confirm the number of days that the rental unit was in service, which must support the unit being out of service for all or a portion of the year.
the PFI determines that some other situation warrants an exception to use a lease agreement,	the PFI must provide an explanation and justification in the loan file.

If the Borrower is converting a principal residence to an investment property, see 5.14.5 Qualifying Impact of Other Real Estate Owned, for guidance in using that rental income to qualify the Borrower.

5.3.8.7 Calculating Monthly Qualifying Rental Income or Loss

To determine the amount of rental income from the subject property that can be used for qualifying purposes when the Borrower is purchasing or refinancing a two- to four-unit principal residence, the PFI must consider the following:

If the Borrower...	Then for qualifying purposes...
<ul style="list-style-type: none"> currently owns a principal residence (or has a current housing expense), and has at least a one-year history of receiving rental income or documented property management experience 	there is no restriction on the amount of rental income that can be used.

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



If the Borrower...	Then for qualifying purposes...
<ul style="list-style-type: none"> currently owns a principal residence (or has a current housing expense), and has less than one-year history of receiving rental income or documented property management experience 	<ul style="list-style-type: none"> for a principal residence, rental income in an amount not exceeding PITIA of the subject property can be added to the Borrower's gross income, or for an investment property, rental income can only be used to offset the PITIA of the subject property.
<ul style="list-style-type: none"> does not own a principal residence, and does not have a current housing expense 	rental income from the subject property cannot be used.

The PFI must establish a history of property management experience by obtaining one of the following:

- The Borrower's most recent signed federal income tax return, including Schedules 1 and E. Schedule E should reflect rental income received for any property and Fair Rental Days of 365;
- If the property has been owned for at least one year, but there are less than 365 Fair Rental Days on Schedule E, a current signed lease agreement may be used to supplement the federal income tax return; or
- A current signed lease may be used to supplement a federal income tax return if the property was out of service for any time period in the prior year. Schedule E must support this by reflecting a reduced number of days in use and related repair costs.
- The PFI must document the Borrower has at least a one-year history of receiving rental income in accordance with *Documenting Rental Income From Property Other Than the Subject Property above*.

Method for Calculating the Income

The method for calculating rental income (or loss) for qualifying purposes is dependent upon the documentation that is being used.

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



Federal Income Tax Returns, Schedule E. When Schedule E is used to calculate qualifying rental income, the PFI must add back any listed depreciation, interest, homeowners' association dues, taxes, or insurance expenses to the Borrower's cash flow. Non-recurring property expenses may be added back, if documented accordingly.

If the property was in service

- for the entire tax year, the rental income must be averaged over 12 months; or
- for less than the full year, the rental income must be averaged over the number of months that the Borrower used the property as a rental unit.

See Treatment of the Income (or Loss) below for further instructions.

Lease Agreements or Form 1025: When current lease agreements or market rents reported on Form 1025 are used, the PFI must calculate the rental income by multiplying the gross monthly rent(s) by 75%. The remaining 25% of the gross rent will be absorbed by vacancy losses and ongoing maintenance expenses.

See Treatment of the Income (or Loss) below for further instructions.

5.3.8.8 Treatment of the Income (or Loss)

The amount of monthly qualifying rental income (or loss) that is considered as part of the Borrower's total monthly income (or loss) — and its treatment in the calculation of the Borrower's total debt-to-income ratio — varies depending on whether the Borrower occupies the rental property as their principal residence.

If the rental income relates to the Borrower's principal residence:

- The monthly qualifying rental income (as defined above) must be added to the Borrower's total monthly income. (The income is not netted against the PITIA of the property.)
- The full amount of the mortgage payment (PITIA) must be included in the Borrower's total monthly obligations when calculating the debt-to-income ratio.

If the rental income (or loss) relates to a property other than the Borrower's principal residence:

- If the monthly qualifying rental income (as defined above) minus the full PITIA is positive, it must be added to the Borrower's total monthly income.
- If the monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the Borrower's total monthly obligations.
- The full PITIA for the rental property is factored into the amount of the net rental income (or loss); therefore, it should not be counted as a monthly obligation.

- The full monthly payment for the Borrower's principal residence (full PITIA or monthly rent) must be counted as a monthly obligation.

5.3.8.9 Offsetting Monthly Obligations for Rental Property Reported through a Partnership or an S Corporation

If the Borrower is personally obligated on the mortgage debt (as evidenced by inclusion of the related mortgage(s) on the credit report) and gross rents and related expenses are reported through a partnership or S corporation, the business tax returns may be used to offset the property's PITIA. The steps described below should be followed:

1. Obtain the Borrower's business tax returns, including IRS Form 8825 for the most recent year.
2. Evaluate each property listed on Form 8825, as shown below:
 - From total gross rents, subtract total expenses. Then add back insurance, mortgage interest, taxes, homeowners' association dues (if applicable), depreciation, and non-recurring property expenses (if documented accordingly).
 - Divide by the number of months the property was in service.
 - Subtract the entire PITIA (proposed for subject property or actual for real estate owned) to determine the monthly property cash flow.
3. If the resulting net cash flow is positive, the PFI may exclude the property PITIA from the Borrower's monthly obligations when calculating the debt-to-income ratio.
4. If the resulting net cash flow is negative (that is, the rental income derived from the investment property is not sufficient to fully offset the property PITIA), the calculated negative amount must be included in the Borrower's monthly obligations when calculating the debt-to-income ratio.

In order to include a positive net rental income received through a partnership or an S corporation in the Borrower's monthly qualifying income, the PFI must evaluate it according to the requirements for income received from a partnership or an S corporation. See 5.6.1 Analyzing Partnership Returns for a Partnership or LLC and 5.6.2 Analyzing Returns for an S Corporation.

5.3.8.10 Rental Income Calculation Worksheets

PFI's may use Fannie Mae's worksheets to calculate rental income. Use of these worksheets is optional. The worksheets are:

- Rental Income Worksheet – Principal Residence, 2– to 4–unit Property (Form 1037),
- Rental Income Worksheet – Individual Rental Income from Investment Property(s) (up to 4 properties) (Form 1038),

- Rental Income Worksheet – Individual Rental Income from Investment Property(s) (up to 10 properties) (Form 1038A), and
- Rental Income Worksheet – Business Rental Income from Investment Property(s) (Form 1039).

5.3.8.11 Reporting of Gross Monthly Rent

Eligible rents on the subject property (gross monthly rent) must be reported in the loan delivery data for all two- to four-unit principal residence properties, regardless of whether the Borrower is using rental income to qualify for the mortgage loan. If the Borrower is using rental income from the subject property to qualify for the mortgage loan, the requirements above must be followed to document and calculate the income.

If the Borrower is not using any rental income from the subject property to qualify, gross monthly rent must be documented only for PFI reporting purposes. The Borrower can provide one of the sources listed above, or may provide one of the following sources (listed in order of preference):

- the appraisal report for a one-unit investment property or two- to four-unit property, or Single-Family Comparable Rent Schedule (Form 1007), provided neither the applicable appraisal nor Form 1007 is dated 12 months or more prior to the date of the Note;
- if the property is not currently rented, the PFI may use the opinion of market rents provided by the appraiser; or
- if an appraisal or Form 1007 is not required for the transaction, the PFI may rely upon either a signed lease from the Borrower or may obtain a statement from the Borrower of the gross monthly rent being charged (or to be charged) for the property. The monthly rental amounts must be stated separately for each unit in a two- to four-unit property. The disclosure from the Borrower must be in the form of one of the following:
 - a written statement from the Borrower, or
 - an addition to the Mortgage Loan Application (Form 1003).

The PFI must retain the documentation in the loan file that was relied upon to determine the amount of eligible rent reported.

5.3.9 Other Sources of Income

5.3.9.1 Documentation Requirements for Current Receipt of Income

The documentation required for each income source is described below. The documentation must support the history of receipt, if applicable, and the amount, frequency, and duration of the income. In addition, evidence of current receipt of the income must be obtained in compliance with the Age of Documents policy, unless specifically excluded below.

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



Current receipt may be documented by various means, depending on the income type. Examples include but are not limited to

- current paystubs,
- bank statements confirming direct deposit,
- canceled checks from the payer's account to the Borrower,
- court records, or
- copies of the Borrower's bank statements showing the regular deposit of these funds.

Note: Any income received by the Borrower in the form of virtual currency, such as cryptocurrencies, is not eligible to be used to qualify for the mortgage loan. For income types that require sufficient remaining assets to establish continuance, those assets cannot be in the form of virtual currency.

5.3.9.2 Alimony, Child Support, or Separate Maintenance

The following table provides verification requirements for alimony, child support, or separate maintenance.

✓	Verification of Income From Alimony, Child Support, or Separate Maintenance
	<p>Document that alimony, child support, or separate maintenance will continue to be paid for at least three years after the date of the mortgage application, as verified by one of the following:</p> <ul style="list-style-type: none"> • A copy of a divorce decree or separation agreement (if the divorce is not final) that indicates the monthly payment and states the amount of the award and the period of time over which it will be received. Note: If a Borrower who is separated does not have a separation agreement that specifies alimony or child support payments, the PFI should not consider any proposed or voluntary payments as income. • Any other type of written legal agreement or court decree describing the payment terms. • Documentation that verifies any applicable state law that mandates alimony, child support, or separate maintenance payments, which must specify the conditions under which the payments must be made.

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



✓	Verification of Income From Alimony, Child Support, or Separate Maintenance
	Check for limitations on the continuance of the payments, such as the age of the children for whom the support is being paid or the duration over which alimony is required to be paid.
	Document no less than six months of the Borrower's most recent regular receipt of the full payment.
	Review the payment history to determine its suitability as stable qualifying income. To be considered stable income, full, regular, and timely payments must have been received for six months or longer. Income received for less than six months is considered unstable and may not be used to qualify the Borrower for the mortgage. In addition, if full or partial payments are made on an inconsistent or sporadic basis, the income is not acceptable for the purpose of qualifying the Borrower.

Note: The PFI may include alimony, child support, or separate maintenance as income only if the Borrower discloses it on the loan application (Fannie Mae Form 1003/ Freddie Mac Form 65) and requests that it be considered in qualifying for the loan.

5.3.9.3 Automobile Allowance

For an automobile allowance to be considered as acceptable stable income, the Borrower must have received payments for at least two years. The PFI must add the full amount of the allowance to the Borrower's monthly income, and the full amount of the lease or financing expenditure to the Borrower's monthly debt obligations.

5.3.9.4 Boarder Income

A boarder is a non-Borrower who currently lives in the Borrower's Primary Residence — not in a rental unit — in exchange for regular, timely rent payments. The MPF Program accepts Boarder income, PFIs may use Boarder income to qualify provided the income is expected to continue.

The following table provides verification requirements for income from boarders.

✓	Verification of Income from Boarders
	Obtain documentation of the boarder's history of shared residency (such as a copy of a driver's license, bills, bank statements, or W-2 forms) that shows the boarder's address as being the same as the Borrower's address.
	Obtain documentation of the boarder's rental payments for the most recent 12 months.

5.3.9.5 Capital Gains Income

Income received from capital gains is generally a one-time transaction; therefore, it should not be considered as part of the Borrower's stable monthly income. However, if the Borrower needs to rely on income from capital gains to qualify, the income must be verified in accordance with the following requirements.

✓	Verification of Capital Gains Income
	Document a two-year history of capital gains income by obtaining copies of the Borrower's signed federal income tax returns for the most recent two years, including IRS Form 1040, Schedule D.
	<p>Develop an average income from the last two years and use the averaged amount as part of the Borrower's qualifying income as long as the Borrower provides current evidence that he or she owns additional property or assets that can be sold if extra income is needed to make future mortgage loan payments.</p> <p>Note: Capital losses identified on IRS Form 1040, Schedule D, do not have to be considered when calculating income or liabilities, even if the losses are recurring.</p> <p>Due to the nature of this income, current receipt of the income is not required to comply with the Age of Documents policy. However, documentation of the asset ownership must be in compliance with the 5.1.3 Age of Documents.</p>

5.3.9.6 Disability Income – Long-Term

The following table provides verification requirements for long-term disability income. It does not apply to disability income that is received from the Social Security Administration. See 5.3.9.22 Social Security Income for more information.

✓	Verification of Long-Term Disability Income
	<p>Obtain a copy of the Borrower’s disability policy or benefits statement from the benefits payer (insurance company, employer, or other qualified disinterested party) to determine</p> <ul style="list-style-type: none"> • the Borrower’s current eligibility for the disability benefits, • the amount and frequency of the disability payments, and • if there is a contractually established termination or modification date.
	<p>Generally, long-term disability will not have a defined expiration date and must be expected to continue. The requirement for re-evaluation of benefits is not considered a defined expiration date.</p> <p>If a Borrower is currently receiving short-term disability payments that will decrease to a lesser amount within the next three years because they are being converted to long-term benefits, the amount of the long-term benefits must be used as income to qualify the Borrower. For additional information on short-term disability, see 5.3.9.23 Temporary Leave Income.</p>

5.3.9.7 Employment Offers or Contracts (1/18/2024)¹²⁶

A Mortgage Loan may close prior to the Borrower beginning new employment and receiving income if the Borrower provided it meets the requirements in this section.

If the Borrower is scheduled to begin employment under the terms of an employment offer or contract, the PFI may deliver the loan in accordance with one of the options outlined below.

¹²⁶ MPF Announcement 2024-04 (1/18/2024)

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



✓	Option 1 -- Paystub Obtained Before Loan Delivery
	<p>The PFI must obtain an executed copy of the Borrower's offer or contract for future employment and anticipated income.</p> <p>Note: The Borrower cannot be employed by a family member or by an interested party to the transaction.</p>
	<p>Prior to delivering the mortgage loan, the PFI must obtain a paystub from the Borrower that includes sufficient information to support the income used to qualify the Borrower based on the offer or contract. The paystub must be retained in the mortgage loan file.</p>
✓	Option 2 -- Paystub Not Obtained Before Loan Delivery
	<p>This option is limited to loans that meet the following criteria:</p> <ul style="list-style-type: none"> • purchase transaction, • principal residence, • one-unit property, • the Borrower is not employed by a family member or by an interested party to the transaction, and • the Borrower is qualified using only fixed base income.
	<p>The PFI must obtain and review the Borrower's offer or contract for future employment. The employment offer or contract must</p> <ul style="list-style-type: none"> • clearly identify the employer and the Borrower, be signed by the employer, and be accepted and signed by the Borrower;

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



✓	Option 2 -- Paystub Not Obtained Before Loan Delivery							
	<ul style="list-style-type: none">clearly identify the terms of employment, including position, type and rate of pay, and start date; andbe non-contingent. Note: If conditions of employment exist, the PFI must confirm prior to closing that all conditions of employment are satisfied either by verbal verification or written documentation. This confirmation must be noted in the mortgage loan file. <p>Also note that for a union member who works in an occupation that results in a series of short-term job assignments (such as a skilled construction worker, longshoreman, or stagehand), the union may provide the executed employment offer or contract for future employment.</p>							
	<p>The Borrower’s start date must be no earlier than 30 days prior to the Note date or no later than 90 days after the Note date.</p> <p>Prior to delivery, the PFI must obtain the following documentation depending on the Borrower’s employment start date:</p> <table><tr><th>If the Borrower’s start date is...</th><th>Documentation Required</th></tr><tr><td>The note date or no more than 30 days prior to the note date</td><td><ul style="list-style-type: none">Employment offer or contract; andVerbal verification of employment that confirms active employment status</td></tr><tr><td>No more than 90 days after the Note date</td><td>Employment offer or contract</td></tr></table>		If the Borrower’s start date is...	Documentation Required	The note date or no more than 30 days prior to the note date	<ul style="list-style-type: none">Employment offer or contract; andVerbal verification of employment that confirms active employment status	No more than 90 days after the Note date	Employment offer or contract
If the Borrower’s start date is...	Documentation Required							
The note date or no more than 30 days prior to the note date	<ul style="list-style-type: none">Employment offer or contract; andVerbal verification of employment that confirms active employment status							
No more than 90 days after the Note date	Employment offer or contract							

✓	Option 2 -- Paystub Not Obtained Before Loan Delivery
	<p>The PFI must document, in addition to the amount of reserves required for the transaction, one of the following:</p> <ul style="list-style-type: none"> • Financial reserves sufficient to cover principal, interest, taxes, insurance, and association dues (PITIA) for the subject property for six months; or • Financial resources sufficient to cover the monthly liabilities included in the debt-to-income ratio, including the PITIA for the subject property, for the number of months between the note date and the employment start date, plus one. For calculation purposes, consider any portion of a month as a full month. <p>Financial resources may include:</p> <ul style="list-style-type: none"> • financial reserves, and • current income. <p>Current income refers to net income that is currently being received by the Borrower (or co-Borrower), may or may not be used for qualifying, and may or may not continue after the Borrower starts employment under the offer or contract. For this purpose, the PFI may use the amount of income the Borrower is expected to receive between the note date and the employment start date. If the current income is not being used or is not eligible to be used for qualifying purposes, it can be documented by the PFI using income documentation, such as a paystub, but a verification of employment is not required.</p>

5.3.9.8 Employment-Related Assets as Qualifying Income (11/30/23)¹²⁷

The following table provides the requirements for employment-related assets that may be used as qualifying income.

¹²⁷ MPF Announcement 2023-91 (11/30/23)

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



✓	Asset Requirements
	<p>Assets used for the calculation of the monthly income stream must be owned individually by the Borrower, or the co-owner of the assets must be a co-Borrower of the mortgage loan.</p> <p>The documentation must be in compliance with the Age of Documents policy.</p>
	<p>Assets must be liquid and available to the Borrower and must be sourced as one of the following:</p> <ul style="list-style-type: none"> • A non-self-employed severance package or non-self-employed lump sum retirement package (a lump sum distribution) — these funds must be documented with a distribution letter from the employer (Form 1099–R) and deposited to a verified asset account. • For 401(k) or IRA, SEP, Keogh retirement accounts – the Borrower must have unrestricted access to the funds in the accounts and can only use the accounts if distribution is not already set up or the distribution amount is not enough to qualify. The account and its asset composition must be documented with the most recent monthly, quarterly, or annual statement.
	<p>If a penalty would apply to a distribution of funds from the account made at the time of calculation, then the amount of such penalty applicable to a complete distribution from the account (after costs for the transaction) must be subtracted to determine the income stream from these assets.</p>
	<p>A Borrower must only be considered to have unrestricted access to a 401(k) or IRA, SEP, Keogh retirement account if the Borrower has, as of the time of calculation, the unqualified and unlimited right to request a distribution of all funds in the account (regardless of any possible tax withholding or applicable penalty applied to such distribution).</p>

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



✓	Asset Requirements	
	<p>“Net documented assets” are equal to the sum of eligible assets minus:</p> <p>(a) the amount of the penalty that would apply if the account was completely distributed at the time of calculation; and</p> <p>(b) the amount of funds used for down payment, closing costs, and required reserves.</p>	
	<p>Ineligible assets are non-employment-related assets (for example, stock options, non-vested restricted stock, lawsuits, lottery winnings, sale of real estate, inheritance, and divorce proceeds). Checking and savings accounts are generally not eligible as employment-related assets, unless the source of the balance in a checking or savings account was from an eligible employment-related asset (for example, a severance package or lump sum retirement distribution). Virtual currency is not an eligible asset.</p>	
	<p>If eligible employment-related assets have been liquidated and placed into a trust within 12 months of the mortgage loan's application date, income must be calculated in accordance with the requirements in this table.</p>	
	Example: Calculation of Net Documented Assets	
	IRA (made up of stocks and mutual funds)	\$500,000
	<p>Minus 10% of \$500,000 ($\\$500,000 \times .10$)</p> <p>(Assumes a 10% penalty applies for early distribution, which must be levied against any cash being withdrawn for closing the transaction as well as the remaining funds used to calculate the income stream.)</p>	<p>(-)</p> <p>\$50,000</p>

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



✓	Asset Requirements	
	Total eligible documented assets	(=) \$450,000
	Minus funds required for closing (down payment, closing costs, reserves)	(-) \$100,000
	Net Documented Assets	(=) \$350,000
	Monthly income calculation (\$350,000/360 (or applicable term of loan in months)) See Income Calculation/Payout Stream in table below.	\$972.22/ month

All of the following loan parameters must be met in order for employment-related assets to be used as qualifying income:

Loan Parameter	Requirement
Maximum LTV, CLTV, and HCLTV Ratio	70% 80% if the owner of the asset(s) being used to qualify is at least 62 years old at the time of closing. If the asset(s) is jointly owned, all owners must be a Borrower on the loan and the Borrower using the income to qualify must be at least 62 years old at the time of closing.

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



Loan Parameter	Requirement
Loan Purpose	Purchase and limited cash-out refinance only
Occupancy	Principal residence and second home only
Number of Units	As permitted by occupancy type
Income Calculation/Payout Stream	Divide “Net Documented Assets” by the amortization term of the mortgage loan (in months).

Note: If the mortgage loan does not meet the above parameters, employment-related assets may still be eligible under other standard income guidelines, such as “Interest and Dividends Income,” or “Retirement, Government Annuity, and Pension Income.”

5.3.9.9 Foreign Income

Foreign income is income that is earned by a Borrower who is employed by a foreign corporation or a foreign government and is paid in foreign currency. Borrowers may use foreign income to qualify if the following requirements are met.

✓	Verification of Foreign Income
	Copies of signed federal income tax returns for the most recent two years that include foreign income.
	The PFI must satisfy the standard documentation requirements based on the source and type of income as outlined in Income Assessment.

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



✓	Verification of Foreign Income
	<p>All documents of a foreign origin must be completed in English, or the Originator must provide a translation, attached to each document, and ensure the translation is complete and accurate.</p> <p>Note: All income must be translated to U.S. dollars.</p>

5.3.9.10 Foster-Care Income

Income received from a state- or county-sponsored organization for providing temporary care for one or more children may be considered acceptable stable income if the following requirements are met.

✓	Verification of Foster-Care Income
	<p>Verify the foster-care income with letters of verification from the organizations providing the income.</p>
	<p>Document that the Borrower has a two-year history of providing foster-care services. If the Borrower has not been receiving this type of income for two full years, the income may still be counted as stable income if</p> <ul style="list-style-type: none"> the Borrower has at least a 12-month history of providing foster-care services, and the income does not represent more than 30% of the total gross income that is used to qualify for the mortgage loan.

5.3.9.11 Housing or Parsonage Allowance

A housing or parsonage allowance may be considered qualifying income if there is documentation that it has been received for the most recent 12 months and the allowance is likely to continue for the next three years. The housing allowance may be added to income but may not be used to offset the monthly housing payment.

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



Note: This requirement does not apply to military quarters' allowance. For information on military housing, refer to 5.3.3 Base Pay (Salary or Hourly), Bonus, and Overtime Income.

5.3.9.12 Interest and Dividends

The following table provides verification requirements for interest and dividends income.

✓	Verification of Income From Interest and Dividends
	Verify the Borrower's ownership of the assets on which the interest or dividend income was earned. Documentation of asset ownership must be in compliance with the Age of Documents policy.
	Document a two-year history of the income, as verified by <ul style="list-style-type: none">• copies of the Borrower's signed federal income tax returns, or• copies of account statements.
	Develop an average of the income received for the most recent two years. Refer to the 5.3.1.2 Variable Income, for additional information.
	Subtract any assets used for down payment or closing costs from the Borrower's total assets before calculating expected future interest or dividend income.

5.3.9.13 Mortgage Credit Certificates

States and municipalities can issue mortgage credit certificates (MCCs) in place of, or as part of, their authority to issue mortgage revenue bonds. MCCs enable an eligible first-time homebuyer to obtain a mortgage secured by his or her principal residence and to claim a federal tax credit for a specified percentage (usually 20% to 25%) of the mortgage interest payments.

When calculating the Borrower's DTI ratio, treat the maximum possible MCC income as an addition to the Borrower's income, rather than as a reduction to the amount of the Borrower's mortgage payment. Use the following calculation when determining the available income:

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



$[(\text{Mortgage Amount}) \times (\text{Note Rate}) \times (\text{MCC \%})] \div 12 = \text{Amount added to Borrower's monthly income.}$

For example, if a Borrower obtains a \$100,000 mortgage that has a note rate of 7.5% and he or she is eligible for a 20% credit under the MCC program, the amount that should be added to his or her monthly income would be \$125 ($\$100,000 \times 7.5\% \times 20\% = \$1500 \div 12 = \$125$).

The PFI must obtain a copy of the MCC and the PFI documented calculation of the adjustment to the Borrower's income and include them in the mortgage loan file.

For refinance transactions, the PFI may allow the MCC to remain in place as long as it obtains confirmation prior to loan closing from the MCC provider that the MCC remains in effect for the new mortgage loan. Copies of the MCC documents, including the reissue certification, must be maintained in the new mortgage loan file.

Note: Because the MCC is transaction specific, it does not have to comply with the Age of Documents policy.

5.3.9.14 Mortgage Differential Payments Income

An employer may subsidize an employee's mortgage payments by paying all or part of the interest differential between the employee's present and proposed mortgage payments.

When calculating the qualifying ratio, the differential payments should be added to the Borrower's gross income.

The payments may not be used to directly offset the mortgage payment, even if the employer pays them to the mortgage PFI rather than to the Borrower.

The following table provides verification requirements for mortgage differential payment income.

✓	Verification of Income From Mortgage Differential Payments
	Obtain written verification from the Borrower's employer confirming the subsidy and stating the amount and duration of the payments.
	<p>Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application.</p> <p>If this income is used on a purchase transaction, current receipt is not required to be documented except as verified in the employer letter. For refinance transactions where</p>

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



✓	Verification of Income From Mortgage Differential Payments
	the income is continuing with the new loan, the recent receipt must be in compliance with the Age of Documents.

5.3.9.15 Non-Occupant Borrower Income

Income from a non-occupant Borrower may be considered as acceptable qualifying income. This income can offset certain weaknesses that may be in the occupant Borrower's loan application, such as limited income, financial reserves, or limited credit history. However, it may not be used to offset significant or recent instances of major derogatory credit in the occupant Borrower's credit history. The occupant Borrower must still reasonably demonstrate a willingness to make the mortgage payments and maintain homeownership. If the income from a non-occupant Borrower is used for qualifying, subject to the LTV requirements in 3.1.4 Non-Occupant Co-Borrower.

5.3.9.16 Notes Receivable Income

The following table provides verification requirements for Notes receivable income.

✓	Verification of Income From Notes Receivable
	Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application.
	Obtain a copy of the note to establish the amount and length of payment.
	Document regular receipt of income for the most recent 12 months. Payments on a note executed within the past 12 months, regardless of the duration, may not be used as stable income.

5.3.9.17 Public Assistance Income

The following table provides verification requirements for public assistance income.

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



✓	Verification of Public Assistance Income
	Document the Borrower's receipt of public assistance income with letters or exhibits from the paying agency that state the amount, frequency, and duration of the benefit payments.
	Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application.

The Housing Choice Voucher Program (more commonly known as Section 8) is also an acceptable source of qualifying income. There is no requirement for the Section 8 voucher payments to have been received for any period of time prior to the date of the mortgage application or for the payments to continue for any period of time from the date of the mortgage application.

✓	Verification of Section 8 Payment Vouchers
	Determine from the public agency that issues the vouchers the monthly payment amount and whether the income is nontaxable. If the income is nontaxable, the PFI can develop an adjusted gross income for the Borrower in accordance to this Guide.

5.3.9.18 Income from Unemployment Benefits

Income from unemployment benefits and any income from an employer-initiated action (such as furlough or layoff) are typically short-term in nature and can be considered when qualifying the Borrower in the following scenarios:

- The income has been consistently received for at least two years as verified by copies of the signed federal income tax returns that reflect the unemployment income is associated with seasonal employment.
- The income from unemployment benefits can be used in the calculation of financial resources that are required under Option 2 in Employment Offers or Contracts above.

5.3.9.19 Retirement, Government Annuity, and Pension Income

The following table provides verification requirements for retirement, government annuity, and pension income.

✓	Verification of Retirement, Government Annuity, and Pension Income
	<p>Document current receipt of the income, as verified by</p> <ul style="list-style-type: none"> • a statement from the organization providing the income, • a copy of retirement award letter or benefit statement, • a copy of financial or bank account statement, • a copy of signed federal income tax return, • an IRS W-2 form, or • an IRS 1099 form.
	<p>If income from a government annuity or a pension account will begin on or before the first payment date, document the income with a benefit statement from the organization providing the income. The statement must specify the income type, amount and frequency of the payment, and include confirmation of the initial start date.</p>
	<p>If retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three years after the date of the mortgage application. Eligible retirement account balances (from a 401(k), IRA, or Keogh) may be combined for the purpose of determining whether the three-year continuance requirement is met.</p> <p>Note: The Borrower must have unrestricted access to the accounts without penalty.</p>

5.3.9.20 Royalty Payment Income

The following table provides verification requirements for royalty income.

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



✓	Verification of Income From Royalty Payments
	<p>Obtain copies of the</p> <ul style="list-style-type: none"> royalty contract, agreement, or statement confirming amount, frequency, and duration of the income; and Borrower's most recent signed federal income tax return, including the related IRS Form 1040, Schedule E.
	<p>Confirm that the Borrower has received royalty payments for at least 12 months and that the payments will continue for a minimum of three years after the date of the mortgage application.</p>

5.3.9.21 Schedule K-1 Income

For Borrowers who have less than 25% ownership of a partnership, S corporation, or limited liability company (LLC), ordinary income, net rental real estate income, and other net rental income reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1 may be used in qualifying the Borrower provided the PFI can confirm the business has adequate liquidity to support the withdrawal of earnings. If the Schedule K-1 provides this confirmation, no further documentation of business liquidity is required.

The following table provides verification of income requirements for Schedule K-1 Borrowers with less than 25% ownership of a partnership, an S corporation, or an LLC.

✓	Verification of Schedule K-1 Income
	<p>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.</p>

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



✓	Verification of Schedule K-1 Income
	<p>If the Schedule K-1 does not reflect 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 the PFI must confirm the business has adequate liquidity to support the withdrawal of earnings. The PFI may use discretion in the method used to confirm the business has adequate liquidity.</p>
	<p>If the Borrower has a two-year history of receiving “guaranteed payments to the partner” from a partnership or an LLC, these payments can be added to the Borrower’s cash flow.</p> <p>Note: An exception to the two-year requirement of receiving “guaranteed payments to the partner” is if a Borrower has recently acquired nominal ownership in a professional services partnership (for example, a medical practice or a law firm) after having an established employment history with the partnership. In this situation, the PFI may rely on the Borrower’s guaranteed compensation. This must be evidenced by the Borrower’s partnership agreement and further supported by evidence of current year-to-date income.</p>

Documentation Requirements

The Borrower must provide the most recent two years of signed individual federal income tax returns and the most recent two years of IRS Schedule K-1.

5.3.9.22 Social Security Income

The following table provides verification requirements for Social Security income.

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



✓	Verification of Social Security Income	
	<p>Social Security income for retirement or long-term disability that the Borrower is drawing from their own account/work record will not have a defined expiration date and must be expected to continue.</p> <p>Social Security income based on another person's account/work record or from the Borrower's own work record, but for the benefit of another (such as a dependent) may also be used in qualifying, provided the PFI documents a 3-year continuance.</p>	
	<p>Document regular receipt of payments, as verified by the following, depending on the type of benefit and the relationship of the beneficiary (self or other) as shown in the table below.</p>	
Documentation Requirements		
Type of Social Security benefit	Borrower is drawing Social Security benefits from own account/work record ¹	Borrower is drawing Social Security benefits from another person's account/work record or from their own account/work record for the benefit of another²
Retirement	<ul style="list-style-type: none">• Social Security Administration's (SSA) Award letter,• SSA-1099,• Most recent signed federal income tax returns (or tax transcripts³), or	<ul style="list-style-type: none">• SSA Award letter,• Proof of current receipt, and• Three-year continuance⁴

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



Documentation Requirements		
	<ul style="list-style-type: none"> • Proof of current receipt 	
Disability	<ul style="list-style-type: none"> • SSA Award letter, • SSA-1099, • Most recent signed federal income tax returns (or tax transcripts³), or • Proof of current receipt 	<ul style="list-style-type: none"> • SSA Award letter, • Proof of current receipt, and • Three-year continuance⁴
Survivor benefits	NA	<ul style="list-style-type: none"> • SSA Award letter, • Proof of current receipt, and • Three-year continuance⁴
Supplement Security Income (SSI)	<ul style="list-style-type: none"> • SSA Award letter, and • Proof of current receipt 	NA

1. An SSA Award letter may be used to document the income if the Borrower is receiving Social Security payments or if the Borrower will begin receiving payments on or before the first payment date of the subject mortgage as confirmed by a recently issued award letter.
2. Examples of how a Borrower might draw Social Security benefits from another person's account/work record and use the income for qualifying:
 - A Borrower may be eligible for benefits from a spouse, ex-spouse, or dependent parents (the benefit is paid to the Borrower on behalf of the spouse, etc.); or
 - A Borrower may use Social Security income received by a dependent (a minor or disabled dependent).

3. If joint tax returns or tax transcripts include income that is not associated with a Borrower on the loan transaction, the PFI must obtain additional documentation supporting the amount of income from the SSA being used in qualifying, such as the SSA-1099.
4. Confirmation of three-year continuance does not require documentation that provides a defined expiration date and can be assessed by verifying the SSA's requirements related to the specific benefit(s) being paid. For example, if the SSA ties receipt of the benefits to the beneficiary's age, confirmation of a three-year continuance can be met by verifying that the beneficiary's age supports that benefit(s) will continue for at least three years from the date of the loan application.

5.3.9.23 Temporary Leave Income

Temporary leave from work is generally employee-initiated short in duration and for reasons of maternity or parental leave, short-term medical disability, or other temporary leave types that are acceptable by law or the Borrower's employer. Borrowers on temporary leave may or may not be paid during their absence from work.

Note: Mandatory leave initiated by an employer, such as a furlough or layoff, is not considered temporary leave regardless of an expected return to work date. For income from unemployment benefits received as a result of mandatory leave initiated by an employer, see Public Assistance Income above.

If a PFI is made aware that a Borrower will be on temporary leave at the time of closing of the mortgage loan and that Borrower's income is needed to qualify for the mortgage loan, the PFI must determine allowable income and confirm employment as described below.

✓	Temporary Leave -- Employment Requirements
	The Borrower's employment and income history must meet standard eligibility requirements as described in this Guide.
	The Borrower must provide written confirmation of his or her intent to return to work.
	The PFI must document the Borrower's agreed-upon date of return by obtaining, either from the Borrower or directly from the employer (or a designee of the employer

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



✓	Temporary Leave -- Employment Requirements
	<p>when the employer is using the services of a third party to administer employee leave), documentation evidencing such date that has been produced by the employer or by a designee of the employer.</p> <p>Examples of the documentation may include, but are not limited to, previous correspondence from the employer or designee that specifies the duration of leave or expected return date or a computer printout from an employer or designee's system of record. (This documentation does not have to comply with the Age of Documents policy.)</p>
	<p>The PFI must receive no evidence or information from the Borrower's employer indicating that the Borrower does not have the right to return to work after the leave period.</p>
	<p>The PFI must obtain a verbal verification of employment in accordance with 5.3.7 Verbal Verification of Employment. If the employer confirms the Borrower is currently on temporary leave, the PFI must consider the Borrower employed.</p>
	<p>The PFI must verify the Borrower's income in accordance with 5.3 Income Assessment. The PFI must obtain</p> <ul style="list-style-type: none"> the amount and duration of the Borrower's "temporary leave income," which may require multiple documents or sources depending on the type and duration of the leave period; and the amount of the "regular employment income" the Borrower received prior to the temporary leave. Regular employment income includes, but is not limited to, the income the Borrower receives from employment on a regular basis that is eligible for qualifying purposes (for example, base pay, commissions, and bonus).

MPF Traditional Selling Guide Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



✓	Temporary Leave -- Employment Requirements
	Note: Income verification may be provided by the Borrower, by the Borrower's employer, or by a third-party employment verification vendor.

Requirements for Calculating Income Used for Qualifying

If the Borrower will return to work as of the first mortgage payment date, the PFI can consider the Borrower's regular employment income in qualifying.

If the Borrower will not return to work as of the first mortgage payment date, the PFI must use the lesser of the Borrower's temporary leave income (if any) or regular employment income. If the Borrower's temporary leave income is less than his or her regular employment income, the PFI may supplement the temporary leave income with available liquid financial reserves (see Minimum Reserve Requirements). Following are instructions on how to calculate the "supplemental income":

Supplemental income amount = available liquid reserves divided by the number of months of supplemental income

- *Available liquid reserves:* subtract any funds needed to complete the transaction (down payment, closing costs, other required debt payoff, escrows, and minimum required reserves) from the total verified liquid asset amount.
- *Number of months of supplemental income:* the number of months from the first mortgage payment date to the date the Borrower will begin receiving his or her regular employment income, rounded up to the next whole number.

After determining the supplemental income, the PFI must calculate the total qualifying income.

Total qualifying income = supplemental income plus the temporary leave income

The total qualifying income that results may not exceed the Borrower's regular employment income.

Example:

Regular income amount: \$6,000 per month

Temporary leave income: \$2,000 per month

Total verified liquid assets: \$30,000

Funds needed to complete the transaction: \$18,000

Available liquid reserves: \$12,000

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



First payment date: July 1

Date Borrower will begin receiving regular employment income: November 1

Supplemental income: $\$12,000/4 = \$3,000$

Total qualifying income: $\$3,000 + \$2,000 = \$5,000$

Note: These requirements apply if the PFI becomes aware through the employment and income verification process that the Borrower is on temporary leave. If a Borrower is not currently on temporary leave, the PFI must not ask if he or she intends to take leave in the future.

5.3.9.24 Tip Income

The following table provides verification requirements for tip income.

✓	Verification of Tip Income
	<p>Obtain the following documents:</p> <ul style="list-style-type: none">• a completed <i>Request for Verification of Employment</i> (Form 1005 or Form 1005(S)), or• the Borrower's recent paystub, and• IRS W-2 forms covering the most recent two-year period or the most recent two years tax returns with IRS Form 4137, Social Security and Medicare Tax on Unreported Tip Income, to verify tips not reported by the employer. <p>See 5.3.2 Standards for Employment Documentation, for additional information.</p>
	<p>Tip income may be used to qualify the Borrower if the PFI verifies that the Borrower has received it for the last two years.</p>
	<p>The PFI must determine the amount of tip income that may be considered in qualifying the Borrower. Refer to 5.3.1.2 Variable Income section for additional information.</p>

5.3.9.25 Trust Income (11/30/23)¹²⁸

¹²⁸ MPF Announcement 2023-91 (11/30/23)

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



The following table provides verification requirements for trust income.

✓	Verification of Trust Income	
	<p>Obtain copy of the trust agreement, the trustee's statement, or the trust's federal income tax returns confirming the amount, frequency, and type of income received.</p> <p>Note: A borrower who is also a trustee may not supply the trustee's statement.</p>	
	<p>Confirm continuance of income per Continuity of Income in 5.3.1 General Income Information. This confirmation must be based on the type of income received through the trust.</p> <p>For example, if the income from the trust is derived from rental income, then three-year continuance is not required. However, if the income is a fixed payment derived from a depleting asset, then three-year continuance must be determined. If any assets from the trust are being used for down payment, closing costs, or reserves, those assets must be subtracted from the total amount before determining if the trust income meets the Continuity of Income requirements.</p> <p>If eligible employment-related assets have been liquidated and placed into a trust within 12 months of the loan's application date, the income calculation requirements in 5.3.9.8 Employment-Related Assets as Qualifying Income apply.</p>	
	<p>Requirements for Trust with Fixed Payments</p>	<p>Requirements for Trust with Variable Payments</p>
	<p>Use the fixed payment amount from the trust agreement as the Borrower's qualifying income, converting it to a monthly amount, as applicable.</p>	<p>Calculate the qualifying income amount per Variable Income in 5.3.1 General Income Information.</p> <p>Document the following:</p> <ul style="list-style-type: none"> a minimum 24-month history of trust income by obtaining copies of the

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



✓	Verification of Trust Income
	<div> <p>Document current receipt of trust income with one month's bank statement or other equivalent documentation.</p> <p>Payments must have been received for 12 months or longer to be considered stable monthly income, unless the following requirements are met:</p> <ul style="list-style-type: none"> the trust documentation reflects fixed payments, the Borrower is not the grantor, and at least one payment is received prior to closing. </div> <div> <p>borrower's signed federal tax income tax returns for the most recent two years, and</p> <ul style="list-style-type: none"> current receipt of trust income with one month's bank statement or other equivalent documentation. </div>

5.3.9.26 VA Benefits Income

The following table provides verification requirements for income from VA benefits.

Note: Education benefits are not acceptable income because they are offset by education expenses.

✓	Verification of VA Benefits Income
	Document the Borrower's receipt of VA benefits with a letter or distribution form from the VA.

✓	Verification of VA Benefits Income
	Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application. (Verification is not required for VA retirement or long-term disability benefits.)

5.4 Self-Employment Income

5.4.1 Underwriting Factors and Documentation for a Self-employed Borrower

When determining the appropriate qualifying income for a self-employed Borrower, it is important to note that business income (specifically from a partnership or S corporation) reported on an individual IRS Form 1040 may not necessarily represent income that has actually been distributed to the Borrower. The fundamental exercise, when conducting a self-employment income cash flow analysis, is to determine the amount of income that can be relied on by the Borrower in qualifying for their personal mortgage obligation. When underwriting these Borrowers, it is important to review business income distributions that have been made or could be made to these Borrowers while maintaining the viability of the underlying business. This analysis includes assessing the stability of business income and the ability of the business to continue to generate sufficient income to enable these Borrowers to meet their financial obligations.

5.4.1.1 Factors to Consider for a Self-Employed Borrower

Any individual who has a 25% or greater ownership interest in a business is considered to be self-employed.

The following factors must be analyzed before approving a mortgage for a self-employed Borrower:

- the stability of the Borrower's income,
- the location and nature of the Borrower's business,
- the demand for the product or service offered by the business,
- the financial strength of the business, and
- the ability of the business to continue generating and distributing sufficient income to enable the Borrower to make the payments on the requested mortgage.

5.4.1.2 Length of Self-Employment (1/18/2024)¹²⁹

The MPF Program generally requires PFIs to obtain a two-year history of the Borrower's prior earnings as a mean of demonstrating the likelihood that the income will continue to be received.

Where self-income is being used, and the Borrower has less than two-year history of self-employment, the self-employed income may be considered in the borrower's two-year income history, as long as the Borrower's most recent signed personal and business federal income tax returns reflect a full year (12 months) if self-employment income from the current business.

The mortgage loan file must contain documentation to support the history of receipt of prior income at the same level or greater and:

- in a field that provides the same products or services as the current business, or
- in an occupation in which he or she had similar responsibilities to those undertaken in connection with the current business.

In such cases, the PFI must give careful consideration to the nature of the Borrower's level of experience, and the amount of debt the business has acquired.

5.4.1.3 Verification of Income (1/18/2024)¹³⁰

The PFI may verify a self-employed Borrower's employment and income by obtaining from the Borrower copies of his or her signed federal income tax returns (both individual returns and in some cases, business returns) that were filed with the IRS for the past two years (with all applicable schedules attached).

Alternatively, the PFI may use IRS-issued transcripts of the Borrower's individual and business federal income tax returns that were filed with the IRS for the most recent two years—as long as the information provided is complete and legible and the transcripts include the information from all of the applicable schedules.

The PFI may provide one year of personal and business tax returns if the following requirements are met:

- the business from which the Borrower is using self-employed income must have been in existence for five years as reflected on the Form 1003, and the Borrower has had an ownership share of 25% or more for the past five years consecutively, and

¹²⁹ MPF Announcement 2024-04 (1/18/2024)

¹³⁰ MPF Announcement 2024-04 (1/18/2024)

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



- for partnerships, S corporations and corporations, the federal income tax return for the business must support the information reflected on the Form 1003. If the business was in existence prior to the borrower having 25% or ownership, then the leader must demonstrate the borrower has had 25% or more ownership for at least five years consecutively.
- for sole proprietorships, the individual federal tax return and any other documentation or information received must support the information reflected on the Form 1003 for the number of years the business has been in existence.
- all businesses are assessed separately for the five-years in existence benchmark and the number of years of personal and federal income tax returns required could differ when there are multiple self-employment income sources.
- the PFI must complete Fannie Mae's Cash Flow Analysis (Form 1084) or any other type of cash flow analysis form that applies the same principles. A copy of the written analysis must be included in the permanent loan file.

Note: Alternative documentation to establish the number of years the borrower has ownership of 25% or more in a business may be obtained as long as the documentation clearly identifies the specific business listed on the Form 1003 and is supported by the most recent year tax returns. Documentation must be obtained through a reliable source, such as an IRS-Issued Employer Identification Number Confirmation letter, business license, articles of incorporation, or partnership agreements.

When two years of signed individual federal tax returns are provided, the PFI may waive the requirement for business tax returns if:

- the Borrower is using his or her own personal funds to pay the down payment and closing costs and satisfy applicable reserve requirements,
- the Borrower has been self-employed in the same business for at least five years(requirements noted above), and
- the Borrower's individual tax returns show an increase in self-employment income over the past two years from the respective business.

5.4.1.4 Analysis of Borrower's Personal Income

The PFI must prepare a written evaluation of its analysis of a self-employed Borrower's personal income, including the business income or loss, reported on the Borrower's individual income tax returns.

The purpose of this written analysis is to determine the amount of stable and continuous income that will be available to the Borrower. This is not required when a Borrower is qualified using only income that is not derived from self-employment and self-employment is a secondary and separate source of income (or loss). Examples of income not derived from self-employment include salary and retirement income.

To determine a self-employed Borrower's income, an Income Analysis Form (Form 1084/Fannie Mae, Form 91/Freddie Mac) or equivalent must be completed and included in the Mortgage Loan File.

5.4.1.5 Analysis of Borrower's Business Income

When a Borrower is relying upon self-employed income to qualify for a mortgage and the requirements that permit the PFI to waive business tax returns are not met, the PFI must prepare a written evaluation of its analysis of the Borrower's business income. The PFI must evaluate the Borrower's business through its knowledge of other businesses in the same industry to confirm the stability of the Borrower's business income and estimate the potential for long-term earnings.

The purpose of this analysis is to:

- consider the recurring nature of the business income, including identification of pass-through income that may require additional evaluation;
- measure year-to-year trends for gross income, expenses, and taxable income for the business;
- determine (on a yearly or interim basis) the percentage of gross income attributed to expenses and taxable income; and
- determine a trend for the business based on the change in these percentages over time.

The PFI may use Fannie Mae's Comparative Income Analysis (Form 1088) or any other method of trend analysis that enables it to determine a business's viability, as long as the method used fairly presents the viability of the business and results in a degree of accuracy and a conclusion that is comparable to that which would be reached by use of Form 1088.

A copy of the written analysis and conclusions must be retained in the individual mortgage file.

5.4.1.6 Use of Business Assets

When a Borrower is using self-employment income to qualify for the loan and also intends to use assets from their business as funds for the down payment, closing costs, and/or financial reserves, the PFI must perform a business cash flow analysis to confirm that the withdrawal of funds for this transaction will not have a negative impact on the business. To assess the impact, the PFI may require a level of documentation greater than what is required to evaluate the Borrower's business income

(for example, several months of recent business asset statements in order to see cash flow needs and trends over time, or a current balance sheet).

This may be due to the amount of time that has elapsed since the most recent tax return filing, or the PFI's need for information to perform its analysis. See 5.8.2 Depository Accounts, for requirements when self-employment income is not being used to qualify, but business assets are being used for the down payment, closing costs, and/or financial reserves.

5.4.1.7 Income Verification for Self-Employed Co-Borrowers

When co-Borrower income that is derived from self-employment is not being used for qualifying purposes, the PFI is not required to document or evaluate the co-Borrower's self-employment income (or loss). Any business debt on which the Borrower is personally obligated must be included in the total monthly obligations when calculating the debt-to-income ratio.

5.4.2 Business Structures

The legal structure of a business determines the following:

- the way business income or loss is reported to the IRS,
- the taxes that are paid,
- the ability of the business to accumulate capital, and
- the extent of the owner's liability.

There are five principal business structures: sole proprietorships, partnerships, limited liability companies (LLCs), S corporations, and corporations. Knowledge of the structure of a self-employed Borrower's business will assist the PFI in analyzing and evaluating the stability of the business and the degree of the Borrower's involvement.

5.4.2.1 Sole Proprietorships

A sole proprietorship is an unincorporated business that is individually owned and managed. The individual owner has unlimited personal liability for all debts of the business. If the business fails, the Borrower not only will have to replace his or her lost income, but also will be expected to satisfy the outstanding obligations of the business. Since no distinction is made between the owner's personal assets and the assets used in the business, creditors may take either (or both) to satisfy the Borrower's business obligations.

The financial success or failure of this type of business depends solely on the owner's ability to obtain capital and to manage the various aspects of the business. Poor management skills or an inability to secure capital to keep the business running will compromise the continuance of the Borrower's

business (and income). The owner's death terminates the business and may cause the assets to be placed into probate, thus delaying the disposition of the assets to creditors and heirs.

The income, expenses, and taxable profits of a sole proprietorship are reported on the owner's IRS Form 1040, Schedule C, and are taxed at the tax rates that apply to individuals. (See Income or Loss Reported on IRS Form 1040, Schedule C.)

When evaluating a sole proprietorship, the PFI must:

- review the owner's most recent signed federal income tax returns to ensure that there is sufficient and stable cash flow to support both the business and the payments for the requested mortgage, and
- determine whether the business can accommodate the withdrawal of assets or revenues should the Borrower need them to pay the mortgage payment and/or other personal expenses.

5.4.2.2 Partnerships

A partnership is an arrangement between two or more individuals who have pooled their assets and skills to form a business and who will share profits and losses according to predetermined proportions that are set out in the partnership agreement. A partnership may be either a general partnership or a limited partnership:

- **General Partnership** — Under a general partnership, each partner has responsibility for running the business, is personally liable for the debts of the entire business, and is responsible for the actions of every other partner (unless otherwise specified in the partnership agreement). A general partnership is dissolved immediately on the death, withdrawal, or insolvency of any of the partners, although the personal liability to partnership creditors exists even after the partnership is dissolved. However, the partnership's assets will first be applied to the creditors of the business and the partners' individual assets will be first be applied to their personal creditors, with any surplus in a partner's personal assets then being applied to the remaining business creditors.
- **Limited Partnership** — Under a limited partnership, a limited partner has limited liability based on the amount he or she invested in the partnership, does not typically participate in the management and operation of the business, and has limited decision-making ability. A limited partnership will have at least one general partner who manages the business and is personally liable for the debts of the entire business. A limited partner's death, withdrawal, or insolvency does not dissolve the partnership. Because limited partnerships often are formed as tax shelters, it is more likely that IRS Form 1065, Schedule K-1, will reflect a loss instead of income. In such cases, the Borrower's ability to deduct the loss will be limited by the "at risk"

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



amount of his or her limited partnership interest (and will probably be subject to passive loss limitations).

The partnership must report its profit or loss on IRS Form 1065 and each partner's share of the profit or loss on IRS Form 1065, Schedule K-1; however, the partnership pays no tax on the partnership income.

Each partner uses the information from IRS Form 1065, Schedule K-1, to report his or her share of the partnership's net profit or loss (and special deductions and credits) on his or her IRS Form 1040—whether or not the partner receives a cash distribution from the partnership. Individual partners pay taxes on their proportionate share of the net partnership income at their individual tax rates.

To quantify the level of the Borrower's financial risk, the PFI must:

- determine whether the Borrower has guaranteed any loans obtained by the partnership (other than loans that are considered as nonrecourse debt or qualified nonrecourse debt),
- determine if the Borrower received a distribution from the partnership, and
- determine the Borrower's share of non-cash expenses that can be added back to the cash flow of the partnership business.

For additional information, see the following:

- Section 5.5.7 Income of Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1
- Section 5.6.1 Analyzing Partnership Returns for a Partnership or LLC

5.4.2.3 Limited Liability Companies

A limited liability company (LLC) is a hybrid business structure that is designed to offer its member-owners the tax efficiencies of a partnership and the limited liability advantages of a corporation. The member-owners of the LLC (or their assigned managers) can sign contracts, sell assets, and make other important business decisions. The LLC operating agreement may set out specific divisions of power among the member-owners (or managers). Although the member-owners generally have limited liability, there may be some instances in which they are required to personally guarantee some of the loans that the LLC obtains. Profits from the operation of the LLC may be distributed beyond the pool of member-owners, such as by offering profit distributions to managers.

The LLC may report its profit or loss on IRS Form 1065 or IRS Form 1120S with each member-owner's share of the profit or loss on Schedule K-1, IRS Form 1065 or IRS Form 1120S; however, the LLC pays no tax on its income. Each member-owner uses the information from Schedule K-1 to report his or her share of the LLC's net profit or loss (and special deductions and credits) on his or her individual IRS Form 1040, whether or not the member-owner receives a cash distribution from the LLC.

Individual member-owners pay taxes on their proportionate share of the LLC's net income at their individual tax rates.

The PFI must evaluate the LLC using IRS Form 1065 or IRS Form 1120S along with the Schedule K-1, as applicable, to determine the following:

- whether the Borrower actually received a cash distribution from the LLC, since profits may or may not be distributed to the individual member-owners; and
- whether the Borrower has guaranteed any loans obtained by the LLC (other than Mortgage Loans that are considered as nonrecourse debt or qualified nonrecourse debt).

For additional information, see the following:

- Section 5.5.7 Income of Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1
- Section 5.6.1 Analyzing Partnership Returns for a Partnership or LLC

5.4.2.4 S Corporations

An S corporation is a legal entity that has a limited number of stockholders and elects not to be taxed as a regular corporation. Business gains and losses are passed on to the stockholders. An S corporation has many of the characteristics of a partnership. Stockholders are taxed at their individual tax rates for their proportionate share of ordinary income, capital gains, and other taxable items.

The ordinary income for an S corporation is reported on IRS Form 1120S, with each shareholder's share of the income reported on IRS Form 1120S, Schedule K-1.

Because this income from the distribution of corporate earnings may or may not be distributed to the individual shareholders, the PFI must determine if the Borrower received a cash distribution from the S corporation.

The cash flow of an S corporation is otherwise evaluated similarly to that of a regular corporation.

For additional information, see the following:

- Section 5.5.7 Income of Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1
- Section 5.6.2 Analyzing Returns for an S Corporation

5.4.2.5 Corporations

A corporation is a state-chartered legal entity that exists separately and distinctly from its owners (who are called stockholders or shareholders). It is the most flexible form of business organization for purposes of obtaining capital. A corporation can sue; be sued; hold, convey, or receive property; enter into contracts under its own name; and does not dissolve when its ownership changes. There

are two types of corporations—publicly owned (widely held) corporations and privately owned (closely held) corporations. Because more than 50% of the outstanding stock of a privately owned corporation is owned directly or indirectly by no more than five people, the corporation has little or no access to public funds and must raise capital through institutional financing.

Although legal control of the corporation rests with its stockholders, they typically are not responsible for the day-to-day operations of the business since they elect a board of directors to manage the corporation and delegate responsibility for the day-to-day operations to the directors and officers of the company. The distribution of profits earned by the business is determined by the corporation's board of directors or other entities that have a significant financial interest in the business. However, the profits usually are filtered down to the owners in the form of dividends. Since a stockholder is not personally liable for the debts of the corporation, losses are limited to his or her individual investment in the corporation's stock.

Corporations must report income and losses on IRS Form 1120 and pay taxes on the net income. The corporation distributes profits to its shareholders in the form of dividends, which it reports on IRS Form 1099-DIV. The shareholders must then report the dividends as income on their individual IRS Form 1040.

For additional information, see:

- Section 5.5.7 Income of Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1
- Section 5.6.3 Analyzing Returns for a Corporation

5.4.3 IRS Forms Quick Reference

The following table lists the IRS forms referenced in this section and provides the full titles.

IRS Form Number	Title
Form 990	<i>Return of Organization Exempt From Income Tax Form</i>
Form 1040	<i>U.S. Individual Income Tax Return</i>
Form 1040, Schedule B	<i>Interest and Ordinary Dividends</i>

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



IRS Form Number	Title
Form 1040, Schedule C	<i>Profit or Loss from Business (Sole Proprietorship)</i>
Form 1040, Schedule D	<i>Capital Gains and Losses</i>
Form 1040, Schedule E	<i>Supplemental Income and Loss</i>
Form 1040, Schedule F	<i>Profit or Loss From Farming</i>
Form 1065	<i>U.S. Return of Partnership Income</i>
Form 1065, Schedule K-1	<i>Partner's Share of Income, Deductions, Credits, etc.</i>
Form 1099-A	<i>Acquisition or Abandonment of Secured Property</i>
Form 1099-C	<i>Cancellation of Debt</i>
Form 1099-DIV	<i>Dividends and Distributions</i>
Form 1099-MISC	<i>Miscellaneous Income</i>
Form 1120	<i>U.S. Corporation Income Tax Return</i>

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



IRS Form Number	Title
Form 1120-S	<i>U.S. Income Tax Return for an S Corporation</i>
Form 1120-S, Schedule K-1	<i>Shareholder's Share of Income, Deductions, Credits, etc.</i>
Form 2106	<i>Employee Business Expenses</i>
Form 4506-C	<i>IVES Request for Transcript of Tax Return</i>
Form 4797	<i>Sales of Business Property</i>
Form 6252	<i>Installment Sale Income</i>
Form 8825	<i>Rental Real Estate Income and Expenses of a Partnership or an S Corporation</i>
Form W-4	<i>Employee's Withholding Allowance Certificate</i>

5.5 Self-Employment Documentation Requirements for an Individual

5.5.1 General Information on Analyzing Individual Tax Returns

In analyzing a self-employed Borrower's personal income, the PFI should focus on earnings trends and the actual sources of the income, not just on the total amount of the income. The PFI must confirm the stability and likelihood of continuance for each source of income that the Borrower reports on his or her IRS Form 1040. The PFI should not include any income that does not appear to be stable or

likely to continue. The PFI should, however, consider all recurring income that the Borrower can expect to continue receiving over time.

Income may be considered as recurring if the Mortgage Loan application package does not include any specific indication of an upcoming change in the Borrower's employment or income, the Borrower's employment history has no gaps or other significant fluctuations in income, and any income received under a contractual agreement (other than an "at will" contract) will continue to be received for at least three years.

Examples of recurring income include:

- regular salaries or wages,
- bonus or commission income that has been received on a consistent basis,
- interest income from long-term investments that are not being liquidated in connection with the mortgage transaction, and
- earnings from the operation of the Borrower's business.

Any nonrecurring loss (such as an extraordinary one-time expense) should not be included in the cash flow analysis; therefore, in developing the Borrower's qualifying income, the PFI should adjust the Borrower's cash flow by the amount of any nonrecurring loss.

5.5.2 Income Reported on IRS Form 1040

To get an accurate picture of the Borrower's cash flow, the PFI will need to make certain adjustments to some of the income (or loss) that the Borrower reported on IRS Form 1040 since it may not be recurring income. The PFI also may need to further analyze the accompanying tax schedules or supplemental tax forms.

This section describes how the PFI should treat various components of the income (or loss) that a self-employed Borrower reported on IRS Form 1040 in its cash flow analysis.

Note: Eligibility criteria for accepting income from specific non-business sources is generally the same as that for salaried or commissioned Borrowers (see 5.3.1 General Income Information).

5.5.2.1 Wages, Salary, and Tips

If an amount is shown for wages, salary, or tips for a self-employed Borrower, it may mean:

- the Borrower operates as a corporation and pays himself or herself a salary or
- the Borrower's spouse is employed and receives a salary (either from the Borrower's business or from another employer).

If the income relates to the Borrower's spouse who is employed by another company and the income will be used in qualifying for the mortgage, the spouse's income must be verified directly with his or her employer since it may be more appropriate to use the spouse's current earnings in underwriting the mortgage. Any income that is based on current earnings or that will not be used for qualifying purposes should be deducted from the Borrower's cash flow.

5.5.2.2 Interest and Dividend Income

The taxable interest and dividend income that is reported on IRS Form 1040, Schedule B, may be counted as stable income only if it has been received for the past two years. However, the income cannot be counted if the Borrower is using the interest-bearing or dividend-producing asset as the source of the down payment or closing costs.

Any taxable interest or dividend income that is not recurring must be deducted from the Borrower's cash flow.

Tax-exempt interest income may be counted as stable income only if it has been received for the past two years and is expected to continue. If so, this income can be added to the Borrower's cash flow.

5.5.2.3 State and Local Tax Refunds

Taxable state and local tax refunds, credits, or offsets of state and local income taxes should not be used as qualifying income since the income was accounted for in the previous year's tax returns. Therefore, the Borrower's cash flow must be adjusted accordingly.

5.5.2.4 Alimony Received

Alimony may be accepted as qualifying income if it meets the requirements described in Other Sources of Income. Any reported alimony received that is determined to be nonrecurring must be deducted from the Borrower's total income reported on IRS Form 1040.

5.5.2.5 IRA Distributions, Pensions and Annuities, and Social Security Benefits

Income received from IRA distributions, pensions, annuities, and Social Security benefits may be accepted as qualifying income. See Other Sources of Income, for specific requirements.

The nontaxable portion of such recurring income must be added to the Borrower's cash flow. The tax-exempt portion of income from these sources may be increased to reflect the tax savings, as described in General Income Information. If the income from these sources is determined to be nonrecurring, the income must be deducted from the Borrower's cash flow.

5.5.2.6 Unemployment Compensation

Unemployment compensation may be considered as acceptable qualifying income if it meets the requirements described in Other Sources of Income. Any reported unemployment compensation that is determined to be nonrecurring must be deducted from the Borrower's cash flow.

5.5.2.7 Other Income (or Loss)

If the Borrower reported income from other sources, the PFI must verify that the income is an eligible source for qualifying purposes per the requirements described in Other Sources of Income, for the applicable income source. Income that is determined to be nonrecurring or ineligible for qualifying purposes must be deducted from the Borrower's cash flow. If the Borrower reported any nonrecurring losses, the Borrower's cash flow should be increased by the amount of the losses.

5.5.3 Income or Loss Reported on IRS Form 1040, Schedule C

5.5.3.1 Income (or Loss) from a Sole Proprietorship

The income (or loss) from a Borrower's sole proprietorship is calculated on IRS Form 1040, Schedule C, then transferred to IRS Form 1040.

The PFI may need to make certain adjustments to the net profit or loss shown on Schedule C to arrive at the Borrower's cash flow. For example, Schedule C may include income that was not obtained from the profits of the Borrower's business. If the PFI determines that such income is not recurring, it should adjust the Borrower's cash flow by deducting the nonrecurring income.

5.5.3.2 Recurring vs. Non-recurring Income Expenses

The PFI must determine whether income is recurring or non-recurring.

Non-recurring income must be deducted in the cash flow analysis, including any exclusion for meals and entertainment expenses reported by the Borrower on Schedule C.

The following recurring items claimed by the Borrower on Schedule C must be added back to the cash flow analysis: depreciation, depletion, business use of a home, amortization, and casualty losses.

5.5.4 Income or Loss Reported on IRS Form 1040, Schedule D

IRS Form 1040, Schedule D, is used to report capital gains and losses. Income received from a capital gain is generally a one-time transaction; therefore, it should not usually be considered part of the Borrower's stable monthly income.

5.5.4.1 Calculating Borrower Cash Flow from Schedule D and Required Documentation

If the income calculated on the Schedule D shows that the Borrower has realized capital gains for the last two years, as may be the case when the Borrower's business has a constant turnover of assets

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



that produces regular gains, the recurring gains can be considered in determining the Borrower's stable monthly income. In this case, the Borrower must provide evidence of ownership of additional property or assets that can be sold if extra income is needed to make future mortgage payments.

The table below provides the requirements for calculating cash flow from Schedule D and the associated required documentation.

If ...	Then ...
recurring capital gains relate to the sale of business property,	PFIs must obtain a copy of the applicable Sale of Business Property (IRS Form 4797) to support the recurring nature of the capital gains.
Schedule D includes principal payments on an installment sales contract,	PFIs must obtain a copy of <ul style="list-style-type: none"> the Installment Sale Income (IRS Form 6252), and the note or contract to verify that the Borrower will continue to receive the payments for at least three years.
the capital gain on the principal payment and interest income from an installment sales contract is determined to be nonrecurring,	the amount must be deducted from the Borrower's cash flow.

Note: Capital losses identified on IRS Form 1040, Schedule D, do not have to be considered when calculating income or liabilities, even if the losses are recurring.

5.5.5 Income or Loss Reported on IRS Form 1040 Schedule, E

Income received from rents, royalties, and distributions from partnerships, corporations, estates, trusts, etc., is calculated on IRS Form 1040, Schedule E, and transferred to IRS Form 1040.

Rather than using Schedule E for income related to distributions from partnerships, corporations, estates, and trusts, the PFI should rely on Schedule K-1 (see Section 5.5.7 Income of Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1).

5.5.5.1 Royalty Income

Schedule E should be used to determine the supplemental income to use for royalties. The PFI must include the total amount of royalty payments received, and must document the Borrower's receipt of royalty income for 12 months and the likelihood of continued receipt of such income for at least three years (see Section 5.3.9 Other Sources of Income).

5.5.5.2 Rental Income

If rental income is reported on Schedule E, only the rental income that relates to properties shown on the Schedule of Real Estate Owned on the Borrower's loan application should be included.

All regular and ongoing expenses for the properties, such as maintenance, advertising, management fees, utilities, homeowners' association dues, and supply costs, should be subtracted from the Borrower's cash flow.

Depending on the approach used to calculate cash flow, adjustments will need to be made for depreciation and any one-time extraordinary expenses, such as the costs of repairing damage that resulted from a natural disaster.

In most situations, the full amount of the mortgage payment for a rental property will be factored into the net rental income calculation, but it may also be counted as part of the liabilities that are considered in the calculation of the Borrower's total debt-to-income ratio. Therefore, the PFI must add back any portion of the mortgage payment, including interest, taxes, and insurance, necessary to avoid double counting of these expenses.

The PFI must pay particular attention to the effect of "passive loss" limitations or prior "carryovers" related to the Borrower's rental properties and, depending on the method it uses for the cash flow analysis, make any special adjustments necessary to account for them.

5.5.6 Income or Loss Reported on IRS Form 1040, Schedule F

Income received from farming is calculated on IRS Form 1040, Schedule F, and transferred to IRS Form 1040.

Note: Other income on Schedule F may represent income that is not obtained from the Borrower's farming operations.

The PFI may need to make certain adjustments to the net income amount that was transferred to IRS Form 1040. For example, certain federal agricultural program payments, co-op distributions, and

insurance or loan proceeds are not fully taxable, so they would not be reported on IRS Form 1040. These income sources may or may not be stable or continuous and could be a one-time occurrence.

If the PFI verifies that the net income amounts that were transferred to IRS Form 1040 are stable, consistent, and continuing, the Borrower's cash flow must be adjusted by the nontaxable portion of any recurring income from these sources. Otherwise, the income must be deducted from the Borrower's cash flow.

The PFI can adjust the Borrower's cash flow by adding the amount of any deductions the Borrower claimed on Schedule F for depreciation, amortization, casualty loss, depletion, or business use of his or her home.

5.5.7 Income of Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1

The version of Schedule K-1 that is utilized to report a Borrower's share of income (or loss) is based on how the business reports earnings for tax purposes:

- partnership — reported on IRS Form 1065, Schedule K-1;
- S corporation — reported on IRS Form 1120S, Schedule K-1; and
- LLC — reported on either IRS Form 1065 or IRS Form 1120S, Schedule K-1, depending on how the federal income tax returns are filed for the LLC.

The PFI must use caution when including income that the Borrower draws from the Borrower's partnership or S corporation as qualifying income. Ordinary income, net rental real estate income, and other net rental income reported on Schedule K-1 may be included in the Borrower's cash flow provided the PFI can confirm that the business has adequate liquidity to support the withdrawal of earnings, as described below:

- If the Borrower has a two-year history of receiving "guaranteed payments to the partner" from a partnership or an LLC, these payments can be added to the Borrower's cash flow.
- 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. But if the Schedule K-1 does not reflect a documented, stable history, then the PFI must confirm adequate business liquidity, as discussed below.

If business tax returns are required, then the PFI must consider the type of business structure and analyze the business returns, according to the requirements described in Underwriting Factors and Documentation for a Self-Employed Borrower.

The PFI may use discretion in selecting the method to confirm that the business has adequate liquidity to support the withdrawal of earnings. When business tax returns are provided, for example,

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



the PFI may calculate a ratio using a generally accepted formula that measures business liquidity by deriving the proportion of current assets available to meet current liabilities.

It is important that the PFI select a business liquidity formula based on how the business operates.

For example:

- The Quick Ratio (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities.

Quick Ratio = (current assets — inventory) ÷ current liabilities

- The Current Ratio (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income.

Current Ratio = current assets ÷ current liabilities

For either ratio, a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings.

5.5.7.1 Documentation Requirements

The following table describes the documentation that the Borrower must provide. The Borrower must select one item from each row.

✓	Documentation Requirements
	<ul style="list-style-type: none">• the most recent two years of signed individual federal income tax returns—IRS Form 1040; or
	<ul style="list-style-type: none">• the most recent two years of IRS Schedule K-1; or
	<ul style="list-style-type: none">• the most recent two years of business federal income tax returns (IRS Form 1065 or IRS Form 1120S), unless the requirements to waive business tax returns have been met

5.6 Self-Employment Documentation Requirements for a Business

5.6.1 Analyzing Partnership Returns for a Partnership or LLC

Partnerships and some LLCs use IRS Form 1065 for filing informational federal income tax returns for the partnership or LLC. The partner's or member-owner's share of income (or loss) is carried over to IRS Form 1040, Schedule E. See Business Structures, for more information on partnerships and LLCs.

A Borrower with an ownership interest in a partnership or LLC may receive income in the form of wages or other compensation from the partnership or LLC in addition to the Borrower's proportionate share of income (or loss) reported on the Schedule K-1.

5.6.1.1 Evaluating the Business Income

When the Borrower has 25% or more ownership interest in the business and business tax returns are required, the PFI must perform a business cash flow analysis and evaluate the overall financial position of the Borrower's business to determine whether:

- income is stable and consistent, and
- sales and earnings trends are positive.

If the business does not meet these standards, business income cannot be used to qualify the Borrower.

5.6.1.2 Borrower's Proportionate Share of Income or Loss

The Borrower's proportionate share of income or loss is based on the Borrower's partnership percentage of Ending Capital in the business as shown on IRS Form 1065, Schedule K-1.

The PFI can only consider the Borrower's proportionate share of the business income or loss after making the adjustments to the business cash flow analysis discussed below.

5.6.1.3 Adjustments to Business Cash Flow

Items that can be added back to the business cash flow include depreciation, depletion, amortization, casualty losses, and other losses that are not consistent and recurring.

The following items should be subtracted from the business cash flow:

- travel and meals exclusion,
- other reported income that is not consistent and recurring, and
- the total amount of obligations on mortgages, notes, or bonds that are payable in less than one year.

These adjustments are not required for lines of credit or if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them.

5.6.1.4 Income from Partnerships, LLCs, Estates, and Trusts

Income from partnerships, LLCs, estates, or trusts can only be considered if the PFI obtains documentation, such as the Schedule K-1, verifying that:

- the income was actually distributed to the Borrower, or
- the business has adequate liquidity to support the withdrawal of earnings. If the Schedule K-1 provides this confirmation, no further documentation of business liquidity is required.

The PFI may use discretion in selecting the method to confirm that the business has adequate liquidity to support the withdrawal of earnings. When business tax returns are provided, for example, the PFI may calculate a ratio using a generally accepted formula that measures business liquidity by deriving the proportion of current assets available to meet current liabilities.

It is important that the PFI select a business liquidity formula based on how the business operates.

For example:

- The Quick Ratio (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities.

Quick Ratio = (current assets — inventory) ÷ current liabilities

- The Current Ratio (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income.

Current Ratio = current assets ÷ current liabilities

For either ratio, a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings.

5.6.2 Analyzing Returns for an S Corporation

S corporations and some LLCs pass gains and losses on to their shareholders, who are then taxed at the tax rates for individuals. S corporations and some LLCs use IRS Form 1120S, Schedule K-1, for filing federal income tax returns for the corporation. The shareholder's share of income or loss is carried over to IRS Form 1040, Schedule E. See Business Structures, for more information on S corporations. A Borrower with an ownership interest in an S corporation or LLC may receive income in the form of wages or dividends in addition to his or her proportionate share of business income (or loss) reported on Schedule K-1.

5.6.2.1 Evaluating the Business Income

When the Borrower has 25% or more ownership interest in the business, the PFI must perform a business cash flow analysis in order to evaluate the overall financial position of the business and confirm:

- the business income is stable and consistent, and
- the sales and earnings trends are positive.

If the business does not meet these standards, business income cannot be used to qualify the Borrower.

5.6.2.2 Borrower's Proportionate Share of Income or Loss

The Borrower's proportionate share of income or loss is based on the Borrower's (shareholder) percentage of stock ownership in the business for the tax year as shown on IRS Form 1120S, Schedule K-1. The cash flow analysis should consider only the Borrower's proportionate share of the business income (or loss), taking into account any adjustments to the business income that are discussed below. Business income may only be used to qualify the Borrower if the PFI obtains documentation verifying that

- the income was actually distributed to the Borrower, or
- the business has adequate liquidity to support the withdrawal of earnings. If the Schedule K-1 provides this confirmation, no further documentation of business liquidity is required.

The PFI may use discretion in selecting the method to confirm that the business has adequate liquidity to support the withdrawal of earnings. When business tax returns are provided, for example, the PFI may calculate a ratio using a generally accepted formula that measures business liquidity by deriving the proportion of current assets available to meet current liabilities.

It is important that the PFI select a business liquidity formula based on how the business operates. For example:

- The Quick Ratio (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities.

$$\text{Quick Ratio} = (\text{current assets} - \text{inventory}) \div \text{current liabilities}$$

- The Current Ratio (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income.

$$\text{Current Ratio} = \text{current assets} \div \text{current liabilities}$$

For either ratio, a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings.

5.6.2.3 Adjustments to Business Cash flow

Items that can be added back to the business cash flow include depreciation, depletion, amortization, casualty losses, and other losses that are not consistent and recurring.

The following items should be subtracted from the business cash flow:

- travel and meals exclusion,
- other reported income that is not consistent and recurring, and
- the total amount of obligations on mortgages, notes, or bonds that are payable in less than one year.

These adjustments are not required for lines of credit or if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them.

5.6.3 Analyzing Returns for a Corporation

Corporations use IRS Form 1120 to report their taxes. See Section 5.4.2 Business Structures, for more information on corporations.

5.6.3.1 Corporate Fiscal Year

When funds from a corporation that operates on a fiscal year that is different from the calendar year are used in qualifying a self-employed Borrower, the PFI must make time adjustments to relate the corporate income to the Borrower's individual tax return, which is on a calendar year basis.

5.6.3.2 Determining the Corporation's Financial Position

After determining the income available to the Borrower for qualifying purposes, the PFI must evaluate the overall financial position of the corporation. Ordinary income from the corporation can be used to qualify the Borrower only if the following requirements are met:

- the business income must be stable and consistent,
- the sales and earnings trends must be positive, and
- the business must have adequate liquidity to support the Borrower's withdrawals of cash without having severe negative effects.

5.6.3.3 Borrower's Share of Income or Loss

The cash flow analysis can only consider the Borrower's share of the business income or loss, taking into consideration adjustments to business income provided below. Earnings may not be used unless the Borrower owns 100% of the business.

5.6.3.4 Adjustments to Cash Flow

Items that can be added back to the business cash flow include depreciation, depletion, amortization, casualty losses, net operating losses, and other special deductions that are not consistent and recurring.

The following items should be subtracted from the business cash flow:

- travel and meals exclusion,
- tax liability and amount of any dividends, and
- the total amount of obligations on mortgages, notes, or bonds that are payable in less than one year. These adjustments are not required if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them.

5.6.4 Analyzing Profit and Loss Statements

The PFI may use a profit and loss statement—audited or unaudited—for a self-employed Borrower’s business to support its determination of the stability or continuance of the Borrower’s income. A typical profit and loss statement has a format similar to IRS Form 1040, Schedule C.

A year-to-date profit and loss statement is not required for most businesses, but if the Borrower’s loan application is dated more than 120 days after the end of the business’s tax year, the PFI may choose to require this document if it believes that it is needed to support its determination of the stability or continuance of the Borrower’s income.

If the PFI did not count the Borrower’s year-to-date salary or draws in determining the Borrower’s qualifying income, it may add them to the net profit shown on the profit and loss statement as well as adding any of the allowable adjustments it used in analyzing the tax returns for the business, such as nonrecurring income and expenses, depreciation, and depletion.

However, only the Borrower’s proportionate share of these items may be considered in determining the amount of income from the business that the Borrower can use for qualifying purposes.

5.7 Asset Assessment

To ensure QM Status, PFIs are required to verify the Borrower’s current assets pursuant to TILA/Regulation Z (including 12 CFR 1026.43) and the applicable verification requirements outlined in Fannie Mae Single Family Selling Guide Sections B3-4. The verification requirements outlined in this section and this Guide are intended to meet TILA/Regulation Z and its official commentary which permits originators to rely on GSE validation standards to provide reasonably reliable evidence (specifically and the applicable verification requirements outlined in Fannie Mae Single Family Selling Guide Sections B3-3 through B3-6). Any deviations in this Guide from those the GSE’s verification standards were was only intended to impose more restrictive requirements, and not intend to be

more permissive. In some circumstances more restrictive, which are provided within this section. To the extent the guidance for verification requirements in this MPF Traditional Selling Guide contradict what is provided in aforementioned sections of Fannie Mae's Single Family Selling Guide, the more restrictive policy will supersede. The Fannie Mae Selling Guides should only be used for verification purposes. Nothing in the Fannie Mae guides supersede a PFI's obligation to considering Borrower's current or reasonably expected income as provided for in TILA/Regulation Z (including 12 CFR 1026.43), and this is the stated intent for verification standards only, as a result, the underwriting and eligibility guidelines of the MPF Guides apply to MPF Traditional mortgage loans.

5.7.1 Minimum Reserve Requirements

Liquid financial reserves are those liquid or near liquid assets that are available to a Borrower after the mortgage closes. Liquid financial reserves include cash and other assets that are easily converted to cash by the Borrower by

- drafting or withdrawing funds from an account,
- selling an asset,
- redeeming vested funds, or
- obtaining a loan secured by assets from a fund administrator or an insurance company.

Reserves are measured by the number of months of the qualifying payment amount for the subject mortgage (based on PITIA) that a Borrower could pay using his or her financial assets.

For monthly housing expense and qualifying payment requirements, see 5.14.3 Monthly Housing Expense for the Subject Property.

Funds to close are subtracted from available assets when considering sufficient assets for reserves.

5.7.1.1 Acceptable Sources of Reserves

Examples of liquid financial assets that can be used for reserves include readily available funds in

- checking or savings accounts;
- investments in stocks, bonds, mutual funds, certificates of deposit, money market funds, and trust accounts;
- the amount vested in a retirement savings account; and
- the cash value of a vested life insurance policy.

5.7.1.2 Unacceptable Sources of Reserves

The following cannot be counted as part of the Borrower's reserves:

- funds that have not been vested;
- funds that cannot be withdrawn under circumstances other than the account owner's retirement, employment termination, or death;
- stock held in an unlisted corporation;
- non-vested stock options and non-vested restricted stock;
- personal unsecured loans;
- interested party contributions (IPCs) (see Interested Party Contributions (IPCs));
- any amount of a lender contribution (see Grants and Lender Contributions);
- cash proceeds from a cash-out refinance transaction on the subject property;
- A cash advance on a revolving charge account or unsecured line of credit;
- Salary advances; and
- Funds in a Custodial or "In Trust For" Account.

5.7.1.3 Supplementing Borrower Funds

Funds received from acceptable sources may be used to supplement the Borrower's funds to satisfy any financial reserve requirement.

Note: Eligible gift funds (but not gifts of equity) may be used to satisfy reserve requirements.

5.7.1.4 Determining Required Minimum Reserves

Minimum required reserves vary depending on

- the transaction,
- the occupancy status and amortization type of the subject property,
- the number of units in the subject property, and
- the number of other financed properties the Borrower currently owns.

MPF Program requires that for manually underwritten conventional Mortgage Loans with an LTV less than or equal to 80%, PFIs are expected to determine the level of reserves to require based on overall risk assessment of the Mortgage Loan. If the LTV is greater than 80% then the PFI must meet the reserve requirements of the MI Company.

For second home occupancy types, a minimum of two (2) months PITIA cash reserves are required. The reserve requirements may not be waived.

5.7.2 Interested Party Contributions (IPCs) (11/30/23)¹³¹

Interested party contributions (IPCs) are costs that are normally the responsibility of the property purchaser that are paid directly or indirectly by someone else who has a financial interest in, or can influence the terms and the sale or transfer of, the subject property.

Interested parties to a transaction include, but are not limited to, the property seller, the builder/developer, the real estate agent or broker, or an affiliate who may benefit from the sale of the property and/or the sale of the property at the highest price possible. A lender or employer is not considered an interested party to a sales transaction unless it is the property seller or is affiliated with the property seller or another interested party to the transaction. (For MPF Program purposes, an affiliation exists when there is direct common ownership or control by the entity originating the loan over the interested party or vice versa, or when there is direct common ownership or control by a third party over both the entity originating the loan and the interested party. A typical ongoing business relationship — for example, the relationship between a builder and a lender that serves as its financial institution — does not constitute an affiliation.)

Note: See 5.9.4 Personal Gifts for an exception on when the seller of the subject property is also an acceptable donor.

IPCs are either financing concessions or sales concessions. The MPF Program considers the following to be IPCs:

- funds that are paid directly from the interested party to the Borrower;
- funds that flow from an interested party through a third-party organization, including nonprofit entities, to the Borrower;
- funds that flow to the transaction on the Borrower's behalf from an interested party, including a third-party organization or nonprofit agency; and
- funds that are donated to a third party, which then provides the money to pay some or all of the closing costs for a specific transaction.

A lender credit derived from premium pricing is not considered an IPC even if the lender is an interested party to the transaction.

The MPF Program does not permit IPCs to be used to make the Borrower's down payment, meet financial reserve requirements, or meet minimum Borrower contribution requirements.

5.7.2.1 IPC Limits

The table below provides IPC limits for conventional mortgages.

¹³¹ MPF Announcement 2023-90 (11/30/23)

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



IPCs that exceed these limits are considered sales concessions. The property's sales price must be adjusted downward to reflect the amount of contribution that exceeds the maximum, and the maximum LTV/CLTV ratios must be recalculated using the reduced sales price or appraised value.

Occupancy Type	LTV/CLTV Ratio	Maximum IPC
Principal residence or second home	Greater than 90%	3%
	75.01% – 90%	6%
	75% or less	9%

5.7.2.2 Checklist for IPCs

✓	Checklist for IPCs
	Ensure that any and all IPCs have been identified and taken into consideration.
	Provide the appraiser with all appropriate financing data and IPCs for the subject property granted by anyone associated with the transaction.
	Ensure that the property value is adequately supported.
	Ensure that the LTV and CLTV ratios, after any IPCs are taken into consideration, remain within eligibility limits for the particular product.

✓	Checklist for IPCs
	Ensure that mortgage insurance coverage, if applicable, has been obtained, based on the LTV ratio after any IPC adjustments have been made.
	Scrutinize all loan and sales contract documents, including but not limited to the sales contract, the loan estimate, the loan application, the appraisal report, and the settlement statement.
	Ensure that all elements of the settlement statement were taken into consideration during the underwriting process.
	Ensure that fees and expenses are consistent between all documents. Analyze any differences and review any discrepancies.

5.7.2.3 Lender Incentives for Borrowers

The Lender may provide the Borrower with a cash or cash-like (e.g., a gift card) incentive that is not reflected on the settlement statement provided that:

- the amount of the incentive does not exceed \$500, and
- no repayment is required.

Because the Lender is not typically a party to the sales transaction, these types of incentives are not considered IPCs and, as a result, are not included in the IPC limit calculation. Furthermore, these incentives are not considered cash out to the Borrower and do not have to be included in the cash back to Borrower at closing calculation.

Note: Documentation of compliance with this policy will not be required at the loan level. However, the Lender must establish policies and/or procedures to ensure that the loans with these types of incentives that it delivers, whether or not the loans were originated by the PFI, are in compliance with this policy.

5.7.3 Types of Interest Party Contributions (IPCs)

5.7.3.1 Undisclosed IPCs

Mortgages with undisclosed IPCs are not eligible for delivery. Examples of these types of contributions include, but are not limited to, moving expenses, payment of various fees on the Borrower's behalf, "silent" second mortgages held by the property seller, and other contributions that are given to the Borrower outside of closing and are not disclosed on the settlement statement.

5.7.3.2 Down Payment Assistance Programs

Funds that are donated to third parties which are then applied toward some or all of the Borrower's closing costs for a specific transaction are sometimes referred to as Down Payment Assistance Programs (DAPs). As long as the DAP allows such uses, these funds may also be used to pay for energy-related improvements that meet the requirements described in this Guide.

IPC funds that flow through a DAP may be used for allowable closing costs, prepaids, and energy-related expenses in compliance with the MPF Programs IPC limits.

5.7.3.3 Financing Concessions

Financing concessions that are paid on the Borrower's behalf are subject to IPC limits. Financing concessions are:

- financial contributions from interested parties that provide a benefit to the Borrower in the financing transaction;
- payments or credits related to acquiring the property; and
- payments or credits for financing terms, including prepaids.

Typical fees and/or closing costs paid by a seller in accordance with local custom, known as common and customary fees or costs, are not subject to IPC limits. Payoff of a PACE loan by a seller is not subject to IPC limits because it is not a financing concession. Financing concessions that exceed the limits listed below are considered sales concessions and are subject to IPC limits.

Financing concessions typically include origination fees, discount points, commitment fees, appraisal costs, transfer taxes, stamps, attorneys' fees, survey charges, title insurance premiums or charges, real estate tax service fees, and funds to subsidize a temporary or permanent interest rate buydown (if these fees are not considered common and customary fees or costs based on local custom, as described above). Financing concessions can also include prepaid items, such as:

- interest charges (limited to no more than 30 days of interest);
- real estate taxes covering any period after the settlement date (only if the taxes are being impounded by the servicer for future payment);
- property insurance premiums (limited to no more than 14 months);

- homeowners' association (HOA) assessments covering any period after the settlement date (limited to no more than 12 months);
- initial and/or renewal mortgage insurance premiums; and
- escrow accruals required for renewal of Borrower-purchased mortgage insurance coverage.

A legitimate pro-rated real estate tax credit in places where real estate taxes are paid in arrears is not considered a financing concession and is not subject to IPC limits.

5.7.3.4 Sales Concessions

Sales concessions are IPCs that take the form of non-realty items. They include cash, furniture, automobiles, decorator allowances, moving costs, and other giveaways, as well as financing concessions that exceed the MPF Program limits. Consequently, the value of sales concessions must be deducted from the sales price when calculating LTV and combined LTV ratios for underwriting and eligibility purposes.

5.7.3.5 Interest Rate Buydowns

If a temporary or permanent interest rate buydown is being offered to the Borrower, the cost of the subsidy to fund that buydown must be included in the IPC calculation, if received from an interested party or a lender affiliated with an interested party.

The PFI must determine if the cost of the subsidy meets allowable IPC limits. This can be accomplished by confirming the current market interest rate—in other words, the rate that is offered without the payment of any discount points—and the discount points being charged to obtain the interest rate being offered with the buydown.

Note: Fees for standby commitments that a builder obtains for blanket coverage before it enters into a contract with a Borrower are not subject to IPC limits because they are not attributable to the specific mortgage transaction.

5.7.3.6 Payment Abatements

A payment abatement is considered to be a financing concession since it is an incentive provided to the Borrower by an interested party, in which the interested party provides funds to pay or reimburse a certain number of monthly payments on the Borrower's behalf. The monthly payments may cover, in whole or in part, principal, interest, taxes, insurance and other assessments (PITIA). These funds are provided to the directly to Originator or a third party to be distributed over the term of the abatement period or credited against the Borrower's future obligations.

Mortgage loans with payment abatements of any type are not eligible for delivery regardless of whether they are disclosed on the settlement statement. This prohibition applies to transactions in

which an interested party is directly funding the abatement and/or if the funding for the abatement is flowing through another entity such, as a nonprofit down payment assistance program.

Note: The payment of HOA fees is not considered an abatement unless the payment of the fee extends for more than 12 months. The payment of HOA fees for 12 months or less is considered an interested party contribution.

5.7.4 Virtual Currency

Virtual currency that has been exchanged into U.S. dollars is acceptable for the down payment, closing costs, and financial reserves provided the following requirements are met:

- there is documented evidence that the virtual currency has been exchanged into U.S. dollars and is held in a U.S. or state regulated financial institution, and
- the funds are verified in U.S. dollars prior to the loan closing.

A large deposit may be from virtual currency that was exchanged into U.S. dollars. The PFI must obtain sufficient documentation to verify the funds originated from the Borrower's virtual currency account.

Virtual currency may not be used for the deposit on the sales contract (earnest money) for the purchase of the subject property.

5.8 Verification of Depository Assets

5.8.1 Verification of Deposits and Assets

The PFI can use any of the following types of documentation to verify that a Borrower has sufficient funds for closing, down payment, and/or financial reserves:

- PFIs may use Fannie Mae's Form Request for Verification of Deposit ([Form 1006](#) or [Form 1006\(S\)](#)) or its equivalent, which must contain at minimum the information required by these forms. The information must be requested directly from the depository institution, and the complete, signed, and dated document must be sent directly from the depository institution.
- Copies of bank statements or investment portfolio statements. All statements must:
 - clearly identify the financial institution,
 - clearly identify the Borrower as the account holder,
 - include at least the last four digits of the account number,
 - include the time period covered by the statement,
 - include all deposits and withdrawal transactions (for depository accounts),

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



- include all purchase and sale transactions (for financial portfolio accounts), and
- include the ending account balance.

If the PFI is the holder of the Borrower's account, the PFI may produce a printout or other alternative verification of the asset(s) directly from its system. The printout or alternative verification is acceptable as long as all required data (above) is supplied and documented.

- Copies of retirement account statements. They must be the most recent statements, and they must identify the Borrower's vested amount and the terms. (See 5.9.3 Retirement Accounts, for additional information.)
- The MPF Program requires the Bank statements must be dated within 120 days of Closing.

The number of required bank or investment portfolio statements varies per transaction type as shown in the following table.

Documentation Requirements	
Purchase transactions	The statements must cover the most recent full two-month period of account activity (60 days, or, if account information is reported on a quarterly basis, the most recent quarter).
Refinance transactions	The statements must cover the most recent full one-month period of account activity (30 days, or, if account information is reported on a quarterly basis, the most recent quarter).

If the latest bank statement is more than 45 days earlier than the date of the loan application, the PFI should ask the Borrower to provide a more recent, supplemental, bank-generated form that shows at least the last four digits of the account number, balance, and date. The statements may be computer-generated forms, including online account or portfolio statements downloaded by the Borrower from the Internet.

Documents that are faxed to the PFI or downloaded from the Internet must clearly identify the name of the depository or investment institution and the source of information—for example, by including that information in the Internet or fax banner at the top of the document.

If necessary, the PFI must supplement these verifications by obtaining any missing information from the Borrower or the depository institution.

5.8.1.1 Asset Documentation Provided by Third-Party Asset Verification Vendor

Direct verification by a third-party asset verification vendor. These verifications are acceptable as long as:

- the Borrower provided proper authorizations for the PFI to use the verification method,
- the verified information provided must conform with the information that would be provided on Form 1006/Form 1006(S) or an equivalent form, or on bank statements,
- the date of the completed verification is no more than 120 days old at Closing.
- the PFI has determined that the vendor maintains reasonable practices that ensure reliable and authorized verifications of deposit and asset information , and
- the PFI understands it will be held accountable for the integrity of the information obtained from this source.

5.8.1.2 Blanket Authorization Form

Rather than having the applicant sign multiple forms, the PFI may have the applicant sign an authorization form which gives the PFI blanket authorization to request the information it needs to evaluate the applicant's creditworthiness. When the PFI uses this type of blanket authorization, it must attach a copy of the authorization form to each Form 1006/ Form 1006(S) or an equivalent form, it sends to the depository institutions in which the applicant has accounts.

5.8.2 Depository Accounts

Funds held in a checking, savings, money market, certificate of deposit, or other depository accounts may be used for the down payment, closing costs, and financial reserves. The funds must be verified as described in Verification of Deposits and Assets. Unverified funds are not acceptable for the down payment, closing costs, or financial reserves.

The PFI must investigate any indications of borrowed funds. These must be identified differently based upon how the asset account was verified.

5.8.2.1 Business Assets

Business assets may be an acceptable source of funds for the down payment, closing costs, and financial reserves. The Borrower must be listed as an owner of the account and the account must be verified in accordance with Verification of Deposits and Assets. If the Borrower is also using self-

employment income from this business to qualify, see 5.4 Self-Employment Income, for additional information on the analysis of a self-employed Borrower.

5.8.2.2 Evaluating Large Deposits

A large deposit is defined as a single deposit that exceeds 50% of the total monthly qualifying income for the Mortgage Loan. When bank statements (typically covering the most recent two months) are used, the PFI must evaluate large deposits. See 5.7.4 Virtual Currency for additional information when a large deposit may be from virtual currency that was exchanged into U.S. dollars. Requirements for evaluating large deposits vary based on the transaction type, as shown in the table below.

Transaction Type	Evaluation Requirements
Refinance transactions	Documentation or explanation for large deposits is not required; however, the PFI remains responsible for ensuring that any borrowed funds, including any related liability, are considered.
Purchase transactions	<ul style="list-style-type: none"> • If funds from a large deposit are needed to complete the purchase transaction (that is, are used for the down payment, closing costs, or financial reserves), the PFI must document that those funds are from an acceptable source. Occasionally, a Borrower may not have all of the documentation required to confirm the source of a deposit. In those instances, the PFI must use reasonable judgment based on the available documentation as well as the Borrower's debt-to-income ratio and overall income and credit profile. Examples of acceptable documentation include the Borrower's written explanation, proof of ownership of an asset that was sold, or a copy of a wedding invitation to support receipt of gift funds. The PFI must place in the mortgage loan file written documentation of the rationale for using the funds. • Verified funds must be reduced by the amount (or portion) of the undocumented large deposit (as defined above), and the PFI must confirm that the remaining funds are sufficient for the down payment, closing costs, and financial reserves. When the PFI uses

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



Transaction Type	Evaluation Requirements
	<p>a reduced asset amount, net of the unsourced amount of a large deposit that reduced amount must be used for underwriting purposes.</p> <p>Note: When a deposit has both sourced and unsourced portions, only the unsourced portion must be used to calculate whether or not it must be considered a large deposit.</p> <p>Examples</p> <ul style="list-style-type: none"> Scenario 1: Borrower has monthly income of \$4,000 and an account at ABC Bank with a balance of \$20,000. A deposit of \$3,000 is identified, but \$2,500 of that deposit is documented as coming from the Borrower's federal income tax refund. <p>Only the unsourced \$500 [the deposit of \$3,000 minus the documented \$2,500] must be considered in calculating whether it meets the large deposit definition.</p> <p>The unsourced \$500 is 12.5% of the Borrower's \$4,000 monthly income, falling short of the 50% definition of a large deposit.</p> <p>Therefore, it is not considered a large deposit and the entire \$20,000 balance in the ABC Bank account can be used for underwriting purposes.</p> <ul style="list-style-type: none"> Scenario 2: Using the same Borrower example, a deposit of \$3,000 is identified, but only \$500 is documented as coming from the Borrower's federal income tax refund, leaving \$2,500 unsourced. <p>In this instance, the unsourced \$2,500 is 63% of the Borrower's \$4,000 monthly income, which does meet the definition of a large deposit.</p> <p>Therefore, the unsourced \$2,500 must be subtracted from the account balance of \$20,000 and only the remaining \$17,500 may be used for underwriting purposes.</p>

Note: If the source of a large deposit is readily identifiable on the account statement(s), such as a direct deposit from an employer (payroll), the Social Security Administration, or IRS or state income

tax refund, or a transfer of funds between verified accounts, and the source of the deposit is printed on the statement, the PFI does not need to obtain further explanation or documentation. However, if the source of the deposit is printed on the statement, but the PFI still has questions as to whether the funds may have been borrowed, the PFI should obtain additional documentation.

5.8.2.3 Request for Verification of Deposit

When a Verification of Deposit ([Form 1006](#) or [Form 1006\(S\)](#) or its equivalent that at minimum contains the same information as the Form 1006) (VOD) is used and depository activity is not included, the PFI must verify the source of funds for

- accounts opened within the last 90 days of the application date, and
- account balances that are considerably greater than the average balance reflected on the VOD.

5.8.3 Individual Development Accounts

Some nonprofit agencies will match the funds a Borrower regularly deposits into a savings account that has been designated as an account that is used solely for the accumulation of funds to purchase a home. Such accounts are referred to as individual development accounts, or IDAs.

Nonprofit agencies that offer IDA programs have options with respect to accumulating and holding the matching funds, which include:

- the use of a parallel “savings” account that is separate from the homebuyer’s savings account;
- separately designated matching funds within a single agency account via accounting processes to allocate matching funds to a particular homebuyer; and
- the use of a trustee account that contains both the homebuyer’s funds and the agency’s matching funds.

When a homebuyer reaches the target amount and is ready to complete the home purchase, the funds are disbursed from the nonprofit agency account to the closing agent via a single check or multiple checks.

If the agency’s matching funds are held in an account that is separate from the homebuyer’s account, the matching funds need not be commingled with the homebuyer’s funds prior to disbursement to the closing agent. It is acceptable to allow the separate disbursement of funds from the agency and from the homebuyer, as long as the terms of the IDA program are met.

Funds that the Borrower deposited into an IDA may be used for either closing costs or the down payment.

5.8.3.1 Use of IDA Funds to Meet Borrower Minimum Contribution Requirements

Funds that the Borrower deposited into an IDA may be used for either the closing costs or the down payment. Depending on the repayment terms of the IDA program, the Borrower may or may not be required to meet the minimum down payment requirements from his or her own funds, as outlined below:

IDA Repayment Terms	Allowable Use of Matching Funds
<p>The nonprofit agency</p> <ul style="list-style-type: none"> • requires repayment of the matching funds, • agrees to defer or forgive repayment provided that certain conditions are met, or • files a lien against the property. 	<p>The Borrower may use the matching funds to supplement the down payment provided he or she has met the minimum Borrower contribution requirements.</p> <p>The minimum Borrower contribution must come from the Borrower's own funds unless:</p> <ul style="list-style-type: none"> • the LTV or CLTV ratio is less than or equal to 80%; or • the Borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the Borrower's minimum contributions. See 5.9.4 Personal Gifts; 5.9.6 Grants and Lender Contributions; and 5.9.8 Employer Assistance, for additional information.

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



IDA Repayment Terms	Allowable Use of Matching Funds
<p>The nonprofit agency</p> <ul style="list-style-type: none"> • does not require repayment of the matching funds and • does not file a lien against the property. 	<p>The Borrower may use the matching funds for some or all of the down payment without first being required to meet the minimum Borrower contribution requirement from his or her own funds.</p>

5.8.3.2 Checklist for IDAs

The PFI must ensure that all of the following requirements for an IDA are satisfied:

✓	PFI Checklist for IDAs
	Document how the nonprofit agency's IDA program operates.
	Verify the rate at which the agency matches Borrower deposits into the account.
	Determine that the Borrower satisfied the program's vesting requirements.
	Document the Borrower's regular payments into the account and the agency's regular deposits of matching funds into the account.

5.8.4 Pooled Savings (Community Savings Funds)

Funds from a community savings account or any other type of pooled savings may be used for the down payment if the Borrower can document regular contributions to the fund.

Acceptable documentation includes written confirmation from the party managing the pooled savings fund and documentation of regular Borrower contributions.

The Borrower's obligation to continue making contributions to the fund must be considered as part of the Borrower's debt when calculating the total debt-to-income ratio.

5.8.5 Foreign Assets

The PFI must document all sources of funds used for down payments, closing costs and financial reserves. All documents of a foreign origin must be completed in English, or the PFI must provide a translation, attached to each document, and ensure the translation is complete and accurate.

When the source of those funds originates from assets located outside of the U.S. and its territories, those assets require:

- documented evidence of the foreign assets exchanged into U.S. dollars and held in a U.S. or state regulated financial institution, and
- verification of the funds in U.S. dollars prior to the loan closing.

The PFI must evaluate large deposits in accordance with 5.8.2 Depository Accounts.

5.9 Verification of Non-Depository Assets

5.9.1 Stocks, Stock Options, Bonds, and Mutual Funds

Vested assets in the form of stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs, and reserves provided their value can be verified. The PFI must verify the Borrower's ownership of the account or asset. The value of the asset and any related documentation must meet the requirements outlined in the table below.

Asset Type	Determining the Value of the Asset
Stocks and mutual funds	<p>The PFI must determine the value of the asset (net of any margin accounts) by obtaining either</p> <ul style="list-style-type: none"> • the most recent monthly or quarterly statement from the depository or investment firm; or • a copy of the stock certificate, accompanied by a newspaper stock list that is dated as of or near the date of the loan application.
Stock options	<p>The value of vested stock options can be documented by</p> <ul style="list-style-type: none"> • a statement that lists the number of options and the option price, and

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



Asset Type	Determining the Value of the Asset
	<ul style="list-style-type: none"> using the current stock price to determine the gain that would be realized from exercise of an option and the sale of the optioned stock. <p>Note: Non-vested stock options are not an acceptable source of funds for the down payment, closing costs, or reserves and should not be entered on the loan application.</p>
Government bonds	The value of government bonds must be based on their purchase price unless the redemption value can be documented.

When used for the down payment or closing costs, if the value of the asset (as determined above) is at least 20% more than the amount of funds needed for the down payment and closing costs, no documentation of the Borrower's actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the Borrower's actual receipt of funds realized from the sale or liquidation must be documented.

When used for reserves, 100% of the value of the assets (as determined above) may be considered, and liquidation is not required.

Refer to 5.9.3 Retirement Accounts, for the requirements pertaining to the use of retirement accounts for the down payment, closing costs, or reserves.

5.9.2 Trust Accounts

Funds disbursed from a Borrower's trust account are an acceptable source for the down payment, closing costs, and reserves provided the Borrower has immediate access to the funds.

To document trust account funds, the PFI must:

- obtain written documentation of the value of the trust account from either the trust manager or the trustee, and
- document the conditions under which the Borrower has access to the funds and the effect, if any, that the withdrawal of funds will have on trust income used in qualifying the Borrower for the mortgage.

5.9.3 Retirement Accounts

Vested funds from individual retirement accounts (IRA/SEP/Keogh accounts) and tax-favored retirement savings accounts (401(k) accounts) are acceptable sources of funds for the down payment, closing costs, and reserves. The PFI must verify the ownership of the account and confirm that the account is vested and allows withdrawals regardless of current employment status.

If the retirement assets are in the form of stocks, bonds, or mutual funds, the account must meet the requirements of Stocks, Stock Options, Bonds, and Mutual Funds, for determining value and whether documentation of the Borrower's actual receipt of funds is required when used for the down payment and closing costs. When funds from retirement accounts are used for reserves, the MPF Program does not require the funds to be withdrawn from the account(s).

5.9.4 Personal Gifts

A Borrower of a mortgage loan secured by a principal residence or second home may use funds received as a personal gift from an acceptable donor. Gift funds may fund all or part of the down payment, closing costs, or financial reserves subject to the minimum Borrower contribution requirements below.

Note: A gift of equity may not be used for financial reserves. For additional information, see 5.9.5 Gifts of Equity.

5.9.4.1 Acceptable Donors (11/30/23)¹³²

A gift can be provided by:

- a relative, defined as the Borrower's spouse, child, or other dependent, or by any other individual who is related to the Borrower by blood, marriage, adoption, or legal guardianship; or
- a non-relative that shares a familial relationship with the Borrower defined as a domestic partner (or relative of the domestic partner), individual engaged to marry the Borrower, former relative, or godparent.

The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.

Note: Gift funds from the seller who is also an acceptable donor and not affiliated with any other interested party to the transaction are allowed. The donor of a gift of equity is not considered an interested party to the transaction.

5.9.4.2 Minimum Borrower Contribution Requirements

¹³² MPF Announcement 2023-90 (11/30/23)

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



The following table describes the minimum Borrower contribution requirements for transactions that contain gifts.

LTV, CLTV, or HCLTV Ratio	Minimum Borrower Contribution Requirement from Borrower's Own Funds	
80% or less	One- to four-unit principal residence	A minimum Borrower contribution from the Borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.
	Second home	
Greater than 80%	One-unit principal residence	A minimum Borrower contribution from the Borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.
	Two- to four-unit principal residence Second home	The Borrower must make a 5% minimum Borrower contribution from his or her own funds. After the minimum Borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves.*

*If the Borrower receives a gift from an acceptable donor who has lived with the Borrower for the last 12 months, the gift is considered the Borrower's own funds and may be used to satisfy the minimum Borrower contribution requirement as long as both individuals will use the home being purchased as their principal residence.

5.9.4.3 Documentation Requirements (11/30/23)¹³³

¹³³ MPF Announcement 2023-90 (11/30/23)

MPF Traditional Selling Guide Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



Gifts must be evidenced by a letter signed by the donor, called a gift letter. When the gift is sourced by a trust established by an acceptable donor or an estate of an acceptable donor, the gift letter must be signed by the donor and list the name of the trust or the estate account.

The gift letter must:

- specify the actual or the maximum dollar amount of the gift;
- include the donor's statement that no repayment is expected; and
- indicate the donor's name, address, telephone number, and relationship to the Borrower.

Note: PFI must verify the Borrower has sufficient funds for closing, down payment and/or financial reserves.

When a gift from an acceptable donor is being pooled with the Borrower's funds to make up the required minimum cash down payment, the following items must also be included:

- A certification from the donor stating that he or she has lived with the Borrower for the past 12 months and will continue to do so in the new residence.
- Documents that demonstrate a history of Borrower and donor shared residency. The donor's address must be the same as the Borrower's address. Examples include but are not limited to a copy of a driver's license, a bill, or a bank statement.

5.9.4.4 Verifying Donor Availability of Funds and Transfer of Gift Funds (11/30/23)¹³⁴

The PFI must verify that sufficient funds to cover the gift are either in the donor's account (such as a checking, savings or investment account, or trust or estate account owned by the donor) or have been transferred to the Borrower's account. Acceptable documentation includes the following:

- a copy of the donor's check and the Borrower's deposit slip,
- a copy of the donor's withdrawal slip and the Borrower's deposit slip,
- evidence of the electronic transfer of funds from the donor's account to the Borrower's account or to the closing agent;
- a copy of the donor's check to the closing agent, or
- a settlement statement showing receipt of the donor's check.

¹³⁴ MPF Announcement 2023-90 (11/30/23)

When the funds are not transferred prior to settlement, the PFI must document that the donor gave the closing agent the gift funds in the form of an electronic transfer, certified check, a cashier's check, or other official check.

5.9.5 Gifts of Equity

A "gift of equity" refers to a gift provided by the seller of a property to the buyer. The gift represents a portion of the seller's equity in the property, and is transferred to the buyer as a credit in the transaction.

A gift of equity:

- is permitted for principal residence and second home purchase transactions;
- can be used to fund all or part of the down payment and closing costs (including prepaid items); and
- cannot be used towards financial reserves.

The acceptable donor and minimum Borrower contribution requirements for gifts also apply to gifts of equity. When a gift of equity is provided by an acceptable donor, the donor is not considered to be an interested party and the gift of equity is not subject to interested party contribution requirements (see 5.7.2 Interested Party Contributions (IPCs))

The following documents must be retained in the mortgage loan file:

- a signed gift letter (see 5.9.4 Personal Gifts), and
- the settlement statement listing the gift of equity.

5.9.6 Grants and Lender Contributions

5.9.6.1 Donations from Entities – Grants

Borrowers of a loan secured by a principal residence may use funds donated from acceptable entities for all or part of the down payment, closing costs, or financial reserves subject to the minimum Borrower contribution requirements described below. These funds are referred to as a grant.

Grants must be funded by one of the following entities, provided they are not the property seller or other interested party in the transaction:

- a federal agency, state, county, or similar political subdivision of a state;
- any city, town, village, or borough of a state that
 - has a local government and that has been created by a special legislative act,
 - has been otherwise individually incorporated or chartered pursuant to state law, or

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



- is recognized as such under the constitution or by the laws of the state in which it is located,
- a housing finance agency as defined in 24 C.F.R. §266.5;
- a nonprofit organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code;
- an FHLB AHP; or
- an employer where the Borrower is an employee (see Employer Assistance).

Down payment assistance may not be funded in any way through the first mortgage, such as through premium pricing.

Grant funds may also be applied towards energy-related improvements if

- the program under which the funds are made available allows such a use, and
- the minimum Borrower contribution requirements are met.

5.9.6.2 Minimum Borrower Contribution Requirements

The following table describes the minimum Borrower contribution requirements for transactions that contain grants.

LTV, CLTV, or HCLTV Ratio	Minimum Borrower Contribution Requirement from Borrower's Own Funds	
80% or less	One- to four-unit principal residence	A minimum Borrower contribution from the Borrower's own funds is not required. All funds needed to complete the transaction can come from a grant.
Greater than 80%	One-unit principal residence	A minimum Borrower contribution from the Borrower's own funds is not required. All funds needed to complete the transaction can come from a grant.

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



LTV, CLTV, or HCLTV Ratio	Minimum Borrower Contribution Requirement from Borrower's Own Funds	
	Two- to four-unit principal residence	The Borrower must make a 5% minimum Borrower contribution from their own funds. After the minimum Borrower contribution has been met, grants can be used to supplement the down payment, closing costs, reserves, and energy-related improvements.

5.9.6.3 Documentation Requirements

The grant must be documented with a copy of the letter awarding the grant to the Borrower or a copy of the legal agreement that specifies the terms and conditions of the grant. The document must include language indicating that repayment of the grant is not expected, and how the funds will be transferred to the Borrower, Originator, or closing agent.

The transfer of grants must be documented with a copy of the donor's canceled check, a copy of the settlement statement showing receipt of the check, or similar evidence. The documentation must be included in the individual loan file.

5.9.6.4 Lender Contributions

The Originator may provide the Borrower with a contribution to fund Borrower-paid closing costs and prepaid fees in the following cases:

- The credit is derived from premium pricing,
- The credit is sourced directly from the Lender funds with no expectation for repayment or financial obligation apart from the subject mortgage. Funds passed to the Lender from a third party, for the purpose of providing a credit, are not eligible as a Lender contribution.

The amount of the Lender contribution should not exceed the amount of Borrower-paid closing costs and prepaid fees and may not be used to fund any portion of the down payment or financial reserve requirements. Lender contributions are not considered grants.

When the Lender is an interested party to a purchase transaction, any amount of a Lender contribution not derived from premium pricing, must be considered as an IPC when calculating the maximum IPC limit for eligibility purposes.

Any excess Lender credit required to be returned to the Borrower in accordance with applicable regulatory requirements is considered an overpayment of fees and charges and may be applied as a principal curtailment or returned in cash to the Borrower.

Lenders may also provide Borrowers with cash or cash-like incentives that do not need to be reflected on the settlement statement. See 5.7.2 Interested Party Contributions (IPCs) for additional information.

Note: Mortgage loans where a Lender is required to provide down payment assistance to satisfy a legal settlement or judgement, enforcement action or other regulatory action are not eligible for delivery.

5.9.7 Disaster Relief Grants or Loans

Borrowers may use lump-sum disaster relief grants or loans to satisfy minimum Borrower contribution requirement. No Borrower contribution is required.

5.9.8 Employer Assistance

An employer may provide financing to a transferred employee or a newly hired employee who is purchasing a Primary Residence at a new job location. The definition of employee includes military personnel. Employer financing must be made pursuant to an established corporate employee relocation program that is administered by the employer or its agent. The employer financing may consist of any of the following:

- A buydown or subsidy of the Note Rate;
- Funds to cover the down payment and/or closing costs;
- The funding of a below-market Note Rate or no-interest bridge loan; and/or
- Payment of the difference between the property tax and/or Note obligation for the employee's previous Primary Residence and the employee's new Primary Residence.

A Borrower of a mortgage loan secured by a principal residence may use funds provided by an employer to fund all or part of the down payment or closing costs subject to the minimum Borrower contribution requirements below. Employer assistance can also be used for financial reserves for all types of assistance with the exception of unsecured loans (which may only be used for the down payment and closing costs). Employer assistance funds are not allowed on a second home.

Funds must come directly from the employer, including through an employer-affiliated credit union.

When employer assistance is extended as a secured second mortgage, the transaction must satisfy the eligibility criteria for mortgages that are subject to subordinate financing.

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



If the secured second mortgage or unsecured loan does not require regular payments of either principal and interest or interest only, the PFI does not need to calculate an equivalent payment for consideration as part of the Borrower's monthly debt. If regular payments are required for the secured second mortgage, the payments must be included in the calculation of the debt-to-income ratio.

5.9.8.1 Minimum Borrower Contribution Requirements

The following table describes the minimum Borrower contribution requirements for transactions that contain employer assistance.

LTV, CLTV, or HCLTV Ratio	Minimum Borrower Contribution Requirement from Borrower's Own Funds	
80% or less	One- to four-unit principal residence	A minimum Borrower contribution from the Borrower's own funds is not required. All funds needed to complete the transaction can come from employer assistance.
Greater than 80%	One-unit principal residence	A minimum Borrower contribution from the Borrower's own funds is not required. All funds needed to complete the transaction can come from employer assistance.
	Two- to four-unit principal residence	The Borrower must make a 5% minimum Borrower contribution from his or her own funds. After the minimum Borrower contribution has been met, employer assistance can be used to supplement the down payment, closing costs, and reserves (except for unsecured loans, which may not be applied to reserves).

5.9.8.2 Documentation Requirements

The PFI must document:

- that the program is an established company program, not just an accommodation developed for an individual employee.
- the dollar amount of the employer's assistance.
- an unsecured loan from an employer with an award letter or legal agreement from the note holder and must disclose the terms and conditions of the loan.
- the terms of any other employee assistance being offered to the Borrower (such as relocation benefits or gifts).
- that the Borrower received the employer assistance funds directly from the employer (or through the employer-affiliated credit union).

5.9.9 Earnest Money Deposit

5.9.9.1 Sales Contract Deposit

The deposit on the sales contract (earnest money) for the purchase of the security property is an acceptable source of funds for both the down payment and the closing costs.

5.9.9.2 Verification of Source of Funds

If the deposit is being used as part of the Borrower's minimum contribution requirement, the PFI must verify that the funds are from an acceptable source. See 5.8.1 Verification of Deposits and Assets.

A Request for Verification of Deposit ([Form 1006](#) or [Form 1006\(S\)](#)) or its equivalent) must indicate that the average balance for the past two months was large enough to support the amount of the deposit.

Bank statements must evidence that the average balance for the past two months was large enough to support the amount of the deposit. If a copy of the canceled deposit check is used to document the source of funds, the bank statements must cover the period up to (and including) the date the check cleared the bank account.

If it cannot be determined that these funds were withdrawn from the Borrower's account, additional verification of the source and evidence that the funds have actually changed hands from the Borrower to the seller, the real estate agent, the escrow agent, or the settlement attorney should be provided. Large earnest money deposits and deposits that exceed the amount customary for the area should be closely evaluated.

5.9.9.3 Documentation for Receipt of the Deposit

Receipt of the deposit must be verified by either a copy of the Borrower's canceled check or a written statement from the holder of the deposit.

5.9.10 Anticipated Sales Proceeds

If the Borrower's currently owned home is listed for sale but has not been sold, the PFI may qualify the Borrower on the basis of anticipated sales proceeds.

The PFI must document the actual proceeds received by the Borrower.

5.9.10.1 Determining the Amount of Net Proceeds

The following table describes how to determine the amount of net proceeds based on a Borrower's anticipated equity.

Sales Price Established?	Net Proceeds Calculation
Yes	Sales Price – (Sales Costs + All Liens) = Estimated Proceeds
No	90% of Listing Price – All Liens = Estimated Proceeds Note: The 10% adjustment factor that is applied to the listing price must be changed depending on market conditions.

5.9.10.2 Sale Proceeds Needed for Down Payment and Closing Costs

If the proceeds from the sale of a currently owned home are needed for the down payment and closing costs on the new house, the PFI must verify the source of funds by obtaining a copy of the settlement statement on the existing home before, or simultaneously with, the settlement on the new home, showing sufficient net cash proceeds to consummate the purchase of the new home.

5.9.10.3 Employee Relocation

When the Borrower's employer assumes responsibility for paying off the existing mortgage in connection with a relocation plan, the PFI must obtain a copy of the executed buy-out agreement to document the source of funds. A photocopy of a sales contract or a listing agreement is not considered an acceptable source of verification of proceeds from the sale.

5.9.11 Trade Equity

Trade equity is an acceptable source of funds to supplement the Borrower's minimum Borrower contribution provided the following requirements are met:

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



- The seller's equity contribution for the traded property must be a true-value consideration supported by a current appraisal.
- The Borrower must make the minimum required contribution from his or her own funds unless:
 - the LTV or CLTV ratio is less than or equal to 80%; or
 - the Borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the Borrower's minimum contribution. See Personal Gifts; Grants and Lender Contributions; and Employer Assistance, for additional information.

These requirements apply to all transactions that involve property trades, including those that are evidenced by two separate contracts that have the buyer and the seller on one contract reversing roles on the second contract.

Note: Trade equity is entered in the loan application as a credit to the transaction, which will reduce the Borrower's required funds to close.

5.9.11.1 Calculating the Equity Contribution

The equity contribution is determined by subtracting the outstanding mortgage balance of the property being traded, plus any transfer costs, from the lesser of either the property's appraised value or the trade-in value agreed to by both parties.

5.9.11.2 Documentation Requirements

For real property, the transfer deed must be recorded. In addition, PFIs must obtain the following:

- A search of the land records to verify the ownership of the property and to determine whether there are any existing liens on the property.
- Proof of title transfer and satisfaction of any existing mortgage liens for which the Borrower was liable.

5.9.12 Rent Credit for Option to Purchase

Rent credit for option to purchase is an acceptable source of funds toward the down payment or minimum Borrower contribution. Borrowers are not required to make a minimum Borrower contribution from their own funds in order for the rental payments to be credited toward the down payment.

Credit for the down payment is determined by calculating the difference between the market rent and the actual rent paid for the last 12 months. The market rent is determined by the appraiser in the appraisal for the subject property.

5.9.12.1 Documentation Requirements

The PFI must obtain the following documentation:

- A copy of the rental/purchase agreement evidencing a minimum original term of at least 12 months, clearly stating the monthly rental amount and specifying the terms of the lease.
- Copies of the Borrower's canceled checks or money order receipts for the last 12 months evidencing the rental payments.
- Market rent as determined by the subject property appraisal.

5.9.13 Sweat Equity

Sweat equity is credit given by the builder or seller for labor performed or material furnished by the Borrower on the Mortgaged Property. Sweat equity may be considered up to a maximum of five percent (5%), provided a minimum contribution of three percent (3%) of the funds invested in the transaction comes from the Borrower's own funds.

The value attributed to sweat equity must be based on the hours of work performed. The following table provides instructions for determining the contributory value of sweat equity.

Step	Determining the Value of Sweat Equity
1.	<ul style="list-style-type: none"> • The hours of work to be performed and the hourly rate established by the sweat equity program provider must be fully documented in an agreement between the Borrower and the provider. • The hourly rate must conform with the national or state value of volunteer time per hour.
2.	<p>The hours of work performed each day must be recorded in a log managed by the sweat equity program provider.</p> <p>The log must include all of the following:</p>

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



Step	Determining the Value of Sweat Equity
	<ul style="list-style-type: none"> • program name, • Borrower name, • work date(s), • time in/out, • number of hours, • volunteer worker name, • work location and activity, and • supervisory approval. <p>Note: The hours of work performed must be completed before the loan is closed.</p>
3.	<p>The contributory value of the sweat equity is calculated by multiplying the total number of hours of work performed by the hourly rate.</p> <p>Example:</p> <p>500 hours worked x \$20 per hour = \$10,000</p>
4.	<p>The PFI must review the agreement and log from the sweat equity program provider to validate the contributory value of the sweat equity applied towards the down payment.</p> <p>All documentation must be retained in the loan file.</p>

5.9.14 Bridge/Swing Loans

A bridge (or swing) loan is an acceptable source of funds provided the following requirements are met:

- The bridge loan cannot be cross-collateralized against the new property.

- The PFI must document the Borrower's ability to successfully carry the payments for the new home, the current home, the bridge loan, and other obligations.

The MPF Program does not have a specified limitation on the term of bridge loans. See 5.14.4 Monthly Debt Obligations, for more information about how to treat the resulting contingent liability.

5.9.15 Borrowed Funds Secured by an Asset

Borrowed funds secured by an asset are an acceptable source of funds for the down payment, closing costs, and reserves, since borrowed funds secured by an asset represent a return of equity.

Assets that may be used to secure funds include automobiles, artwork, collectibles, real estate, or financial assets, such as savings accounts, certificates of deposit, stocks, bonds, and 401(k) accounts.

5.9.15.1 Secured Loans as Debt

When qualifying the Borrower, the PFI must consider monthly payments for secured loans as a debt.

If a secured loan does not require monthly payments, the PFI must calculate an equivalent amount and consider that amount as a recurring debt.

When loans are secured by the Borrower's financial assets, monthly payments for the loan do not have to be considered as long-term debt.

5.9.15.2 Reducing the Asset by the Amount Borrowed

If the Borrower uses the same financial asset as part of his or her financial reserves, the PFI must reduce the value of the asset by the amount of proceeds and related fees for the secured loan.

5.9.15.3 Documentation Requirements

The PFI must document the following:

- the terms of the secured loan,
- evidence that the party providing the secured loan is not a party to the sale, and
- evidence that the funds have been transferred to the Borrower.

5.9.16 Credit Card Financing and Reward Points

Certain costs not considered to be extraordinary amounts, that must be paid early in the application process, such as lock-in fees, origination fees, commitment fees, credit report fees, and appraisal fees, may be charged to the Borrower's credit card. Under no circumstances may credit card financing be used for the down payment.

PFI's may allow credit card financing for the payment of common and customary fees paid outside of closing up to a maximum of 2% of the loan amount if the PFI:

- confirms that the Borrower has sufficient liquid funds (financial reserves) to cover these charges (in addition to funds needed for other closing costs and the down payment that he or she will be paying); or
- recalculates the credit card payment, per 5.14.4 Monthly Debt Obligations, to account for the new charges and includes the updated payment in the qualifying ratio calculation.

5.9.16.1 Credit Card Reward Points

Credit card reward points may be considered as acceptable funds for use towards closing costs, down payment and financial reserves, provided the reward points are converted to cash prior to the closing of the loan. The following requirements apply:

- If the credit card reward points are converted to cash and deposited into the Borrower's depository account (for example, checking or savings), no additional documentation is required unless the deposit is considered a large deposit. In this event, the PFI must follow the requirements in 5.8.2.2 Evaluating Large Deposits.
- If the credit card reward points are converted to cash, but not deposited into a Borrower's depository account, the PFI must provide evidence the reward points were
 - available to the Borrower prior to the conversion, including verification of the cash value (for example, credit card reward statement prior to conversion); and
 - converted to cash prior to the closing of the loan.

5.9.17 Personal Unsecured Loans

Personal unsecured loans are not an acceptable source of funds for the down payment, closing costs, or financial reserves.

Examples of personal unsecured loans include signature loans, lines of credit on credit cards, and overdraft protection on checking accounts.

5.9.18 Sale of Personal Assets

Proceeds from the sale of personal assets are an acceptable source of funds for the down payment, closing costs, and reserves provided the individual purchasing the asset is not a party to the property sale transaction or the mortgage financing transaction.

5.9.18.1 Documentation requirements

The PFI must document the following:

- The Borrower's ownership of the asset for all asset types that are titled assets, for example automobile title.

- The value of the asset, as determined by an independent and reputable source, if the proceeds represent more than 50% of the total monthly income used in qualifying. The PFI must use the lesser of the estimated value (as determined by the independent source) or actual sales price when determining the amount of funds for the transaction. For example, a Borrower plans to sell their vehicle. The value as determined by an independent source is \$10,000; the sales price of the vehicle is \$12,000. \$10,000 can be added to the Borrower's available funds even if the sale has already occurred.
- The transfer of ownership of the asset, as documented by either a bill of sale or a statement from the purchaser.
- The Borrower's receipt of the sale proceeds from documents such as deposit slips, bank statements, copies of the purchaser's canceled check or an equivalent payment source.

5.9.19 Cash of Value of Life Insurance

Net proceeds from a loan against the cash value or from the surrender of a life insurance policy are an acceptable source of funds for the down payment, closing costs, and reserves.

The PFI must assess repayment or additional obligation considerations to determine the impact on Borrower qualification or reserves.

If penalties for failure to repay the loan are limited to the surrender of the policy, payments on a loan secured by the cash value of a Borrower's life insurance policy do not have to be considered in the total debt-to-income ratio.

If additional obligations are indicated, the obligation amount must be factored into the total debt-to-income ratio, or subtracted from the Borrower's financial reserves.

5.9.19.1 Documenting Borrower Receipt of Funds

If the funds are needed for the down payment or closing costs, PFIs must document the Borrower's receipt of the funds from the insurance company by obtaining either a copy of the check from the insurer or a copy of the payout statement issued by the insurer. If the cash-value of the life insurance is being used for reserves, the cash-value must be documented but does not need to be liquidated and received by the Borrower.

5.9.20 Anticipated Savings and Cash-on-Hand

The PFI may preliminarily qualify a Borrower on the basis that anticipated savings will be sufficient to meet the funds needed for closing. The PFI must verify that savings are actually accumulated by the Borrower before loan closing.

The estimate for a Borrower's anticipated savings must be realistically developed. To calculate potential saved funds, the PFI should reduce the Borrower's expected after-tax income for the

expected savings period by existing housing expenses, monthly debt expenses based on data from the credit report, and expected living expenses, such as food, transportation, etc.

5.9.20.1 Cash-on-Hand

Cash on hand is an acceptable source of the Borrower's own funds if the following requirements are met:

- The amount of cash on hand is consistent with the Borrower's income and employment;
- The Borrower has a history of paying cash; and
- The Borrower has a limited credit history with no checking or savings accounts.

5.9.21 Borrower's Earned Real Estate Commission

Earned real estate commission refers to the Borrower's portion of a real estate commission earned from the sale of the subject property being purchased when the Borrower is acting as their own real estate agent. PFIs may use the Borrower's earned real estate commission as an eligible source of funds for down payment and closing costs provided the Borrower is a licensed real estate agent and will receive a sales commission from the purchase of the subject property.

The PFI must document the following:

- the settlement statement must reflect the commission earned by the Borrower, and
- the earned commission amount must be credited towards the mortgage loan.

5.10 Credit Assessment

To ensure QM Status, PFIs are required to verify the Borrower's debt obligations and liabilities, pursuant to TILA/Regulation Z (including 12 CFR 1026.43). The verification requirements outlined in this section and this Guide are intended to meet TILA/Regulation Z and its official commentary which permits originators to rely on GSE validation standards to provide reasonably reliable evidence (specifically and the applicable verification requirements outlined in Fannie Mae Single Family Selling Guide Sections B3-3 through B3-6). Any deviations in this Guide from those the GSE's verification standards were only intended to impose more restrictive requirements, and not intend to be more permissive. In some circumstances more restrictive, which are provided within this section. To the extent the guidance for verification requirements in this MPF Traditional Selling Guide contradict what is provided in aforementioned sections of Fannie Mae's Single Family Selling Guide, the more restrictive policy will supersede. The Fannie Mae Selling Guides should only be used for verification purposes. Nothing in the Fannie Mae guides supersede a PFI's obligation to considering Borrower's current or reasonably expected income as provided for in TILA/Regulation Z (including 12 CFR 1026.43), and this is the stated intent for verification standards only, as a result, the underwriting and eligibility guidelines of the MPF Guides apply to MPF Traditional mortgage loans.

5.10.1 General Requirements for Credit Scores

5.10.1.1 Credit Score Versions

Credit scores are required for most loans delivered into the MPF Program. The classic FICO credit score is produced from software developed by Fair Isaac Corporation and is available from the three major credit repositories. The MPF Program requires the following versions of the classic FICO score for manually underwritten mortgage loans:

- Equifax Beacon® 5.0;
- Experian®/Fair Isaac Risk Model V2SM; and
- TransUnion FICO® Risk Score, Classic 04.

The PFI must request these FICO credit scores for each Borrower from each of the three major credit repositories when they order the three in-file merged credit report. If the Borrower's credit file includes complete and accurate information to ensure the validity of the credit score, the PFI does not need to further evaluate the Borrower's creditworthiness.

Note: The credit report will indicate if a credit score could not be produced due to insufficient credit. The credit report must be maintained in the mortgage loan file, whether the report includes traditional credit and a credit score or indicates that a credit score could not be produced due to insufficient or frozen credit.

5.10.1.2 Minimum Credit Score Requirements

Whether the loan is underwritten manually or using an AUS, the minimum FICO score is the greater of a score required in other sections of this Guide or 620.

Exceptions to the minimum FICO score requirement(s) are:

- The Borrower has an unusable FICO score. If unable to obtain a FICO score, the PFI may determine Borrower eligibility for established credit or non-established credit; or
- The Borrower lacks traditional credit and therefore a FICO score is unobtainable.

For High-Balance Mortgage Loans, in addition to the credit score requirements in this Guide, each Borrower must have a valid FICO score based on an established credit history. The use of alternative credit references is not allowed in lieu of a valid FICO score. The lowest primary credit score for all Borrowers must meet the required minimums.

5.10.2 Determining the Credit Score for a Mortgage Loan

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



The representative credit score for the loan is determined based on the credit scores of each Borrower and is used to determine loan eligibility. Follow these steps to calculate the representative credit score for a loan:

Step	Description
1	PFI's are recommended to obtain at least two credit scores for each Borrower.
2	Select a single score for each Borrower. <ul style="list-style-type: none">• When two credit scores are obtained, choose the lower score.• When three credit scores are obtained, choose the middle score. (If two of the three scores are the same, choose the middle of the three scores. For example: 700, 680, 680 = 680; 700, 700, 680 = 700)
3	If there is only one Borrower, the single score for the Borrower is the representative credit score for the mortgage loan. If there are multiple Borrowers, determine the applicable credit score for each individual Borrower and select the lowest applicable score from the group as the representative credit score for the loan. If there is a Borrower who does not have a credit score, determine the representative credit score for the loan based on the credit scores of the other Borrowers on the loan.

The credit score determined for each individual Borrower must be input in the Loan Presentment Form (OG3).

5.10.2.1 Foreign Credit Reports

Foreign credit reports are not permitted. If a credit score is provided with a foreign credit report it cannot be used to establish eligibility and cannot be delivered to the MPF Program. See Section Nontraditional Credit History, for requirements that apply when a loan includes a Borrower without an acceptable credit score.

5.10.3 Unobtainable Credit Score

If a FICO score is unobtainable due to a lack of traditional credit history, Borrower eligibility should be determined in accordance with the Non Traditional Credit History requirements of this guide.

If a FICO score cannot be obtained, See Section 11.1.4 Inability to Obtain a Usable FICO Score and Loan Presentment Request (Form OG3) Instructions for data delivery in lieu of a FICO score.

5.11 Credit Reports

5.11.1 Requirements for Credit Reports

The PFI must obtain a credit report for each Borrower on the loan application who has an individual credit record. The credit report must be based on data provided by the national credit repositories. Acceptable credit report formats are described in Types of Credit Reports.

A nontraditional mortgage credit report or other form of alternative credit verification may be used if the Borrower:

- does not have sufficient credit to enable the development of a credit score, or
- does not use the type of credit that is reported to credit repositories.

See 5.13 Nontraditional Credit History for additional information.

5.11.1.1 General Requirements

Credit reports must meet the following general requirements:

- The report must include both credit and public record information for each locality in which the Borrower has resided during the most recent two-year period.
- The report must include all discovered credit and legal information that is not considered obsolete under the Fair Credit Reporting Act. Although the Fair Credit Reporting Act currently specifies that credit information is not considered obsolete until after seven years, and bankruptcy information after ten years, the MPF Program requires only a seven-year history to be reviewed for all credit and public record information.
- The report must be an original report, with no erasures, white-outs, or alterations. An automated credit report or one that is transmitted by fax is considered to be an “original” report.
- The report must include the full name, address, and telephone number of the credit reporting agency, as well as the names of the national repositories that the agency used to provide information for the report.
- The credit reporting agency must make responsive statements about all items on the credit report—indicating “unable to verify” or “employer refused to verify,” when appropriate.

5.11.1.2 Public Records Information

The report must include all available public records information, identify the sources of the public records information, and disclose whether any judgments, foreclosures, tax liens, or bankruptcies were discovered (with these adverse items reported in accordance with the Fair Credit Reporting Act and to the extent reported by consumer reporting agencies participating in the National Consumer Assistance Plan).

5.11.1.3 Acceptable and Unacceptable Changes

Collected credit report information should not be changed. However, it is permissible to delete duplicate information, translate codes to plain language, and make appropriate adjustments to resolve conflicting information to ensure the clarity of the report.

The following types of changes are unacceptable:

- deleting tradelines that pertain to a Borrower's bankruptcy,
- adding a payment amount to a creditor's tradeline when the creditor does not require a payment, or
- restricting information collection to a shorter time period than the MPF Program requires.

Credit repositories should only change the information called to its attention by a creditor or a party that is not associated with either the real estate sale or purchase transaction or the mortgage financing.

5.11.1.4 Required Creditor Information

For each debt listed, the report must provide:

- the creditor's name,
- the date the account was opened,
- the amount of the highest credit,
- the current status of the account,
- the required payment amount,
- the unpaid balance, and
- a payment history.

The report must indicate the dates that accounts were last updated with the creditors. Each account with a balance must have been checked with the creditor within 90 days of the date of the credit report.

5.11.1.5 Format for Reporting Payment History

All data must be presented in a format that is easy to read and that is understandable without the need for code translations.

The report must list the historical status of each account. This status must be presented in a “number of times past due” format and include the dates of the delinquencies.

The preferred format is “0 x 30, 0 x 60, 0 x 90 days” late. The following formats are also acceptable:

- “R1, R2, R3, ...,” if it also gives historical negative ratings, such as “was R3 in 6/05.”
- a consecutive numbering sequence, such as “0001000 ...,” provided the meaning is clear from the report.

Statements such as “current,” “satisfactory,” or “as agreed” are not satisfactory by themselves.

5.11.1.6 Inquiries

The report must list all inquiries that were made in the previous 90 days.

5.11.1.7 Unreported Debts

If the credit report does not include a reference for each significant open debt on the application, the PFI must obtain a separate written verification for each unreported debt. The PFI also needs to verify separately accounts listed as “will rate by mail only” or “need written authorization.”

5.11.1.8 Assessing Borrower Credit Management Skills

The Borrower’s credit management skills can be assessed by analyzing repayment patterns, credit utilization, and level of experience in using credit.

5.11.2 Types of Credit Reports

5.11.2.1 In-File Credit Reports

An in-file credit report provides credit and public record information obtained from one or more credit repositories. The report contains “as is” information, which typically has not been updated or re-verified as a result of the credit inquiry.

The report must meet the following requirements:

- The report should include all information from three different credit repositories, or two repositories, if:
 - that is the extent of the data available for the Borrower, or
 - the Borrower’s credit information is frozen at one credit repository.

If only one in-file credit report is available for a Borrower, this is acceptable if the PFI is able to obtain a credit score for the Borrower and the PFI requested information from three credit repositories.

If the report does not include a reference for each significant debt reported by the Borrower on the loan application, the PFI must obtain a separate written verification for each unreported (or unrated) debt.

If the report lists accounts that were not checked with the creditor within 90 days of the date of the in-file report, the PFI must obtain an updated credit report or a separate written verification for those accounts.

5.11.2.2 Automated Merged Credit Reports

An automated merged credit report combines the in-file credit reports from multiple repositories into a single report. A joint merged credit report includes all credit repository credit data on more than one individual applicant.

The report must meet the following requirements:

- The report must include all information from three different credit repositories, or two repositories, if:
 - that is the extent of the data available for the Borrower, or
 - the Borrower's credit information is frozen at one credit repository.
- If information from only one credit repository is available, this is acceptable if the PFI is able to obtain a credit score for the Borrower and the PFI requested information from three different credit repositories.
- The report cannot be provided by a credit reporting agency that is affiliated with the PFI in any way.
- The report must include all information reported for the Borrower from the in-file credit reports.
- The report must identify the repositories that were used for the in-file credit reports.
- The report does not have to repeat duplicate information that is in in-file credit reports. However, if duplicate information is not exactly the same on each report, the automated merged report must either repeat the information or include the most derogatory of the duplicate information that pertains to payment history and/or current payment status.

5.11.2.3 Residential Mortgage Credit Reports

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



A residential mortgage credit report is a detailed account of the Borrower's credit, employment, and residency history, as well as public records information.

The report must meet the following requirements:

- The credit reporting agency must contact at least two national repositories of accumulated credit records for each locality in which the Borrower has lived during the most recent two-year period.
- All information must be obtained from, or verified by, sources other than the Borrower. When co-Borrowers have individually obtained credit, separate repository inquiries are necessary, although the results of both reports may be combined in one report, as long as the report clearly indicates that this has been done.
- The credit reporting agency must verify, either in writing or by telephone, the Borrower's current employment and income (if it can be obtained). If the Borrower has changed jobs in the past two years, the credit report also must mention the Borrower's previous employment and income.
- The report must include a positive statement that the employment was verified, the date of the verification, and the name of the individual who confirmed the employment. If this information was not obtained by an employer interview, the credit reporting agency must indicate why that was not done.
- The report must include the name of the party who ordered the report. If another party paid for the report, the credit report must provide that party's name, unless the PFI ordered the report and the billed party has a documented agent or corporate relationship with the PFI.
- The original report must be delivered to the office of the party who requested it, using any means acceptable under the Fair Credit Reporting Act or other similar regulations, such as sending it through the U.S. postal system, by messenger, over a fax machine, or through other automated means.
- The report must include a certification that it meets the standards for a residential mortgage credit report.

When the credit reporting agency has incomplete information, discovers that the Borrower might not have disclosed all information that should be found in the public records, or obtains other information that indicates the possible existence of undisclosed credit records, the credit reporting agency must interview the Borrower(s) to obtain additional information that is needed to provide an accurate report or perform additional research to verify whether the purported undisclosed records actually exist.

5.11.3 Accuracy of Credit Information in a Credit Report

For all mortgage loans the PFI is responsible for reviewing the credit report, as well as all credit information, to determine that the credit report meets the MPF Programs requirements and that the data evaluated by was accurate.

If a Borrower indicates that any significant information in the credit file is inaccurate—such as reported accounts that do not belong to the Borrower or derogatory information that is reported in error—the PFI should carefully review the credit information with the Borrower, then request the credit reporting company that provided the information to confirm its accuracy.

5.11.3.1 Disputed Tradelines

If the Borrower has disputed information in their credit file, and the credit reporting company confirms that the disputed information is incorrect or incomplete and underwriting the loan needs to be completed before the credit files can be corrected, the PFI cannot use the credit score(s) when manually underwriting the loan. Instead, the credit risk assessment must be based on a review of the Borrower's traditional credit history.

If there are multiple disputed tradelines or a dispute on a mortgage tradeline, the PFI should obtain correspondence directly from the Borrower indicating the reason for the dispute. The aspect of the tradeline—such as balance and payment history—that is being disputed is of particular interest when considering the impact to the Borrower's overall credit profile.

The PFI is responsible for determining whether the Borrower's explanation is reasonable and/or whether additional documentation (such as canceled checks) is necessary to disprove the adverse information. PFIs are not required to investigate disputed medical tradelines.

5.12 Traditional Credit History

5.12.1 Number and Age of Accounts

The PFI must review the Borrower's credit report to determine whether he or she has an older established credit history or a newly established credit history, and whether there are a significant number of recently opened accounts or a mix of new accounts and older accounts.

Credit histories that include older, established accounts generally represent lower credit risk. However, an older, established credit history that includes a significant number of recently opened accounts may indicate that the Borrower is overextended, and thus will represent a higher credit risk.

A newly established credit history does not automatically represent a higher credit risk, since making payments as agreed on newly opened accounts represents less of a risk than not making payments as agreed on older, established accounts.

5.12.2 Payment History

The PFI must review the Borrower's credit report to determine the current status of each credit account (including mortgage accounts), the timeliness of payments, and the frequency, recency, and severity of any delinquent payments.

Credit histories that include no late payments, collection or charged-off accounts, foreclosures, deeds-in-lieu, bankruptcies, or other public records information represent a lower credit risk.

Credit histories that include recent late payments represent a higher credit risk than those with late payments that occurred more than 24 months ago. When there are payments that were 30, 60, or 90 days (or longer) past due, the PFI must determine whether the late payments represent isolated incidences or frequent occurrences. Delinquent payments must be evaluated in the context of the Borrower's overall credit history, including the number and age of accounts, credit utilization, and recent attempts to obtain new credit. For example, a credit history that includes delinquent payments along with recent inquiries and a high balances-to-limits ratio indicates a high credit risk.

Credit histories that include foreclosures, deeds-in-lieu, and public records information (such as bankruptcies, judgments, and liens) represent a higher credit risk. The greater the number of such incidences and the more recently they occurred, the higher the credit risk.

5.12.3 Previous Mortgage Payment History

5.12.3.1 Documenting Previous Mortgage History

The PFI must review the Borrower's credit report to determine the status of all mortgage accounts. If a Borrower had previous mortgages, the PFI does not have to independently verify the mortgage's payment history provided the credit report includes a reference to the mortgage (or mortgages) and reflects 12 months of the most recent payment activity.

If adequate mortgage payment history is not included in the Borrower's credit report, the PFI must use the following to verify the Borrower's payment history on a previous mortgage(s):

- a standard mortgage verification;
- loan payment history from the servicer;
- the Borrower's canceled checks for the last 12 months; or
- the Borrower's year-end mortgage account statement, provided the statement includes a payment receipt history, and, if applicable, canceled checks for the months elapsed since the year-end mortgage account statement was issued.

5.12.3.2 Standard Mortgage Verification from Servicers

When a PFI relies on standard mortgage verifications from servicers or holders, it must ensure that the verifications include:

- the unpaid principal balance of the mortgage and monthly payment amount;
- the present status of the mortgage, such as current, 30 days' delinquent, etc.; and
- the Borrower's payment history.

When a servicer fails to provide all of the requested information, the PFI must rely on information provided through the Borrower's canceled checks. The checks must:

- be legible,
- identify the mortgage servicer or mortgage holder as the payee,
- indicate that the servicer or holder endorsed the check for deposit, and
- indicate the date the Servicer or holder deposited the check.

5.12.3.3 Existing Mortgage Payment Requirements

On the date of the mortgage loan application, the Borrower's existing mortgage must be current, which means that no more than 45 days may have elapsed since the last paid installment date.

5.12.3.4 Excessive Mortgage Delinquency

The PFI must review the Borrower's credit history to determine previous mortgage delinquency, severity (e.g., 30, 60, or 90 days), and recency of the delinquency. Mortgage Loans with excessive prior mortgage delinquencies are not eligible for delivery. Excessive prior mortgage delinquency is defined as any mortgage tradeline that has one or more 60-, 90-, 120-, or 150-day delinquency reported within the 12 months prior to the credit report date. See 5.12.2 Payment History, and 5.12.7 Significant Derogatory Credit Events – Waiting Periods and Re-establishing Credit for additional information.

If a Borrower does not have excessive mortgage delinquency, however, has a history displaying evidence of late charges being imposed on mortgage related debts, even when not shown on a credit report as being thirty (30) days delinquent, PFIs are expected to consider this in their review and require a satisfactory explanation or to preclude Borrowers from obtaining new financing when deemed applicable.

Note: For purposes of complying with the guidelines in this topic, timeshare accounts identified as mortgage tradelines are not required to meet the requirements described above, and are considered to be installment accounts.

5.12.4 Inquiries: Recent Attempts to Obtain New Credit

The PFI must review the section of the Borrower's credit report that indicates the presence of creditor inquiries to determine the number and recency of the inquiries.

Recent inquiries may indicate that the Borrower has been actively seeking new credit accounts. The presence of a large number of unrelated inquiries represents higher credit risk (whether or not the Borrower actually obtained credit as a result of the inquiry). The presence of many recent inquiries in combination with a significant number of recently opened accounts or delinquent accounts represents a high credit risk.

When the credit report indicates that recent inquiries took place, the PFI must confirm that the Borrower has not obtained any additional credit that is not reflected in the credit report or the mortgage application. If additional credit was obtained, a verification of that debt must be provided and the Borrower must be qualified with the monthly payment.

5.12.5 Credit Utilization

PFI must review the Borrower's credit report to evaluate his or her use of revolving credit by comparing the current balance on each open account to the amount of credit that is available to determine whether the Borrower has a pattern of using revolving accounts up to (or approaching) the credit limit. Patterns of revolving credit spending are credit risk indicative.

Credit histories that include revolving accounts with a low balances-to-limits ratio generally represent a lower credit risk, while those that include accounts with a high balances-to-limits ratio represent a higher credit risk.

A credit history that includes recently opened accounts that are at or near their limits may indicate that the Borrower is overextended or overly reliant on the use of revolving credit—and, when this is combined with a delinquent payment history, it is generally an indication that the Borrower has not managed his or her credit successfully.

Note: PFIs are not required to analyze trended credit data in the credit report. See 5.11.1 Requirements for Credit Reports, for additional information.

5.12.6 Authorized Users of Credit

When a credit account owner permits another person, typically a family member who is managing credit for the first time, to have access to and use an account, the user is referred to as an authorized user of the account. This practice is intended to assist related individuals in legitimately establishing a credit history and credit score based on the account and payment history of the account owner, even though the authorized user is not the account owner.

5.12.6.1 Consideration of Authorized User Accounts

For mortgage loans with credit report tradelines that list a Borrower as an authorized user cannot be considered in the underwriting decision, except as outlined below.

An authorized user tradeline may be considered if:

- another Borrower in the mortgage transaction is the owner of the tradeline; or
- the Borrower can provide written documentation (e.g., canceled checks, payment receipts, etc.) that he or she has been the actual and sole payer of the monthly payment on the account for at least 12 months preceding the date of the application.

If written documentation of the Borrower's monthly payments on the authorized user tradeline is provided, then the payment history — particularly any late payments that are indicated — must be considered in the credit analysis and the monthly payment obligation must be included in the debt-to-income ratio.

An authorized user tradeline must be considered if the owner of the tradeline is the Borrower's spouse and the spouse is not a Borrower in the mortgage transaction.

5.12.7 Significant Derogatory Credit Events – Waiting Periods and Re-establishing Credit

The presence of significant derogatory credit events dramatically increases the likelihood of a future default and represents a significantly higher level of default risk. Examples of significant derogatory credit events include bankruptcies, foreclosures, deeds-in-lieu of foreclosure, preforeclosure sales, short sales, and charge-offs of mortgage accounts.

Note: The terms “preforeclosure sale” and “short sale” are used interchangeably in this Guide and have the same meaning (see 5.12.7.7 Deed-in-Lieu of Foreclosure, Preforeclosure Sale, and Charge-Off of a Mortgage Account below).

The PFI must determine the cause and significance of the derogatory information, verify that sufficient time has elapsed since the date of the last derogatory information, and confirm that the Borrower has re-established an acceptable credit history. The PFI must make the final decision about the acceptability of a Borrower's credit history when significant derogatory credit information exists.

This topic describes the amount of time that must elapse (the “waiting period”) after a significant derogatory credit event before the Borrower is eligible for a new loan salable to the MPF Program. The waiting period commences on the completion, discharge, or dismissal date (as applicable) of the derogatory credit event and ends on the disbursement date of the new loan. Also see 5.12.8 Extenuating Circumstances for Derogatory Credit, for additional information.

5.12.7.1 Identification of Significant Derogatory Credit Events in the Credit Report

PFI must review the credit report and the Declarations in the loan application to identify instances of significant derogatory credit events. PFI must review the public records section of the credit report

and all tradelines, including mortgage accounts (first liens, second liens, home improvement loans, HELOCs, and manufactured home loans), to identify previous foreclosures, deeds-in-lieu, preforeclosure sales, charge-offs of mortgage accounts, and bankruptcies. PFIs must carefully review the current status of each tradeline, manner of payment codes, and remarks to identify these types of significant derogatory credit events. Remarks Codes are descriptive text or codes that appear on a tradeline, such as “Foreclosure,” “Forfeit deed-in-lieu of foreclosure,” and “Settled for less than full balance.”

Significant derogatory credit events may not be accurately reported or consistently reported in the same manner by all creditors or credit reporting agencies. If not clearly identified in the credit report, the PFI must obtain copies of appropriate documentation. The documentation must establish the completion date of a previous foreclosure, deed-in-lieu or preforeclosure sale, or date of the charge-off of a mortgage account; confirm the bankruptcy discharge or dismissal date; and identify debts that were not satisfied by the bankruptcy. Debts that were not satisfied by a bankruptcy must be paid off or have an acceptable, established repayment schedule.

Note: Timeshare accounts are considered installment loans and are not subject to the waiting periods described below.

5.12.7.2 Bankruptcy (Chapter 7 or Chapter 11)

A four-year waiting period is required, measured from the discharge or dismissal date of the bankruptcy action.

Exceptions for Extenuating Circumstances

A two-year waiting period is permitted if extenuating circumstances can be documented, and is measured from the discharge or dismissal date of the bankruptcy action. See Section 5.12.8 Extenuating Circumstances for Derogatory Credit for requirements on documenting extenuating circumstances.

5.12.7.3 Bankruptcy (Chapter 13)

A distinction is made between Chapter 13 bankruptcies that were discharged and those that were dismissed. The waiting period required for Chapter 13 bankruptcy actions is measured as follows:

- two years from the discharge date, or
- four years from the dismissal date.

The shorter waiting period based on the discharge date recognizes that Borrowers have already met a portion of the waiting period within the time needed for the successful completion of a Chapter 13 plan and subsequent discharge. A Borrower who was unable to complete the Chapter 13 plan and received a dismissal will be held to a four-year waiting period.

Exceptions for Extenuating Circumstances

A two-year waiting period is permitted after a Chapter 13 dismissal, if extenuating circumstances can be documented. There are no exceptions permitted to the two-year waiting period after a Chapter 13 discharge. See Section 5.12.8 Extenuating Circumstances for Derogatory Credit for requirements on documenting extenuating circumstances.

5.12.7.4 Multiple Bankruptcy Filings

For a Borrower with more than one bankruptcy filing within the past seven years, a five-year waiting period is required, measured from the most recent dismissal or discharge date.

Note: The presence of multiple bankruptcies in the Borrower's credit history is evidence of significant derogatory credit and increases the likelihood of future default. Two or more Borrowers with individual bankruptcies are not cumulative, and do not constitute multiple bankruptcies. For example, if the Borrower has one bankruptcy and the co-Borrower has one bankruptcy this is not considered a multiple bankruptcy.

Exceptions for Extenuating Circumstances

A three-year waiting period is permitted if extenuating circumstances can be documented, and is measured from the most recent bankruptcy discharge or dismissal date. The most recent bankruptcy filing must have been the result of extenuating circumstances. See Section 5.12.8 Extenuating Circumstances for Derogatory Credit for requirements on documenting extenuating circumstances.

5.12.7.5 Foreclosure

A seven-year waiting period is required, and is measured from the completion date of the foreclosure action as reported on the credit report or other foreclosure documents provided by the Borrower.

Exceptions for Extenuating Circumstances

A three-year waiting period is permitted if extenuating circumstances can be documented, and is measured from the completion date of the foreclosure action. Additional requirements apply between three and seven years, which include:

- Maximum LTV, CLTV, or HCLTV ratios of the lesser of 90% or the maximum LTV, CLTV, or HCLTV ratios for the transaction per the Eligibility Matrix.
- The purchase of a principal residence is permitted.
- Limited cash-out refinances are permitted for all occupancy types pursuant to the eligibility requirements in effect at that time.

Note: The purchase of second homes and cash-out refinances (any occupancy type) are not permitted until a seven-year waiting period has elapsed.

5.12.7.6 Foreclosure and Bankruptcy on the Same Mortgage

If a mortgage debt was discharged through a bankruptcy, the bankruptcy waiting periods may be applied if the PFI obtains the appropriate documentation to verify that the mortgage obligation was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting periods must be applied.

5.12.7.7 Deed-in-Lieu of Foreclosure, Preforeclosure Sale, and Charge-Off of a Mortgage Account

These transaction types are completed as alternatives to foreclosure.

- A deed-in-lieu of foreclosure is a transaction in which the deed to the real property is transferred back to the servicer. These are typically identified on the credit report through Remarks Codes such as “Forfeit deed-in-lieu of foreclosure.”
- A preforeclosure sale or short sale is the sale of a property in lieu of a foreclosure resulting in a payoff of less than the total amount owed, which was pre-approved by the servicer. These are typically identified on the credit report through Remarks Codes such as “Settled for less than full balance.”
- A charge-off of a mortgage account occurs when a creditor has determined that there is little (or no) likelihood that the mortgage debt will be collected. A charge-off is typically reported after an account reaches a certain delinquency status, and is identified on the credit report with a manner of payment (MOP) code of “9.”

A four-year waiting period is required from the completion date of the deed-in-lieu of foreclosure, preforeclosure sale, or charge-off as reported on the credit report or other documents provided by the Borrower.

Exceptions for Extenuating Circumstances

A two-year waiting period is permitted if extenuating circumstances can be documented. See Section 5.12.8 Extenuating Circumstances for Derogatory Credit for requirements on documenting extenuating circumstances.

Note: Deeds-in-lieu and preforeclosure sales may not be accurately or consistently reported in the same manner by all creditors or credit reporting agencies. See 5.12.7.1 Identification of Significant Derogatory Credit Events in the Credit Report for additional information.

5.12.7.8 Summary – All Waiting Period Requirements

The following table summarizes the waiting period requirements for all significant derogatory credit events.

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



Derogatory Event	Waiting Period Requirements	Waiting Period with Extenuating Circumstances
Bankruptcy — Chapter 7 or 11	4 years	2 years
Bankruptcy — Chapter 13	<ul style="list-style-type: none"> 2 years from discharge date 4 years from dismissal date 	<ul style="list-style-type: none"> 2 years from discharge date 2 years from dismissal date
Multiple Bankruptcy Filings	5 years if more than one filing within the past 7 years	3 years from the most recent discharge or dismissal date
Foreclosure*	7 years	<p>3 years</p> <p>Additional requirements after 3 years up to 7 years:</p> <ul style="list-style-type: none"> 90% maximum LTV ratios* Purchase, principal residence Limited cash-out refinance, all occupancy types <p>Note: No exceptions to 7-year waiting period for</p>

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



Derogatory Event	Waiting Period Requirements	Waiting Period with Extenuating Circumstances
		cash-out refinances (any occupancy type) or purchases of second homes.
Deed-in-Lieu of Foreclosure, Preforeclosure Sale, or Charge-Off of Mortgage Account	4 years	2 years

See Section 5.12.8 Extenuating Circumstances for Derogatory Credit for requirements on documenting extenuating circumstances.

*When both a bankruptcy and foreclosure are disclosed on the loan application, or when both appear on the credit report, the PFI may apply the bankruptcy waiting period if the PFI obtains the appropriate documentation to verify that the mortgage loan in question was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting period must be applied.

**References to LTV ratios include LTV, CLTV, and HCLTV ratios. The maximum LTV ratios permitted are the lesser of the LTV ratios in this table or the maximum LTV ratios for the transaction per section 2.4 Maximum LTV and TLTV ratios.

5.12.7.9 Requirements for Re-establishing Credit

After a bankruptcy, foreclosure, deed-in-lieu of foreclosure, preforeclosure sale, or charge-off of a mortgage account, the Borrower's credit will be considered re-established if all of the following are met:

- The waiting period and the related additional requirements are met.
- Meets the minimum credit score requirements based on the parameters of the loan and the established eligibility requirements.

- The Borrower has traditional credit as outlined in the 5.12 Traditional Credit History. Nontraditional credit or “thin files” are not acceptable.

5.12.8 Extenuating Circumstances for Derogatory Credit

Extenuating circumstances are nonrecurring events that are beyond the Borrower’s control that result in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations.

If a Borrower claims that derogatory information is the result of extenuating circumstances, the PFI must substantiate the Borrower’s claim. Examples of documentation that can be used to support extenuating circumstances include

- documents that confirm the event
 - such as a copy of a divorce decree, medical reports or bills, notice of job layoff, job severance papers, etc.; and
- documents that illustrate factors that contributed to the Borrower’s inability to resolve the problems that resulted from the event
 - such as a copy of insurance papers or claim settlements, property listing agreements, lease agreements, tax returns (covering the periods prior to, during, and after a loss of employment), etc.

The PFI must obtain a written explanation from the Borrower explaining the relevance of the documentation. The written explanation must support the claims of extenuating circumstances, confirm the nature of the event that led to the bankruptcy or foreclosure-related action, and illustrate that the Borrower had no reasonable options other than to default on his or her financial obligations. The written explanation may be in the form of a letter from the Borrower, an email from the Borrower, or some other form of written documentation provided by the Borrower.

5.13 Nontraditional Credit History

5.13.1 Eligibility Requirements for Loans with Nontraditional Credit

If one or more Borrowers do not have a credit score due to insufficient credit, the PFI must establish an acceptable nontraditional credit profile. The PFI must first check all three major credit repositories to verify the Borrower’s credit history and confirm that the Borrower does not have a credit score.

If the Borrower’s credit information is frozen at one of the credit repositories, and no credit score is available from any other repository, the PFI may underwrite the Borrower following the requirements for nontraditional credit. If the Borrower’s credit information is frozen at two or more of the credit repositories, the loan is not eligible as nontraditional credit even though no credit score is available.

The credit report will indicate if a credit score could not be produced due to insufficient credit. PFIs must ensure that the credit report accurately reflects the Borrower's information, such as the name, Social Security number, and current residence of the Borrower to confirm that the lack of traditional credit was not erroneously reported because incorrect information was used to order the credit report.

Note: For certain loan transactions, one or more Borrower(s) are required to have traditional credit as evidenced by a credit score.

5.13.1.1 Unacceptable Uses

The establishment of a nontraditional credit history is not acceptable for the following scenarios:

- The PFI is able to obtain a credit score for the Borrower despite the Borrower's limited use of credit.
- The Borrower has a sufficient amount of credit to obtain a credit score and the representative credit score is less than the minimum required.

The Borrower's traditional credit history indicates significant derogatory references, such as a prior bankruptcy or foreclosure. In these cases, the Borrower must have re-established credit in accordance with Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit, including the establishment of traditional credit and a credit score.

5.13.1.2 Unobtainable Credit Score

If a FICO score is unobtainable due to a lack of traditional credit history, a nontraditional credit history must be documented for each Borrower without a credit score.

Borrower eligibility should be determined in accordance with the requirements of 5.13.2 Number and Types of Nontraditional Credit Resources and 5.13.3 Documentation and Assessment of a Nontraditional Credit History.

If a FICO score cannot be obtained, see Selling Guide Chapter 11.1.4 and Loan Presentment Request (Form OG3) Instructions for data delivery in lieu of a FICO score.

Non-occupant co-Borrowers are permitted, provided the requirements described in Section 3.1.4 Non-Occupant Co-Borrowers on the Subject Transaction are met.

5.13.1.3 Homeownership Education/Credit Counseling

Homeownership education is not required, however, may be beneficial if Borrowers on the loan are relying solely on nontraditional credit to qualify.

Consumer credit counseling services are not required, although they may be beneficial for some Borrowers.

5.13.2 Number and Types of Nontraditional Credit Resources

The number of nontraditional credit sources that must be documented for a Borrower without a credit score is four sources for each Borrower without a score.

5.13.2.1 Eligible Types of Nontraditional Credit

The types of credit that can be used to develop a nontraditional credit history are those that require the Borrower to make periodic payments on a regular basis with intervals that are no longer than every three months.

The PFI must conduct an informational interview with the Borrower to identify all of the sources from which the Borrower obtained credit over the most recent consecutive 12 months. If the PFI is requesting a nontraditional mortgage credit report from a consumer reporting agency, the agency will conduct the Borrower interview and obtain the list of available nontraditional credit sources.

In all cases, the payment history for each credit reference must be documented for the most recent consecutive 12-month period. All credit sources must be included, not just those that reflect acceptable performance.

The following nontraditional credit sources may be used to develop a nontraditional credit history for the Borrower:

- Rental housing payments. This includes payments made to a landlord or management company. Also included are payments made on a privately-held mortgage loan that is not reported to the credit bureaus, contract for deed payments and other similar arrangements, provided the payments are related to the Borrower's housing.
 - Mortgage loans are not required to have that one source of nontraditional credit be rental housing payments.
- Utilities, such as electricity, gas, water, telephone service, television, and internet service providers. If utilities are included in the rental housing payment, they cannot be considered a separate source of nontraditional credit. Utilities can be considered a source of nontraditional credit only if the payment history can be separately documented.
- Medical insurance coverage (excluding payroll deductions)
- Automobile insurance payments
- Cell phone payments
- Life insurance policies (excluding payroll deductions)
- Payments for household or renter's insurance

- Payments to local stores, such as department stores, furniture stores, appliance stores
- Rental payments for durable goods, such as automobiles
- Payment of medical bills
- Payment of school tuition
- Payments for child care
- A loan obtained from an individual, provided the repayment terms can be documented in a written agreement
- Checking account, savings account, voluntary payments made to a payroll savings plan or contributions to a stock purchase plan, provided the records reflect an increasing balance as a result of periodic deposits over at least the most recent 12 months. Contributions must have been made no less than quarterly.
- Wire remittance statements demonstrating a consistent amount of funds remitted over the most recent 12-month period.

5.13.3 Documentation and Assessment of Nontraditional Credit History

The PFI can document the Borrower's nontraditional credit history directly from the Borrower or the creditor, or by obtaining a nontraditional mortgage credit report from a consumer reporting agency.

5.13.3.1 Rental Payment History

The Borrower's rental payment history must be documented for the most recent consecutive 12-month period. The following documentation is acceptable:

- Canceled checks can be provided. In lieu of canceled checks, the PFI may use the Borrower's bank statements, copies of money orders, or other reasonable methods for documenting the timely payment of rent. The documentation must clearly indicate the payee and amount being paid, and reflect that payments were made on a consistent basis.
- Direct verification of the payment of rent from the landlord. Direct landlord verification is acceptable whether the landlord is an individual or a professional management company.

If at least one Borrower on the Mortgage Loan can document a rental housing payment as a source of nontraditional credit, the Mortgage Loan has met the rental payment history requirement. The PFI is not required to obtain documentation of a rental payment history for other nontraditional credit Borrowers on the Mortgage Loan. However, the PFI must still document the minimum number of nontraditional credit sources required for each nontraditional credit Borrower.

If two or more Borrowers on a Mortgage Loan share the housing-related source (for example, they are both named on the lease for the property in which they are living), that documentation counts as one source of nontraditional credit documentation for each Borrower, even if only one Borrower has been making the payments.

Note: If the credit report contains a rental payment reference and it includes the required information, including payment history, then the PFI may use that rental payment reference as an acceptable nontraditional credit reference.

5.13.3.2 Standards for Individual Credit References Obtained Directly from a Creditor

Individual credit references (other than rental housing payments) from a creditor must include the following:

- the creditor's name,
- the name of the individual providing the reference,
- the date the account was opened,
- the amount of highest credit,
- the current status of the account,
- the required payment amount,
- the unpaid balance, and
- the payment history.

The historical status of each account must be stated in a "number of times past due" format using "0 X 30, 0 X 60, 0 X 90" days late.

Note: Vague statements such as "current," "satisfactory," or "pays as agreed" are not acceptable by themselves.

5.13.3.3 Standards for Documenting Payment History Obtained From the Borrower

For documentation obtained directly from the Borrower, the following standards must be met:

- documentation that describes the terms of the debt repayment or contract together with canceled checks or copies of bills marked "paid" that reflect the Borrower's payment history over the most recent consecutive 12 months.

- withdrawals or debits on the Borrower's bank statements that show the payee information clearly listed for the creditor and that payments were made on a consistent basis over the most recent consecutive 12 months.

5.13.3.4 Verification of Bank Accounts and Wire Remittance Statements

Account statements can be used to document the Borrower's checking account, savings account, voluntary payments made to a payroll savings plan, or contributions to a stock purchase plan. The account statements must reflect an increasing balance as a result of periodic deposits over at least the most recent consecutive 12-month period, with contributions being made no less than quarterly. If the account statements demonstrate overdraft activity, that information suggests a weakness in the Borrower's ability to meet financial obligations. The PFI must assess the significance of this information relative to the Borrower's overall credit risk.

Wire remittance statements can be used to document a source of nontraditional credit, provided they demonstrate a consistent amount of funds being remitted over the most recent consecutive 12-month period.

5.13.3.5 Borrowers with Disabilities

If a Borrower with disabilities does not have a credit score and a nontraditional credit history is being developed, the PFI may use documentation provided by a court-appointed guardian, a Social Security Administration (SSA) representative payee, or a parent, provided that this party:

- manages the Borrower's financial transactions,
- maintains records on the Borrower's behalf, and
- uses credit accounts held jointly in the name of the person with disabilities to pay financial obligations.

The PFI can use the documentation provided either to request a nontraditional mortgage credit report from a consumer reporting agency, or to establish a nontraditional credit history for the Borrower, as described in this topic.

5.13.3.6 Assessment of the Payment History for Nontraditional Credit Sources

For each nontraditional credit source, the following requirements must be met:

- There cannot be any delinquency on rental housing payments within the past 12 months.
- Only one account, excluding rental housing payments, can have a 30-day delinquency in the past 12 months.

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



- No collections (other than medical collections) or judgments have been filed in the past 24 months.
- Judgments, liens, collections, and charge-offs of non-mortgage accounts must be satisfied in accordance with 5.14.6 Debts Paid Off At or Prior to Closing.

Note: A Borrower may lack sufficient credit to obtain a credit score. However, the PFI must still consider any derogatory credit references that appear on the credit report.

5.14 Liability Assessment

To ensure QM Status, PFIs are required to verify the Borrower's debt obligations and liabilities, pursuant to TILA/Regulation Z (including 12 CFR 1026.43). The verification requirements outlined in this section and this Guide are intended to meet TILA/Regulation Z and its official commentary which permits originators to rely on GSE validation standards to provide reasonably reliable evidence (specifically and the applicable verification requirements outlined in Fannie Mae Single Family Selling Guide Sections B3-3 through B3-6). Any deviations in this Guide from those the GSE's verification standards were only intended to impose more restrictive requirements, and not intend to be more permissive. In some circumstances more restrictive, which are provided within this section. To the extent the guidance for verification requirements in this MPF Traditional Selling Guide contradict what is provided in aforementioned sections of Fannie Mae's Single Family Selling Guide, the more restrictive policy will supersede. The Fannie Mae Selling Guides should only be used for verification purposes. Nothing in the Fannie Mae guides supersede a PFI's obligation to considering Borrower's current or reasonably expected income as provided for in TILA/Regulation Z (including 12 CFR 1026.43), and this is the stated intent for verification standards only, as a result, the underwriting and eligibility guidelines of the MPF Guides apply to MPF Traditional mortgage loans.

5.14.1 General Information on Liabilities

The PFIs risk analysis must include all liabilities affecting income or assets that will affect the Borrower's ability to fulfill the mortgage payment obligation.

A Borrower's liabilities include the following:

- housing payment (mortgage or rent) for each Borrower's principal residence,
- all revolving charge accounts,
- installment loan debts with a remaining payment term greater than 10 months,
- installment debts secured by virtual currency,
- lease payments,
- real estate loans,
- HELOCs,

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



- alimony and child support,
- maintenance payments, and
- all other debts of a recurring nature.

For each liability, the PFI must determine the unpaid balance, the terms of repayment, and the Borrower's payment history, and verify any other liability that is not shown on a credit report by obtaining documentation from the Borrower or creditor.

All of the Borrower's obligations outstanding at the time of Closing must be included in the determination of the Borrower's ability to repay the Mortgage Loan and the calculation of the total debt ratio.

If the credit report does not contain a reference for each significant open debt shown on the loan application—including outstanding mortgage debt, bank, student, or credit union loans—the PFI must provide separate credit verification.

If a current liability appears on the credit report that is not shown on the loan application, the Borrower should provide a reasonable explanation for the undisclosed debt. Documentation may be required to support the Borrower's explanation.

If the Borrower discloses, or the PFI discovers, additional liabilities after the underwriting decision has been made, up to and concurrent with closing, the PFI must recalculate the Borrower's debt-to-income ratio.

Any liability incurred after the application but prior to Closing not considered when underwriting a Mortgage Loan that, when taken into account, renders the loan ineligible under the MPF Program, will result in the loan being subject to repurchase.

See 5.14.2 Debt-to-Income Ratios (DTI) and 5.14.3 Monthly Housing Expense for the Subject Property for additional information.

5.14.1.1 Monthly Obligations Not Included in Liabilities

Some obligations, often identified on a Borrower's paystub, are not considered a liability and will not be included as a debt or deducted from the Borrower's gross income when calculating the Borrower's debt-to-income ratio. These obligations include items such as

- federal, state, and local taxes;
- Federal Insurance Contributions Act (FICA) or other retirement contributions, such as 401(k) accounts (including repayment of debt secured by these funds);
- commuting costs;

- union dues; and
- voluntary deductions.

5.14.2 Debt-to-Income Ratios (DTI)

The DTI ratio consists of two components:

- total monthly obligations, which includes the qualifying payment for the subject mortgage loan and other long-term and significant short-term monthly debts (see 5.14.3.1 Calculating Monthly Real Estate Tax Payment below); and
- total monthly income of all Borrowers, to the extent the income is used to qualify for the mortgage (see 5.3 Income Assessment).

5.14.2.1 Maximum DTI Ratios

The maximum allowable debt-to-income ratios are listed in the following table:

Underwriting Method	Maximum Debt-to-Income Ratio
Manually underwritten	43.00%
Loan Product Advisor Accept	Allowable by AUS
DU Approve	Allowable by AUS

A Mortgage Loan with a debt-to-income ratio of 43.01% is considered in excess of 43% and is not eligible for delivery if manually underwritten.

5.14.2.2 Calculating Total Monthly Obligation

The total monthly obligation is the sum of the following:

- the housing payment for each Borrower's principal residence
 - if the subject loan is the Borrower's principal residence, use the PITIA and qualifying payment amount (see 5.14.3 Monthly Housing Expense for the Subject Property);
 - if there is a non-occupant Borrower, use the mortgage payment (including HOA fees and subordinate lien payments) or rental payments (see 5.14.4 Monthly Debt Obligations);
 - if the subject loan is a second home, use the mortgage payment (including HOA fees and subordinate lien payments) or rental payments (see 5.14.4 Monthly Debt Obligations);

- the qualifying payment amount if the subject loan is for a second home;
- monthly payments on installment debts and other mortgage debts that extend beyond ten months;
- monthly payments on installment debts and other mortgage debts that extend ten months or less if the payments significantly affect the Borrower's ability to meet credit obligations;
- monthly payments on installment debts secured by virtual currency;
- monthly payments on revolving debts;
- monthly payments on lease agreements, regardless of the expiration date of the lease;
- monthly alimony, child support, or maintenance payments that extend beyond ten months (alimony (but not child support or maintenance) may instead be deducted from income, (see 5.14.4 Monthly Debt Obligations);
- monthly payments for other recurring monthly obligations; and
- any net loss from a rental property.

5.14.2.3 DTI Ratio Tolerance and Re-Underwriting Criteria

PFI's are expected to have in place processes to facilitate Borrower disclosure of changes in financial circumstances throughout the origination process and prefunding quality control processes to increase the likelihood of discovering material undisclosed debts or reduced income.

As a result of the PFI's normal processes and controls, the PFI may need to re-underwrite the loan after initial underwriting. If the Borrower discloses or the PFI discovers additional debt(s) or reduced income after the underwriting decision was made up to and concurrent with loan closing, the loan must be re-underwritten if the new information causes the DTI ratio to increase by more than the allowed tolerances.

In all cases, if the PFI determines that there is new subordinate financing on the subject property during the loan process, the mortgage loan must be re-underwritten.

Note: A comprehensive risk and eligibility assessment must be performed.

The following steps are required if the Borrower discloses or the PFI discovers additional debt(s) or reduced income after the underwriting decision was made up to and concurrent with loan closing:

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



Step	Description
1	<p>The PFI must document the additional debt(s) and reduced income in accordance with General Information on Liabilities or Income Assessment, as applicable.</p> <p>Note: The PFI is not required to obtain a new credit report to verify the additional debt(s). However, if the PFI chooses to obtain a new credit report after the initial underwriting decision was made, the loan must be re-underwritten.</p>
2	If there is new subordinate debt on the subject property, the mortgage loan must be re-underwritten.
3	The PFI must recalculate the DTI ratio.
4	<ul style="list-style-type: none"> • If the recalculated DTI ratio exceeds 43.00%, the mortgage loan is not eligible for delivery. • If the recalculated DTI does not exceed 43.00%, the mortgage loan must be re-underwritten with the updated information to determine if the loan is still eligible for delivery.
5	The final loan application signed by the Borrower must include all income and debts verified, disclosed, or identified during the mortgage process.
6	Upon delivery the PFI must deliver the qualifying monthly income and expense amounts that are on the final loan application.

5.14.3 Monthly Housing Expense for the Subject Property

Monthly housing expense is the sum of the following and is referred to as PITIA for the subject property:

MPF Traditional Selling Guide

Underwriting the Borrower (FOR MORTGAGE LOAN APPLICATIONS ON OR AFTER JULY 1, 2023)



- principal and interest (P&I);
- property, flood, and mortgage insurance premiums (as applicable);
- real estate taxes;
- ground rent;
- special assessments;
- any owners' association dues (including utility charges that are attributable to the common areas, but excluding any utility charges that apply to the individual unit);
- any subordinate financing payments on mortgages secured by the subject property.

Note: The monthly payment of a subordinate lien associated with a business debt secured by the subject property can be excluded from the monthly housing expense if it meets the requirements of Business Debt in the Borrower's Name in section 5.14.4 Monthly Debt Obligations.

PFI must enter all components of the monthly housing expense on the loan application including subordinate financing P&I, homeowner's insurance, supplemental property insurance, real estate taxes, mortgage insurance, association/project dues, and other proposed housing expenses.

If the subject mortgage is secured by the Borrower's principal residence, the monthly housing expense is based on the qualifying payment. This amount is the monthly housing expense used to calculate the debt-to-income (DTI) ratio.

If the subject mortgage is secured by a second home, the qualifying payment amount is considered one of the Borrower's monthly debt obligations when calculating the DTI ratio.

5.14.3.1 Calculating Monthly Real Estate Tax Payment

The PFI must base its calculation of real estate taxes for Borrower qualification on no less than the current assessed value. However, the PFI must project the real estate taxes if one of the following applies:

- For purchase and construction-related transactions, the PFI must use a reasonable estimate of the real estate taxes based on the value of the land and the total of all new and existing improvements. This policy also applies to properties in jurisdictions where a transfer of ownership typically results in a reassessment or revaluation of the property and a corresponding increase in the amount of taxes.
- There is a tax abatement on the subject property that will last for no less than 5 years from the note date. For example:

- for a municipality with a 10-year abatement, the PFI may qualify the Borrower with the reduced tax amount;
- for a municipality with a 10-year abatement and with annual real estate tax increases in years 1 through 10, the PFI must qualify the Borrower with the annual taxes that will be required at the end of the 5th year after the first mortgage payment date.

The PFI has the option to project the real estate taxes if the amount of taxes will be reduced based on federal, state, or local jurisdictional requirements. However, the taxes may not be reduced if an appeal to reduce them is only pending and has not been approved.

5.14.4 Monthly Debt Obligations

5.14.4.1 Alimony, Child Support, and Separate Maintenance Payments

When the Borrower is required to pay alimony, child support, or separate maintenance payments under a divorce decree, separation agreement, or any other written legal agreement—and those payments must continue to be made for more than ten months—the payments must be considered as part of the Borrower's recurring monthly debt obligations. However, voluntary payments do not need to be taken into consideration and an exception is allowed for alimony. A copy of the divorce decree, separation agreement, court order, or equivalent documentation confirming the amount of the obligation must be obtained and retained in the loan file.

For alimony and separate maintenance obligations, the PFI has the option to reduce the qualifying income by the amount of the obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio.

5.14.4.2 Bridge/Swing Loans

When a Borrower obtains a bridge (or swing) loan, the funds from that loan can be used for closing on a new principal residence before the current residence is sold. This creates a contingent liability that must be considered part of the Borrower's recurring monthly debt obligations and included in the DTI ratio calculation.

The MPF Program will waive this requirement and not require the debt to be included in the DTI ratio if the following documentation is provided:

- a fully executed sales contract for the current residence, and
- confirmation that any financing contingencies have been cleared.

5.14.4.3 Business Debt in Borrower's Name

When a self-employed Borrower claims that a monthly obligation that appears on his or her personal credit report (such as a Small Business Administration loan) is being paid by the Borrower's business,

the PFI must confirm that it verified that the obligation was actually paid out of company funds and that this was considered in its cash flow analysis of the Borrower's business.

The account payment does not need to be considered as part of the Borrower's DTI ratio if:

- the account in question does not have a history of delinquency,
- the business provides acceptable evidence that the obligation was paid out of company funds (such as 12 months of canceled company checks), and
- the PFI's cash flow analysis of the business took payment of the obligation into consideration.

The account payment must be considered as part of the Borrower's DTI ratio in any of the following situations:

- If the business does not provide sufficient evidence that the obligation was paid out of company funds.
- If the business provides acceptable evidence of its payment of the obligation, but the PFI's cash flow analysis of the business does not reflect any business expense related to the obligation (such as an interest expense—and taxes and insurance, if applicable—equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan). It is reasonable to assume that the obligation has not been accounted for in the cash flow analysis.
- If the account in question has a history of delinquency. To ensure that the obligation is counted only once, the PFI should adjust the net income of the business by the amount of interest, taxes, or insurance expense, if any, that relates to the account in question.

5.14.4.4 Court-Ordered Assignment of Debt

When a Borrower has outstanding debt that was assigned to another party by court order (such as under a divorce decree or separation agreement) and the creditor does not release the Borrower from liability, the Borrower has a contingent liability. The PFI is not required to count this contingent liability as part of the Borrower's recurring monthly debt obligations.

The PFI is not required to evaluate the payment history for the assigned debt after the effective date of the assignment. The PFI cannot disregard the Borrower's payment history for the debt before its assignment.

5.14.4.5 Debts Paid by Others

Certain debts can be excluded from the Borrower's recurring monthly obligations and the DTI ratio:

- When a Borrower is obligated on a non-mortgage debt - but is not the party who is actually repaying the debt - the PFI may exclude the monthly payment from the Borrower's recurring

monthly obligations. This policy applies whether or not the other party is obligated on the debt, but is not applicable if the other party is an interested party to the subject transaction (such as the seller or real estate agent). Non-mortgage debts include installment loans, student loans, revolving accounts, lease payments, alimony, child support, and separate maintenance. See below for treatment of payments due under a federal income tax installment agreement.

- When a Borrower is obligated on a mortgage debt - but is not the party who is actually repaying the debt - the PFI may exclude the full monthly housing expense (PITIA) from the Borrower's recurring monthly obligations if
 - the party making the payments is obligated on the mortgage debt,
 - there are no delinquencies in the most recent 12 months, and
 - the Borrower is not using rental income from the applicable property to qualify.

In order to exclude non-mortgage or mortgage debts from the Borrower's DTI ratio, the PFI must obtain the most recent 12 months' canceled checks (or bank statements) from the other party making the payments that document a 12-month payment history with no delinquent payments.

5.14.4.6 Non-Applicant Accounts

Credit reports may include accounts identified as possible non-applicant accounts (or with other similar notation). Non-applicant accounts may belong to the Borrower, or they may truly belong to another individual.

Typical causes of non-applicant accounts include:

- applicants who are Juniors or Seniors,
- individuals who move frequently,
- unrelated individuals who have identical names, and
- debts the Borrower applied for under a different Social Security number or under a different address. These may be indicative of potential fraud.

If the debts do not belong to the Borrower, the PFI may provide supporting documentation to validate this, and may exclude the non-applicant debts for the Borrower's DTI ratio. If the debts do belong to the Borrower, they must be included as part of the Borrower's recurring monthly debt obligations.

5.14.4.7 Deferred Installment Debt

Deferred installment debts must be included as part of the Borrower's recurring monthly debt obligations. For deferred installment debts other than student loans, if the Borrower's credit report does not indicate the monthly amount that will be payable at the end of the deferment period, the PFI must obtain copies of the Borrower's payment letters or forbearance agreements so that a monthly payment amount can be determined and used in calculating the Borrower's total monthly obligations.

For information about deferred student loans, see Student Loans below.

5.14.4.8 Federal Income Tax Installment Agreements

When a Borrower has entered into an installment agreement with the IRS to repay delinquent federal income taxes, the PFI may include the monthly payment amount as part of the Borrower's monthly debt obligations (in lieu of requiring payment in full) if:

- There is no indication that a Notice of Federal Tax Lien has been filed against the Borrower in the county in which the subject property is located.
- The PFI obtains the following documentation:
 - an approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due; and
 - evidence the Borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date. At least one payment must have been made prior to closing.

As a reminder, PFIs remain responsible under the life-of-loan representations and warranties for clear title and first-lien enforceability in accordance with the MPF Guides.

The payments on a federal income tax installment agreement can be excluded from the Borrower's DTI ratio if the agreement meets the terms in Debts Paid by Others or Installment Debt described above. If any of the above conditions are not met, the Borrower must pay off the outstanding balance due under the installment agreement with the IRS in accordance with 5.14.6 Debts Paid Off At or Prior to Closing.

5.14.4.9 Garnishments

All garnishments with more than ten months remaining must be included in the Borrower's recurring monthly debt obligations for qualifying purposes.

5.14.4.10 Home Equity Lines of Credit

When the mortgage that will be delivered also has a home equity line of credit (HELOC) that has an outstanding balance, , the payment on the HELOC must be considered as part of the Borrower's recurring monthly debt obligations. The monthly HELOC payment may be found on the credit report or may be verified by the creditor.

If no minimum monthly payment is given, then the greater of five percent (5%) of the outstanding balance or ten dollars (\$10) must be used.

If the HELOC does not have a balance and as a result does not require a payment, there is no recurring monthly debt obligation so the PFI does not need to develop an equivalent payment amount.

5.14.4.11 Installment Debt

All installment debt that is not secured by a financial asset—including student loans, automobile loans, personal loans, and timeshares—must be considered part of the Borrower's recurring monthly debt obligations if there are more than ten monthly payments remaining. However, an installment debt with fewer monthly payments remaining also should be considered as a recurring monthly debt obligation if it significantly affects the Borrower's ability to meet his or her credit obligations.

Note: A timeshare account should be treated as an installment debt regardless of how it is reported on the credit report or other documentation (that is, even if reported as a mortgage loan).

5.14.4.12 Lease Payments

Lease payments must be considered as recurring monthly debt obligations regardless of the number of months remaining on the lease. This is because the expiration of a lease agreement for rental housing or an automobile typically leads to either a new lease agreement, the buyout of the existing lease, or the purchase of a new vehicle or house.

5.14.4.13 Rental Housing Payment

The housing payment for each Borrower's principal residence must be considered when underwriting the mortgage loan. For the following scenarios, the Borrower's monthly rental housing payment must be evaluated (if the Borrower does not otherwise have a mortgage payment or no housing expense):

- for non-occupant Borrowers, and
- for second homes or investment properties.

The following list provides examples of acceptable documentation to verify the rental payment:

- six months canceled checks or equivalent payment source;
- six months bank statements reflecting a clear and consistent payment to an organization or individual;
- direct verification of rent from a management company or individual landlord; or
- a copy of a current, fully executed lease agreement and two months canceled checks (or equivalent payment source) supporting the rental payment amount.

Note: Refer to 5.13.3 Documentation and Assessment of Nontraditional Credit History for rental payment history requirements when using non-traditional credit.

5.14.4.14 Loans Secured by Financial Assets

When a Borrower uses his or her financial assets—life insurance policies, 401(k) accounts, individual retirement accounts, certificates of deposit, stocks, bonds, etc.—as security for a loan, the Borrower has a contingent liability.

The PFI is not required to include this contingent liability as part of the Borrower's recurring monthly debt obligations provided the PFI obtains a copy of the applicable loan instrument that shows the Borrower's financial asset as collateral for the loan. If the Borrower intends to use the same asset to satisfy financial reserve requirements, the PFI must reduce the value of the asset (the account balance, in most cases) by the proceeds from the secured loan and any related fees to determine whether the Borrower has sufficient reserves.

Note: Payment on any debt secured by virtual currency is an exception to the above policy and must be included when calculating the debt-to-income ratio.

5.14.4.15 Open 30-Day Charge Accounts

Open 30-day charge accounts require the balance to be paid in full every month. PFIs are not required to include open 30-day charge accounts in the debt-to-income ratio.

See 5.14.6 Debts Paid Off At or Prior to Closing, for additional information on open 30-day charge accounts.

5.14.4.16 Other Real Estate Owned – Qualifying Impact

For details regarding the qualifying impact of other real estate owned, see 5.14.5 Qualifying Impact of Other Real Estate Owned.

5.14.4.17 Revolving Charge/Lines of Credit

Revolving charge accounts and unsecured lines of credit are open-ended and should be treated as long-term debts and must be considered part of the Borrower's recurring monthly debt obligations. These tradelines include credit cards, department store charge cards, and personal lines of credit. Equity lines of credit secured by real estate should be included in the housing expense.

If the credit report does not show a required minimum payment amount and there is no supplemental documentation to support a payment of less than 5%, the PFI must use 5% of the outstanding balance as the Borrower's recurring monthly debt obligation.

5.14.4.18 Student Loans

If a monthly student loan payment is provided on the credit report, the PFI may use that amount for qualifying purposes. If the credit report does not reflect the correct monthly payment, the PFI may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the Borrower.

If the credit report does not provide a monthly payment for the student loan, or if the credit report shows \$0 as the monthly payment, the PFI must determine the qualifying monthly payment using one of the options below.

- If the Borrower is on an income-driven payment plan, the PFI may obtain student loan documentation to verify the actual monthly payment is \$0. The PFI may then qualify the Borrower with a \$0 payment.
- For deferred loans or loans in forbearance, the PFI may calculate
 - a payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment), or
 - a fully amortizing payment using the documented loan repayment terms.

5.14.5 Qualifying Impact of Other Real Estate Owned

When the Borrower owns mortgaged real estate, the status of the property determines how the existing property's PITIA must be considered in qualifying for the new mortgage transaction. If the mortgaged property owned by the Borrower is

- an existing investment property or a current principal residence converting to investment use, the Borrower must be qualified in accordance with, but not limited to, the policies in topics 5.5.5.2 Rental Income, and 5.7.1 Minimum Reserve Requirements;
- an existing second home or a current principal residence converting to a second home, the PITIA of the second home must also be counted as part of the Borrower's recurring monthly debt obligations; or
- the Borrower's current principal residence that is pending sale but will not close (with title transfer to the new owner) prior to the subject transaction, the PFI must comply with the policies in this topic.

In conjunction with the policies in this topic, the PFI must also comply with the policies in 5.5.5.2 Rental Income, and 5.7.1 Minimum Reserve Requirements, as applicable.

5.14.5.1 Mortgage Assumption

When a Borrower sells a mortgaged property and the property purchaser assumes the outstanding mortgage debt without a release of liability, the Borrower has a contingent liability.

The PFI is not required to count this contingent liability (PITIA) as part of the Borrower's recurring monthly debt obligations if the PFI verifies that the property purchaser has at least a 12-month history of making regular, timely payments for the mortgage. The PFI can document this by obtaining

- evidence of the transfer of ownership;
- a copy of the formal, executed assumption agreement; and
- a credit report indicating that consistent and timely payments were made for the assumed mortgage.

If the PFI cannot document timely payments during the most recent 12-month period, the applicable mortgage payment must be counted as part of the Borrower's recurring monthly debt obligations.

5.14.5.2 Property Settlement Buyout

When a Borrower's interest in a property is bought out by another co-owner of the property, as often happens in a divorce settlement, but the PFI does not release the Borrower from liability under the mortgage, the Borrower has a contingent liability.

If the PFI obtains documentation to confirm the transfer of title to the property, this liability does not have to be considered as part of the Borrower's recurring monthly debt obligations.

5.14.5.3 Current Principal Residence Pending Sale

If the Borrower's current principal residence is pending sale, but the transaction will not close with title transfer to the new owner prior to the subject transaction, and the Borrower is purchasing a new principal residence, the current PITIA and the proposed PITIA must be used in qualifying the Borrower for the new mortgage loan.

However, it is not required for the current principal residence's PITIA to be used in qualifying the Borrower as long as the following documentation is provided:

- the executed sales contract for the current residence, and
- confirmation that any financing contingencies have been cleared.

5.14.6 Debts Paid Off At or Prior to Closing

5.14.6.1 Payoff or Paydown of Debt for Qualification

Payoff or paydown of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The Borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification. Generally

- Installment loans that are being paid off or paid down to 10 or fewer remaining monthly payments do not need to be included in the Borrower's long-term debt.
- If a revolving account balance is to be paid off at or prior to closing, a monthly payment on the current outstanding balance does not need to be included in the Borrower's long-term debt, i.e., not included in the debt-to-income (DTI) ratio. Such accounts do not need to be closed as a condition of excluding the payment from the DTI ratio.

See 5.14.2 Debt-to-Income Ratios (DTI) for additional guidance on calculating total monthly obligations for qualifying purposes.

5.14.6.2 Open 30-Day Charge Accounts

For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, PFIs must verify

Borrower funds to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves.

If the Borrower paid off the account balance prior to closing, the PFI may provide proof of payoff in lieu of verifying funds to cover the account balance.

5.14.6.3 Collections, Charge-Offs of Non-Mortgage Accounts, Judgements, and Liens

Delinquent credit—including taxes, judgments, charge-offs of non-mortgage accounts (see below for exceptions), tax liens, mechanic's or materialmen's liens, and liens that have the potential to affect lien position or diminish the Borrower's equity—must be paid off at or prior to closing.

Delinquent federal income taxes that are approved to be paid by a monthly installment agreement with the IRS must be paid in full at or prior to closing if there is any indication that a Notice of Federal Tax Lien has been recorded against the Borrower in the county in which the subject property is located. For additional information about federal income tax installment agreements, see Monthly Debt Obligations.

For details regarding delinquent federal income taxes that the IRS has approved to be paid through an installment agreement that can be included as a monthly debt obligation, rather than being paid in full, also see, 5.14.4 Monthly Debt Obligations.

Non-medical collection accounts and charge-offs on non-mortgage accounts do not have to be paid off at or prior to closing if the balance of an individual account is less than \$250 or the total balance of all accounts is \$1,000 or less. Non-medical collection accounts and charge-offs on non-mortgage accounts that exceed these limits must be paid off at or prior to closing.

CHAPTER 6. PROPERTY REQUIREMENTS

6.1 Property Standards

This section addresses eligible property types and general property requirements.

6.1.1 Eligible Property Types (12/22/16)¹³⁵

Eligible property types are 1–4 units including condos, PUDs and manufactured homes (subject to restrictions, including restrictions imposed by the Servicer under Servicing Released option), located in any of the fifty (50) United States, the District of Columbia, Puerto Rico, Guam or the Virgin Islands.

Modular, panelized or prefabricated homes are not considered manufactured housing and may be delivered under the MPF Program as standard single-family dwellings.

6.1.2 Multiple Parcels (12/22/16)¹³⁶

When the Mortgaged Property consists of more than one parcel, the appraiser must consider all parcels in the Appraisal, and the site description must accurately describe the land and any improvements on each parcel.

A Mortgaged Property consisting of more than one parcel is eligible if the following conditions are met:

- The parcels must be adjoining;
- Only one parcel contains a residence (the adjoining parcel(s) may contain a non-residential structure such as a garage);
- All parcels must be zoned residential; and
- The Mortgage Loan must be a valid first lien on all parcels.

6.1.3 Mixed-Use Properties

Mixed-use properties are dwellings that have a business use in addition to residential use. Examples of mixed-use properties are homes that have a space set aside for a day-care facility or a beauty salon.

Mixed-use properties are acceptable if the following requirements are met:

- The property must be an owner-occupied, single-family Primary Residence, or second home;
- The mixed use of the property must be a legal, permissible use of the property under the local zoning requirements;
- The Borrower must be both the owner and the operator of the business;

¹³⁵ MPF Announcement 2016-30 (12/22/16)

¹³⁶ MPF Announcement 2016-30 (12/22/16)

- The property must be primarily residential in nature, and the business use must be compatible with use of the property as a Primary Residence; and
- The market value of the property must be primarily a function of its residential characteristics, rather than the business use or any special business-use modifications that were made.

6.1.4 Rural Property (12/22/16)¹³⁷

Rural properties should meet the following requirements:

- Be primarily residential in nature;
- Be a sufficient distance from undesirable influences that may affect value;
- Be accessible by public highways or private roads that have recorded easements and shared maintenance agreements; and
- Have adequate sewage, water, and utilities available and in service.

6.1.4.1 Appraisal Requirements (7/24/17)¹³⁸

Recent comps are required to establish marketability. There may be a shortage (or absence) of recent comparable sales in the immediate vicinity of a property that is in a rural location. The use of comps located more than one (1) mile from the Mortgaged Property is allowed to support the Mortgaged Property value, provided use of such comps is addressed by the appraiser.

Rural properties should not contain excess acreage as compared to like properties within that market. The appraiser must appraise and accurately describe the entire site and include all improvements contained on the Mortgage Property regardless of the total acreage the property contains. The site size described in the Appraisal should correspond to the legal description provided in the Security Instrument, the final title policy, public records and survey. The underwriter should review the sales comparison analysis approach to determine if the comparable support the acreage and rural location of the subject property.

Properties with outbuildings must be given special consideration in the underwriting and Appraisal review. Properties with minimal outbuildings that are of relatively insignificant value in relation to the total appraised value of the Mortgaged Property (such as a small barn or stable) are acceptable if the appraiser demonstrates through the use of comparable sales that the improvements represent typical residential improvements for the location and property type, for which an active, viable residential market exists. Any adjustments should be properly addressed by the appraiser and typical for the area.

Properties with significant outbuildings (such as a large barn, a storage area or facilities for farm-type animals, or a silo) may indicate that the Mortgaged Property is agricultural in nature. In such cases,

¹³⁷ MPF Announcement 2016-30 (12/22/16)

¹³⁸ MPF Announcement 2017-37 (7/24/17)

MPF Announcement 2016-30 (12/22/16)

the Originator must review the Appraisal to determine whether the improvements are residential or agricultural in nature, regardless of whether the appraiser assigns any value to the outbuildings.

6.2 Occupancy Status

Only Mortgage Loans secured by properties that are Primary Residences or second homes are eligible for delivery under the MPF Program.

6.2.1 Primary Residence (8/8/22)¹³⁹

The following criteria must be considered to determine whether a Mortgaged Property is a Primary Residence:

- It is occupied by the owner for the major portion of the year;
- It is in a location relatively convenient to the owner's principal place of employment;
- It is the address of record for such activities as federal income tax reporting, mail delivery, and similar functions;
- It possesses the physical characteristics to accommodate the owner's immediate dependent family; and
- The Borrower states an intent to occupy the property as a Primary Residence.

The following table lists instances where the Borrower does not intend to occupy the property, but the property is still considered a Primary Residence:

Borrower Classification	Occupancy Requirements
Multiple Borrowers	Only one Borrower is required to occupy the property, provided the non-occupant co-Borrower requirements in Chapter 3 are met.

¹³⁹MPF Announcement 2022-37 (8/8/22)
MPF Announcement 2017-63 (10/31/17)

Borrower Classification	Occupancy Requirements
Military Service Members	A military service member Borrower currently on active duty and temporarily absent from their Primary Residence because of military service is considered to be an owner occupant. PFIs must verify the Borrower's temporary absence from the subject property by obtaining a copy of the Borrower's military orders. The military orders must evidence the Borrower will be absent from the subject property as of the date the owner occupancy must be established as required by the Security Instrument.
Parents or legal guardians providing housing for a physically handicapped or developmentally disabled adult child	Permitted when the child cannot work or has insufficient income to qualify for the Mortgage Loan on their own. In this instance, the parent/legal guardian is considered the owner and occupant.
Adult children providing housing for parents	Permitted when the parent cannot work or has insufficient income to qualify for the Mortgage Loan on their own. In this instance, the child is considered the owner and occupant.

6.2.2 Second Home (6/13/23)¹⁴⁰

Eligible second homes are one-unit properties, including condominiums and PUDs that the Borrower will occupy for a portion of the year. If the second home is in a condominium or PUD project, the Borrower may only own one unit in the project in total, regardless of the number of units the project permits individuals to own in the project. Second homes that are two-four (2–4) unit properties are not eligible.

The property must be suitable for year-round use, have full kitchen facilities with standard-sized appliances, separate rooms for living and sleeping, and no lockout bedrooms. While there is no specific mileage requirements regarding the distance between a second home and primary residence, a second home should generally not be in the same local market as the Borrower's primary residence. However, there can be exceptions, such as properties that are located in a recreational area but also part of a metropolitan area, or properties that are used to minimize the commute to work. The property must not be part of a timesharing or rental pool agreement.

¹⁴⁰ MPF Announcement 2023-37 (6/13/23)
MPF Announcement 2016-30 (12/22/16)

6.3 Property Condition (5/1/19) ¹⁴¹

The Mortgaged Property must be in acceptable condition (as indicated by the Appraisal, if an Appraisal is obtained, or pursuant to Guide requirements if an Appraisal Waiver is obtained) at the time of Closing, including, but not limited to the following:

- Property must be habitable;
- All appliances, plumbing, electrical, etc. must be functional and in good working condition;
- The kitchen must be functional;
- All utilities must be turned on and in good working order; and
- All bathrooms must be complete and functional.

6.4 Escrow for Completion/Postponed Improvements (12/22/16) ¹⁴²

Most improvements on the Mortgaged Property must be completed prior to Closing. The improvements must be unimpaired by fire, windstorm or other perils. Certain exceptions are allowed and are detailed in this section.

6.4.1 Requirements for New or Proposed Constructions

Where the Mortgaged Property is newly constructed and improvements that do not affect the livability of the property or the Borrower's ability to obtain a certificate of occupancy (if common and customary to the area) from the applicable government authority cannot be completed for justifiable reasons, such as inclement weather or shortages of building materials, the Mortgage Loan may be delivered before those improvements are completed if:

- An adequate cash escrow for the postponed improvements is established;
- The terms of the postponed improvements must be included as part of the sales contract for the Mortgaged Property, and cannot be part of a third party contract;
- The certificate of occupancy is verified in writing by the appraiser;
- The value of the incomplete improvements is less than or equal to ten percent (10%) of the value of the completed Mortgaged Property; and
- Mortgage and title insurance are not impaired or negatively impacted during the escrow period.

An executed escrow agreement must state how the escrow account will be managed and how funds from the escrow account will be disbursed. The escrow holdbacks may be held and managed by the title company. Release of the escrow holdbacks require evidence and a certificate of completion by the appraiser that is signed off by the PFI.

¹⁴¹ MPF Announcement 2019-26 (5/1/19)

¹⁴² MPF Announcement 2016-30 (12/22/16)

The improvements must be completed within 180 days of the Note date. Once the improvements are complete, the Mortgaged Property must be inspected by the original appraiser, if available, or another qualified appraiser. The appraiser must provide an Appraisal Update and/or Completion Report ([FNMA Form 1004D](#) / [FHLMC Form 442](#)) accompanied by photographs of the completed improvements, which must be included in the Mortgage Loan File.

6.4.2 Requirements for Existing Construction (5/1/19)¹⁴³

Where the Mortgaged Property is existing, and not newly constructed, the Originator must review the Appraisal, if one was obtained, to ensure that there are no minor conditions and deferred maintenance projects that affect the safety, soundness, or structural integrity of the Mortgaged Property. If minor conditions are noted by the appraiser, but they do not affect the safety, soundness, or structural integrity of the property, then the Appraisal may be completed “as is”. Such minor conditions must be represented in the appraiser’s opinion of the property’s value but do not need to be completed prior to delivering the Mortgage Loan.

An escrow account may be established for completion of the minor conditions. The Mortgage Loan may be delivered prior to disbursement of the escrow funds and prior to completion of the work, provided that the Originator ensures the minor conditions do not compromise the safety, soundness, or structural integrity of the Mortgaged Property.

6.5 Title (12/11/18)¹⁴⁴

Title to the Mortgaged Property must be held as fee simple or leasehold estate by a Borrower who is natural persons, an inter vivos trust that meets Guide eligibility requirements (see Chapter 3.1.5 for eligibility requirements), or an Illinois Land Trust that meets Guide eligibility requirements (see Chapter 3.1.5 for eligibility requirements).

6.5.1 Fee Simple

Fee simple is the greatest possible interest a person can have in real estate. When the title is held as fee simple, the Borrower is recorded as the owner of the Mortgaged Property subject only to liens for taxes and special assessments that are not currently due and payable and other matters permitted in Selling Guide Chapter [6.1](#).

6.5.2 Leasehold Estate (9/1/16)¹⁴⁵

A leasehold arrangement is one in which there is a separate owner of the land and the improvements on the land. The landowner grants a lease to the owner of the improvements that gives the right to use the land in exchange for a rental payment. The ownership interest in the improvements with the

¹⁴³ MPF Announcement 2019-26 (5/1/19)

¹⁴⁴ MPF Announcement 2018-60 (12/11/18)

¹⁴⁵ PFI Notice 2016-12 (9/1/16)

rights granted in the lease to use the land is called the leasehold estate. The rent due under the lease is called the leasehold payment.

In order for a Mortgaged Property that is a leasehold estate to be eligible for sale through the MPF Program, the leasehold estate and the improvements must constitute real property, be subject to the mortgage lien and be insured by the PFI's title policy. The lease or sublease must be valid, in good standing, and in full force. The leasehold estate must be assignable and/or transferable. All rents must be current. In addition, the use of leasehold or ground rent estates for residential property must be an accepted practice in the area where the Mortgaged Property is located and such property must be readily marketable. If the lease is not typical for the market, then the appraiser must fully explain the effect on marketability.

Government Mortgage Loans must comply with the leasehold requirements of the applicable Government Agency.

6.5.2.1 Ground Lease Requirements (12/22/16)¹⁴⁶

If the land is subject to a leasehold interest, the terms must be typical and customary for the market. If it is not typical for the market, the effect on marketability must be fully explained. The leasehold term must be as long as the term of the Mortgage Loan. The FNMA/FHLMC 461 (Ground Lease Analysis) is required for each leasehold Mortgage Loan and must be retained in the Mortgage Loan File. A separate FHLMC Form 461 is required for each leasehold Mortgage Loan originated which arises from resale of units in such developments.

For sublease hold mortgages, the amount of the sublease payments must be at least equal to the amount of the lease payments. The sublease payments must be due no less frequently than the lease payments.

In addition, the lease must meet the following requirements:

- The lease and any sublease are recorded in the appropriate public land records;
- The lease is a lease of the fee or a sublease executed by both the fee owner and the sublessor;
- The instrument creating the lease, sublease or conveyance reserving ground rents is in a form commonly acceptable to mortgage lenders in the area where the mortgage property is located;
- The lease must not contain provisions for termination in the event of damage to or destruction of the mortgaged residence so long as the leasehold mortgage exists; and
- An increase in the lease payments, or sublease payments, during the term of the mortgage is permitted only if the increase is a specified amount at a defined, scheduled date or time interval.

¹⁴⁶ MPF Announcement 2016-30 (12/22/16)
PFI Notice 2016-12 (9/1/16)

During this period, increases based on the cost of living index or other indices or reappraisal are acceptable if the amount of such increases is subject to a maximum limitation.

The lease must have the following provisions to protect the interests of the MPF Bank:

- The lease must provide for the right of the MPF Bank to cure a default for the lessee's account within the time permitted to the lessee plus reasonable additional time. The lease must provide for a new lease of the same priority to be given to the MPF Bank if the lease terminates because of default which could not be cured by the MPF Bank, or provide for no termination for noncurable default as long as no default in rent exists;
- A provision exists in the lease for payment to the MPF Bank of a condemnation award to which the lessee is entitled. This payment must not be less than the total award minus the value of the land considered as unimproved;
- The lease must provide that in the case of a partial condemnation, the lessee will rebuild and restore the improvements on the mortgaged property, unless the MPF Bank consents to the distribution of the proceeds instead. The proceeds must be applied first to the reduction of the leasehold mortgage debt;
- The lease must contain a provision for the MPF Bank's right to acquire the lease in its own name or in the name of a nominee upon foreclosure or assignment in lieu of foreclosure;
- The lease must provide for the MPF Bank's right to exercise any renewal options that may exist; and
- If the MPF Bank or MPF Provider determines, with evidence of the ground lease analysis, that the mortgage loan is not a suitable investment due to underwriting considerations, the PFI will purchase the leasehold mortgage loan from the MPF Bank.

The lease must include the following provisions to address the rights of the lessor and lessee:

- The lease must permit mortgaging of the leasehold estate;
- The lease must permit Assignments of the leasehold estate without the lessor's consent;
- The lease must provide for release of an assigning lessee; and
- The lease must provide for written notice from the lessor, notifying the MPF Provider of default by the lessee as a condition of the validity of the notice of default.

6.6 Legal Description

A legal description is a written and / or graphically depicted, geographical description of the Mortgaged Property, whereby the description is recognized by law as sufficient to locate and identify the property precisely without need of oral testimony. The legal description of a Mortgaged Property

must be consistent on all documents relating to the Mortgage Loan including: Security Instrument, title policy, survey, mortgage insurance policy or property insurance policies.

The legal description of the Mortgaged Property must be stated in the Security Instrument and the title insurance policy or other evidence of title.

6.6.1 Conventional Mortgage Loans

This section addresses the forms of legal description that are acceptable for Conventional Mortgage Loans.

6.6.1.1 Metes and Bounds

The method of metes and bounds is the descriptive form which identifies and defines the distances and directions of the boundaries of a land parcel, usually one which is irregular in shape. A metes and bounds legal description must comply with the following requirements:

- The beginning point should be established by a monument located at the beginning point or by reference to a nearby monument;
- The varying sides of the Mortgaged Property must be described by the distances and bearings of each. In place of bearings, the interior angle of adjoining sides is acceptable if the beginning point is on a dedicated public street line or a fixed line on other property, or if the course of the first side can be otherwise properly fixed;
- The legal description should be a single perimeter description of the entire plot. Division into sub-parcels must be avoided unless the process would serve a beneficial purpose of the mortgage;
- Division is necessary. However, if the plot is located on two sides of a public way. It is also customary in many areas to describe an easement relevant to a fee parcel by using a separate parcel description;
- The distances, bearings and angles should be taken from a recent instrument survey or recently recertified instrument survey by a licensed civil engineer or registered surveyor; and
- Curved courses should be described by data including the length of arc, the radius of circle for the arc, and the chord distance and bearing. When a survey course is part of a dedicated public street or road line, the course may be described by indicating the distance and direction the course takes along the street line from the end of the previous course, if commonly accepted by private institutional mortgage investors in the regional area where the Mortgaged Property is located.

6.6.1.2 Lot and Block

The form of lot and block uses a description composed of lots and/or blocks with a reference to a recorded map or plat that already shows the lots or blocks. This form is often used when describing a land parcel, or lot, within a subdivision.

When all of the lots or blocks in the description do not appear on the same recorded map or plat, a reference to the location of the apparently identical sides of lots or blocks in different recorded maps or plats, fixed in both maps or plats by the same monuments is acceptable.

6.6.1.3 Other Acceptable Legal Description Forms

A description of a land parcel which is bounded on all sides by dedicated streets or alleys and which refers just to the dedicated streets or alleys is acceptable.

A description of registered property is acceptable if in the form required by a local Torrens Act.

6.7 Other Requirements

6.7.1 Ownership History/Chain of Title

There must be a clear chain of title on all Mortgaged Properties. All Mortgage Loan Files must contain a 24-month title history (chain of title) provided by the closing attorney/title company. As a best practice, the current owner should have held title (deed recorded) for at least ninety (90) days at the time of Borrower's application.

6.7.2 Property Flipping (5/1/19)¹⁴⁷

"Property flipping" or a "flip" is generally defined as a purchase transaction for a property that has recently been acquired by the property seller and is being sold for a quick profit.

The following red flags may indicate a property flip and should be further investigated:

- Subject property being re-sold with a large price increase after being recently renovated;
- Property seller is an LLC (Limited Liability Company);
- Inconsistencies exist between the owner as listed on the Appraisal, if an Appraisal is obtained, the vested owner as listed on the title commitment, and the seller as listed on the sales contract;
- Comparable sales in the Appraisal, if an appraisal is obtained, do not appear to be the best available comparable sales;
- Comparable sales have transferred multiple times within twelve (12) months, or the Appraisal, if an Appraisal is obtained, reflects excessive adjustments;
- Title commitment reflects multiple deeds necessary to effect transfer of title;
- Title commitment, sales contract and/or the Appraisal report, if an Appraisal is obtained, lists the owner only as "owner of record";
- Seller holds second mortgage; or

¹⁴⁷ MPF Announcement 2019-26 (5/1/19)
MPF Announcement 2018-18 (3/15/18)

- Title search reveals several changes in ownership over the course of a few months.

6.7.3 Properties Subject to Age Restrictions

If a housing development has an age restriction, it must comply with the Fair Housing Act exemptions.

6.7.4 Properties Subject to Resale Restrictions (Income) (6/13/23)¹⁴⁸

Properties subject to income-based restrictions (inclusionary zoning) imposed by a state or local government in order to ensure that a certain number or a certain percentage of properties in a designated area are dedicated to low or moderate income families, are eligible if:

- all requirements are met, including requirements regarding resale controls, public land records, etc;
- the restrictions comply with all federal, state, and local laws and regulations.
- the resale restrictions must not impair the right of the MPF Bank to cure a default under the mortgage terms, to foreclosure on the mortgage, or to otherwise protect the MPF Banks' interest under the mortgage; and
- The Appraisal must include at least three (3) comparables with similar resale restrictions. Appraisal Waivers are not acceptable for these loans.

Other types of resale restrictions are not permitted, unless specifically provided for in the MPF Guides (See for example 8.2.3 Right of First Refusal).

6.7.5 Private Transfer Fee Covenants

A private transfer fee, typically imposed by a recorded or unrecorded private transfer fee covenant, is a payment required of a transferee or transferor in connection with, or as a result of, a transfer of title to real estate. Private transfer fees do not include fees, charges, payments, or other obligations that:

- Are imposed by or payable to the federal government or a state or local government; or
- Defray the actual costs of the transfer of the property, including transfer of membership in the relevant homeowners association.

A Mortgage Loan secured by a Mortgaged Property encumbered by a private transfer fee covenant is eligible for sale under the MPF Program, if the Originator ensures that the covenant is in compliance with all Applicable Laws and that the covenant:

¹⁴⁸ MPF Announcement 2023-38 (6/13/23)
MPF Announcement 2019-26 (5/1/19)

- Was created before February 8, 2011; or
- Was created after February 8, 2011 and:
 - Requires the payment of a private transfer fee only to a homeowners association; and
 - Limits the use of the private transfer fee exclusively to purposes which provide a direct benefit to the Mortgaged Property, including: supporting the maintenance and improvements to the Mortgaged Property; the acquisition, improvement, administration, and maintenance of property owned by the homeowners association; cultural, educational, charitable, recreational, environmental, conservation or other similar activities that conducted in or on the community formed by the properties subject to the same covenant or property adjacent to that community, or on other property that is used primarily by residents of that community.

6.8 Manufactured Housing

Mortgage Loans for manufactured homes are eligible for delivery under Servicing Retained option if all of the requirements in the Selling Guide are met. For eligibility of delivery under Servicing Released Option, PFIs should refer to the applicable Servicer's manual.

6.8.1 Eligibility and General Requirements (12/22/16)¹⁴⁹

A manufactured home is a structure that is transportable in one or more sections. Manufactured homes are designed and constructed to the Federal Manufactured Construction and Safety Standards and must be labeled as such.

All eligible manufactured homes must comply with the following additional requirements:

- Be a double-wide or larger;
- Be a one-unit Primary Residence with the dwelling and land legally classified together as real estate for tax purposes;
- Be built and remain on a permanent chassis that supports the complete unit of walls, floors and roof;
- Be designed to be used as a dwelling and anchored to a pre-built permanent foundation appropriate for the soil conditions that satisfies the manufacturer's requirements and all federal, state, county, and local building codes and regulations;
- Not have been previously installed or occupied at any other site or location, except from the manufacturer or the dealer's lot as a new unit;
- Have the appearance and functionality of a site-built home;

¹⁴⁹ MPF Announcement 2016-30 (12/22/16)

- Conform to all applicable use restrictions and be zoned for residential use only; and
- Be permanently connected to a septic tanks, sewage system, or public sewer in accordance with local, state, and federal requirements.

In addition, the Mortgage Loan for the manufactured home must cover both the manufactured unit and its site, and shall have a term of not more than 30 years from the date amortization begins.

6.8.2 Ineligible Manufactured Homes

Mortgage Loans secured by manufactured housing with any of the following characteristics are ineligible:

- Subordinate financing;
- Modified loans (including extensions, loan assumptions, and transfers of equity);
- Land-in-lieu of down payment (i.e. equity established based on ownership of land);
- Leasehold estates;
- Low-side overrides (i.e. underwriting exceptions on loans that were previously rejected by the Originator);
- Second homes;
- Site Condominiums;
- Expedited Refinances; and
- Temporary buydowns.

6.8.3 Purchase Transactions (12/22/16)¹⁵⁰

In addition to the standard MPF Program purchase transaction requirements, manufactured homes underwritten as purchase transactions must meet the following requirements:

- For newly built manufactured homes, the purchase price may include documented costs for delivery, set-up, site development, installation, and permanent utility connections; and
- For construction-permanent loans, the transaction must be completed with dual closings.
- For newly built manufactured homes, the LTV is based on the lowest of:
 - The purchase price of the manufactured home plus the lowest purchase price at which the land was sold in the last twelve (12) months if the land was purchased less than (12) months prior to the Application Date;
 - The purchase price of the manufactured home plus the current appraised value of the land if the land was purchased more than twelve (12) months prior to the Application Date; or

¹⁵⁰ MPF Announcement 2016-30 (12/22/16)

- The current appraised value of the manufactured home and the land.
- For existing manufactured homes (affixed to a permanent foundation prior to the Loan Application Date), the LTV is based on the lowest of:
 - The purchase price of the manufactured home and the land;
 - The current appraised value of the manufactured home and the land; or
 - If the manufactured home was affixed to the foundation less than twelve (12) months prior to the Loan Application Date, the lowest price at which the manufactured home was sold during that twelve (12) month period plus the lower of:
 - The current appraised value of the land; or
 - The lowest price at which the land was sold during that twelve (12) month period.

For all LTVs, at least five percent (5%) of the down payment must come from the occupant Borrower's own funds.

6.8.4 Limited Cash-Out Transactions

In addition to the standard MPF Program limited cash-out requirements, if the manufactured home and land are encumbered by separate mortgages, both mortgages must be paid off.

The LTV is based on the lower of:

- The current appraised value of the home and land; or
- If the Borrower has owned the manufactured home for less than twelve (12) months prior to the Application Date and:
 - The manufactured home and land are secured by separate mortgages: the lowest price at which the manufactured home was previously sold during the twelve (12) month period preceding the Application Date plus the lower of the current appraised value of the land or the lowest purchase price at which the land was sold during the twelve (12) month period preceding the Application Date; or
 - The manufactured home and land are secured by a single mortgage: the price at which the manufactured home and land were previously sold during the twelve (12)-month period preceding the Application Date.

6.8.5 Cash-Out Refinance Transactions

In addition to the standard MPF Program cash-out requirements, manufactured homes must meet the following requirements:

- If the manufactured home and land are encumbered by separate mortgages, both mortgages must be paid off;

- The Borrower must have owned the manufactured home and land for at least twelve (12) months prior to the Loan Application Date; and
- The LTV is based on the current appraised value of the manufactured home and land.

6.8.6 Age of Home Requirements

A manufactured home must be built after June 15, 1976. Manufactured houses built before June 15, 1976, are ineligible for financing under the MPF Program.

6.8.7 Site

The manufactured unit must not have been installed or occupied previously at any other site or location. Manufactured units may be moved only from the manufacturer's or dealer's lot to the site on which the unit will be installed. If a permanent foundation is to be constructed under an existing eligible unit, the unit may be jacked up in order to install a new foundation.

The maximum lot size permitted is ten (10) acres.

6.8.8 HUD Certification Label (5/1/19)¹⁵¹

All manufactured homes must have an affixed HUD certification label, also known as a HUD "tag" or "seal" located on the outside of the home. If the home is a multi-wide unit, each unit must have a label. In some instances, the units may not be sequentially numbered. The appraiser should verify the location and wording on the Certification Label and the Data Plate, and evidence this on the Appraisal report and list the manufactured unit's label number(s) on the Appraisal report.

If the labels are missing from the home, appraisers must notify the Originator and condition the Appraisal for documentation verifying that HUD labels were issued to the manufactured home. In some states a manufactured home may not be re-sold if it is missing a label. As an alternative to the original HUD Certification Label, it may be possible to obtain a verification letter from the Institute for Building Technology and Safety (IBTS). A duplicate HUD Data Plate/Compliance Certificate may be available from IBTS or by contacting the In-Plant Primary Inspection Agency (IPIA) or the manufacturer. Information regarding a request of label verification and a list of IPIA offices can be found at HUD's Manufactured Housing website. Appraisal Waivers are not acceptable for these loans.

6.8.9 Structural Modifications or Additions

Additions or structural modifications may put the home at risk if changes were not performed in accordance with the Federal Manufactured Home Construction Safety Standards. Some states require a state agency (often this is the State Administrative Agency) to approve all modifications to manufactured homes once they leave the factory. The Originator is responsible for knowing the local regulations on this. If the area where the manufactured home is located has such requirements, then the Mortgaged Property must meet these requirements or it shall be deemed ineligible.

¹⁵¹ MPF Announcement 2019-26 (5/1/19)

If additions have been made to the dwelling, certification must be provided from the local authority that governs manufactured housing, stating that the addition meets all applicable local and state codes and specifications. If there is no local authority, then a licensed engineer within the subject state may certify the addition to the manufactured home. The report must indicate that structural changes or additions were made in accordance with the HUD Manufactured Home Construction and Safety Standards, and the report must be retained in the Mortgage Loan File.

6.8.10 Elevation Certificate

An elevation certificate is required if the manufactured home is located in a Special Flood Hazard Area (SFHA). The a finished grade elevation beneath the manufactured home or, if a basement is used, have the lowest finished exterior grade adjacent to the perimeter enclosure, shall be at or above the 100-year return frequency flood elevation—Flood Zones A or V.

6.8.11 Appraisal Requirements (5/1/19)¹⁵²

The sales comparison and cost approaches must be used for the valuation of manufactured housing. A Fannie Mae Form 1004C/Freddie Mac Form 70B: Manufactured Home Appraisal Report is required. Appraisal Waivers are not accepted for these loans. The appraiser must be experienced in appraising manufactured homes.

At least two (2) of the comparable sales in the Appraisal report must be manufactured homes. Comparables must include no more than one site-built home. The comparables and comments in the Appraisal must support marketability and value. The appraiser must not create comparable sales by combining vacant land sales with the contract purchase price of the manufactured home. If the appraiser is unable to develop an Appraisal based on at least two (2) comparable sales of similar manufactured homes, the Mortgage Loan is not eligible for delivery under the MPF Program. The value may not include furniture, freestanding appliances, insurance, warranties or other items of a personal nature.

For purchase Mortgage Loans, the appraiser must be provided with a complete copy of the executed contract for sale of the manufactured home and land. If the manufactured home and land are being purchased separately, the appraiser must be provided with the executed contract for each. For a new manufactured home, the manufactured home purchase agreement and a copy of the dealer's invoice must be provided to the appraiser. The appraiser must analyze and review the sales contract, agreements and the manufacturer's invoice, if applicable, and provide comments in the Appraisal. The serial number(s) from the HUD Data Plate or frame front cross member of each section of the manufactured home must be matched to the serial number(s) on the manufacturer's invoice to ensure the accuracy of the manufactured home information provided in the Appraisal.

¹⁵² MPF Announcement 2019-26 (5/1/19)
MPF Announcement 2016-30 (12/22/16)

6.8.12 Title and Lien Requirements (12/22/16)¹⁵³

Mortgage Loans secured by manufactured housing must meet the following title and lien requirements:

- The Mortgage Loan must be secured by a perfected first lien in accordance with Applicable Laws on real estate that consists of the manufactured home and the land. The lien must be able to be foreclosed in a single real estate proceeding. Documentation evidencing perfection of the lien must be retained in the Mortgage Loan File;
- The manufactured home must meet the requirements of Applicable Laws that permit such property to be conveyed, financed, and encumbered in a single integrated transaction with the land;
- The Security Instrument must:
 - Describe the manufactured home by model year, manufacturer, model, dimensions and serial number;
 - State that the manufactured home is an improvement to the Mortgaged Property and an immovable fixture; and
 - Include the legal description of the land and any other information required by Applicable Laws to identify the manufactured home and document it as real estate.
- The Borrower and the Originator must sign an affidavit that acknowledges their intent for the manufactured home to be made a permanent part of the Mortgaged Property;
- The manufactured home and the land on which it is situated must be owned by the same Person(s) in fee simple. Leasehold estates are not permitted;
- The Mortgage Loan must be covered by a title insurance policy, including an ALTA 7.1 endorsement (or other equivalent endorsements permitted by Applicable Laws). Note that the endorsement does not ensure that the manufactured home has been properly converted to real estate. See Chapter [9.3](#) of the MPF Traditional Selling Guide for title insurance requirements; and
- An insured closing protection letter must be obtained for each Mortgage Loan that is secured by a manufactured home, unless prohibited under Applicable Law.

6.8.13 Master Commitment Requirements (12/22/16)¹⁵⁴

No more than 15% of the aggregate principal balance of each Master Commitment may consist of manufactured housing.

¹⁵³ MPF Announcement 2016-30 (12/22/16)

¹⁵⁴ MPF Announcement 2016-30 (12/22/16)

CHAPTER 7. APPRAISAL REQUIREMENTS (12/11/18)¹⁵⁵

7.1 Appraiser Independence (3/16/17)¹⁵⁶

All Appraisals must comply with Uniform Standards of Professional Appraisal Practice (USPAP), and all applicable federal, state or local requirements. In addition, appraisers, third parties, or affiliate originators used in conjunction with delivery of an Appraisal under the MPF Program shall adhere to the regulations and requirements established as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Home Valuation Code of Conduct, and Appraiser Independence Requirements. The Originator must have written policies and procedures with respect to the Appraiser Independence Requirements.

The appraiser must not have a direct or indirect interest, financial or otherwise, in the Mortgaged Property or in the transaction. The appraiser must be independent of the origination process. When the appraiser is employed by the Originator in any capacity, the appraiser's position or job duty cannot adversely affect the appraiser's ability to independently estimate the property's value, condition and characteristics. In addition, no employee, director, officer or agent of the Originator, or any other third party acting in any capacity shall influence or attempt to influence the appraiser and appraisal assignment through coercion, extortion, collusion, compensation, inducement, intimidation, bribery, or in any other manner. The appraiser cannot be employed by or affiliated with any interested party as defined in MPF Traditional Selling Guide Chapter [5.24.1](#). Selection criteria should ensure that the appraiser is independent of the transaction and is capable of rendering an unbiased opinion.

An Appraisal prepared by an individual who was selected or engaged by a Borrower, property seller, real estate agent, or other interested party is not acceptable. Re-addressed Appraisals or Appraisal reports that are altered by the appraiser to replace any references to the original client with the Originator's name are not acceptable.

The individuals engaged in the selection process of appraisers for a panel of approved appraisers or substantive appraisal review must be appropriately trained and qualified in the area of real estate appraisals. The Originator's production staff, any person who is compensated on a commission basis upon successful completion of a Mortgage Loan, and any person whose immediate supervisor is not independent of the production staff and process is prohibited from selecting, retaining, recommending, or influencing the selection of an appraiser for an appraisal assignment or for inclusion on a list of appraisers approved or forbidden from performing appraisals for the Originator. These individuals shall not have any substantive communication on the valuation, ordering, or

¹⁵⁵ MPF announcement 2018-60 (12/11/18)

¹⁵⁶ MPF Announcement 2017-12 (3/16/17)

MPF Announcement 2016-30 (12/22/16)

managing of an appraisal assignment with the appraiser or appraisal management company. If lines of independence cannot be achieved due to the Originator's small size and limited staff, the Originator must be able to clearly demonstrate that it has prudent safeguards to isolate its collateral evaluation process from influence or interference from its mortgage production staff.

Effective internal controls require that only qualified and adequately trained underwriters, who are not involved in the loan production process, review Appraisals. To maintain independence, the underwriter should not directly report to someone involved in loan production. The underwriting review should include confirming the independence of the appraiser in addition to a comprehensive technical review of the appraiser's analysis prior to making a final credit decision.

The MPF Bank may refuse to accept an Appraisal prepared by a specific appraiser or may notify a PFI that it will no longer accept Appraisals prepared by a given appraiser.

7.2 Appraisal Reports (1/18/2024)¹⁵⁷

This section addresses the Appraisal reports that are acceptable under the MPF Program. The following elements are required with all Appraisals:

- A street map that shows the location of the subject property and all comparable sales the appraiser used;
- A sketch of the building improvements or condominium unit with dimensions and calculations used to estimate for gross building area;
- Clear, descriptive photos that show the front and rear of the subject, and a street scene;
- Clear, descriptive photos that show the front of each comparable sale;
- Photos should include any improvements, amenities, conditions, and external influences that materially impact market value or marketability;
- Any other data necessary to provide an adequately supported opinion of market value; and
- Interior Appraisals should also include clear, descriptive photos that show the following:
 - The kitchen, all bathrooms, and the main living area;
 - Examples of physical deterioration, if present; and
 - Examples of recent updates such as restoration, remodeling, and renovation, if present.

Note: Interior photographs on proposed or under construction properties may be taken at the time of the completion inspection and included with Form 1004D/442.

¹⁵⁷ MPF Announcement 2024-03 (1/18/2024)

7.2.1 FNMA 1004/FHLMC 70: Uniform Residential Appraisal Report (URAR) (12/22/16)¹⁵⁸

Uniform Residential Appraisal Report (FNMA 1004/FHLMC 70) is acceptable to use to appraise one-unit properties, including attached and detached units in PUD projects, and condominium projects that consist solely of detached dwellings.

When completing Form 1004, the appraiser must, at a minimum, do the following:

- Perform a visual inspection of the interior and exterior areas of the Mortgaged Property;
- Inspect the neighborhood;
- Inspect each of the comparable sales, at least from the street;
- Research, verify, and analyze data from reliable public and/or private sources; and
- Report his or her analysis, opinions, and conclusions.

7.2.2 FNMA 1004C/FHLMC 70B: Manufactured Home Appraisal Report

Manufactured Home Appraisal Report (FNMA 1004C/FHLMC 70B) is required for manufactured homes based on interior and exterior property inspections.

The appraiser must, at a minimum, do the following:

- Perform a visual inspection of the interior and exterior areas of the Mortgaged Property;
- Inspect the neighborhood;
- Inspect each of the comparable sales, at least from the street;
- Research, verify, and analyze data from reliable public and/or private sources; and
- Report his or her analysis, opinions, and conclusions.

7.2.3 FNMA 1073/FHLMC 465: Condominium Project (12/22/16)¹⁵⁹

Individual Condominium Report (FNMA 1073/FHLMC 465) is used to appraise an attached unit in a condominium project based on an interior and exterior inspection of the Mortgaged Property.

The appraiser must, at a minimum, do the following:

- Perform a visual inspection of the interior and exterior areas of the Mortgaged Property;
- Inspect and analyze the condominium project;
- Inspect the neighborhood;

¹⁵⁸ MPF Announcement 2016-30 (12/22/16)

¹⁵⁹ MPF Announcement 2016-30 (12/22/16)

- Inspect each of the comparable sales, at least from the street;
- Research, verify, and analyze data from reliable public and/or private sources; and
- Report his or her analysis, opinions, and conclusions.

7.2.4 FNMA 1025/FHLMC 72: Small Res. Income Property Appraisal Report

Small Res. Income Property Appraisal Report (FNMA 1025/FHLMC 72) is used for all 2–4-unit properties.

The appraiser must, at a minimum, do the following:

- Perform a visual inspection of the interior and exterior areas of the Mortgaged Property;
- Inspect the neighborhood;
- Inspect each of the comparable sales, at least from the street;
- Research, verify, and analyze data from reliable public and/or private sources; and
- Report his or her analysis, opinions, and conclusions.

7.2.5 FNMA 1004D/ FHLMC 442: Appraisal Update and/or Completion Report (1/18/2024)¹⁶⁰

An Appraisal Update and/or Completion Report (FNMA 1004D/FHLMC 442) is used to update an appraisal or provide confirmation that the requirements or conditions in an appraisal report have been met (such as completion of construction or repairs).

The appraiser can complete the Completion Report section of Form 1004D based on an on-site visual inspection of the property. The appraiser may also complete the form based on alternative methods, such as virtual inspections, digital photos, site videos, or other technological solutions.

All completion documentation must include one or more visually verifiable exhibits. A link to the digital exhibits from within the form is acceptable provided the digital exhibits are accessible by the MPF Provider for the life of the loan and PFIs are able provide the digital exhibits to the MPF Provider upon request. These exhibits must be unaltered and able to be authenticated using metadata and the geocode for the subject property.

7.2.5.1 Form 1004D/FHLMC 442 and Completion Alternatives (1/18/2024)¹⁶¹

¹⁶⁰ MPF Announcement 2024-03 (1/18/2024)

¹⁶¹ MPF Announcement 2024-03 (1/18/2024)

The MPF Program permits attestation letters as a completion alternative methods to verify completion of construction, alteration, or repairs in lieu of Form 1004D.

Borrower/Builder Attestation Letter

For new or proposed construction, a Borrower/Builder Attestation Letter is permitted to confirm the property was completed and constructed in conformity with the plans and specifications, amendments, and change orders. The Borrower/builder attestation letter must include (at a minimum) the following items:

- Borrower name,
- property address or legal description if the address is not available,
- certification language that the property was constructed in conformity with the plans and specifications including any amendments or changes,
- signatures and dates by the Borrower(s) and builder, and
- exterior and interior photos of the property that meet the requirements of this Guide.

If a letter signed by both parties is not obtainable, then a Form 1004D/FHLMC 442 completed by the appraiser is required.

Borrower Attestation Letter

A Borrower Attestation Letter is permitted to confirm completion of certain alterations or repairs for existing construction.

The Borrower Attestation Letter must include (at a minimum) the following:

- Borrower name;
- property address;
- certification language that the alteration or repair was satisfactorily completed;
- signatures and date of the Borrower;
- visually verifiable exhibits of the completed work; and
- one of the following:
 - signature of the qualified professional,
 - a professionally prepared report, or
 - paid invoices for the alterations or repairs.

When either of these attestation letter options is used, a link within the letter to any digital exhibits is acceptable provided the digital exhibits are accessible by the MPF Provider for the life of the loan

and PFIs are able provide the digital exhibits to the MPF Provider upon request. These exhibits must be unaltered and able to be authenticated using metadata and the geocode for the subject property. The letter and all documentation must be retained in the mortgage loan file.

7.2.5.2 Criteria for Use of Form 1004D/FHLMC 442 and Completion Alternatives (1/18/2024)¹⁶²

Use of Form 1004D and completion alternatives varies depending on the type of valuation method and condition (completion, alteration, inspection, or repair) that must be verified.

Appraisals (Any appraisal report form including Desktop)		
Appraisal "Subject to" Condition	Performer	Documentation Options
New or proposed construction - completion per plans and specifications	Appraiser	Form 1004D/FHLMC 442 with site visit
	Appraiser	Form 1004D/FHLMC 442 with virtual inspection
	Borrower and builder	Borrower/builder attestation letter with supporting evidence

¹⁶² MPF Announcement 2024-03 (1/18/2024)

Existing construction - repairs or alterations	Appraiser	Form 1004D/FHLMC 442 with site visit
	Appraiser	Form 1004D/FHLMC 442 with virtual inspection
	Borrower	Borrower attestation letter with supporting evidence
Existing construction - inspections requiring a professionally prepared report	Qualified professional	Professionally prepared inspection report The PFI must determine if repairs are required as a result of the inspection, verification per above requirements.

7.2.5.3 Verification of Completion: New or Proposed Construction (1/18/2024)¹⁶³

When the property securing the mortgage loan is new or proposed construction, the appraisal must be based on either plans and specifications, an existing model home, or other information sufficient

¹⁶³ MPF Announcement 2024-03 (1/18/2024)

to identify the quality and character to accurately report the interior features of the proposed improvements.

Verification of completion of construction is required before the mortgage loan is eligible for delivery to the MPF Program. If there are postponed improvements, PFIs should refer to 6.4.1 Requirements for New or Proposed Constructions.

7.2.5.4 Verification of Completion: Existing Construction (1/18/2024)¹⁶⁴

PFIs must review the appraisal to ensure that the property does not have minor conditions or deferred maintenance items that affect the safety, soundness, or structural integrity of the subject property. For additional requirements for existing construction when there are minor conditions or deferred maintenance items that do not affect the safety, soundness, or structural integrity of the property refer to 6.4.2 Requirements for Existing Construction.

When an appraisal is required and there are incomplete items, physical deficiencies, or items affecting the safety, soundness, or structural integrity of the improvements, the appraisal must be "subject to" completion of the specific repairs or alterations. The PFI must verify all completion before the mortgage loan is delivered to the MPF Program.

7.3 Appraisal Standards (10/31/17)¹⁶⁵

An Appraisal must be performed for each Mortgage Loan delivered under the MPF Program.

The Originator is required to document that all appraisers are state-licensed or state-certified in accordance with Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and all applicable state laws and that the state license or certification is active on the effective date of the Appraisal. The appraiser who personally inspected the Mortgaged Property must legibly input their name, signature, the appraisal firm name, and the state license or certification number on the Appraisal.

When an appraiser trainee is used, the trainee must sign the left side of the appraiser certification section of the Appraisal. The supervising appraiser must sign the right side of the appraiser certification section of the Appraisal and ensure compliance with all Applicable Laws.

The Appraisal must be computer-generated (Adobe Format, PDF) on the current form applicable to the product and property type, with no blanks, alterations, or omissions. It must include the appropriate attachments or addenda, and color pictures are required. The Appraisal must present a complete and accurate evaluation of the Mortgaged Property that supports the appraised value.

¹⁶⁴ MPF Announcement 2024-03 (1/18/2024)

¹⁶⁵ MPF Announcement 2017-63 (10/31/17)
MPF Announcement 2017-12 (3/16/17)
PFI Notice 2016-12 (9/1/16)

There are three methods for determining market value: the sales comparison analysis, cost approach, and the income approach. The appraiser must reconcile the valuation methods required on the Appraisal form, stating the approach relied upon most heavily and the rationale for the value conclusion.

7.3.1 Appraisal Age (3/16/17)¹⁶⁶

The effective date of the Appraisal must be no more than 12 months prior to the Note date. (See Chapter [7.15](#) for appraisal age requirements for properties impacted by a major disaster). If the Appraisal is more than 120 days old on the Note date, then an Appraisal Update and/or Completion Report (FNMA Form 1004D/FHLMC 442) must be completed by the original appraiser or a qualified appraiser from the same firm approved by the Originator and must include an exterior inspection of the Mortgaged Property. If the appraiser indicates on the Appraisal Update and/or Completion Report that the Mortgaged Property has declined in value, then a new full Appraisal must be completed.

An Appraisal obtained during a previous mortgage transaction originated by the same Originator to the same Borrower may be used, provided the following requirements are met:

- The Appraisal age requirements above are met;
- The new transaction is a limited cash-out refinance; and
- The Originator ensures that the property has not undergone any significant remodeling, renovation, or deterioration that would materially affect the market value of the property.

7.4 Zoning Compliance (12/22/16)¹⁶⁷

The Mortgaged Property must be zoned as "residential". "Highest and best use as improved" must be the present use indicated on the Appraisal (any other indications of "highest and best use" are not acceptable) and the Mortgaged Property's use must be residential. In addition, the appraiser should provide a general statement with respect to what the zoning permits, regardless of zoning classification. The appraiser must explain any change in land use. Present improvements should conform to zoning regulations. If the zoning is not "residential" and the use a "legal conforming use", the Originator must further review the zoning compliance and determine eligibility as follows:

- If the Mortgaged Property is subject to certain land-use restrictions that create setback lines or other provisions that prevent the reconstruction if the improvements are damaged or destroyed, then the property is ineligible;

¹⁶⁶ MPF Announcement 2017-12 (3/16/17)

¹⁶⁷ MPF Announcement 2016-30 (12/22/16)

- If the Mortgaged Property is zoned “legal” but “non-conforming” due to neighboring land use, the Mortgaged Property may be eligible provided the Appraisal analysis addresses the adverse effect that the non-conforming use has on the value and marketability of the Mortgaged Property;
- If the Mortgaged Property is zoned “legal, but “non-conforming” due to density restrictions but allows for re-construction to current density in the event the Mortgaged Property is partially or fully destroyed, the Mortgaged Property is eligible provided the Mortgage Loan File includes either a copy of the applicable zoning regulations or a letter from the local zoning authority that authorizes reconstruction to current density;
- If the Mortgaged Property is zoned “legal”, but “non-conforming” and cannot be rebuilt in the event of partial or full destruction, or if the property is “illegal,” then the property is ineligible; or
- If the Mortgaged Property is not subject to zoning or is located in a rural area, the surrounding property should be compatible with residential usage.

7.5 Adverse Environmental Conditions

Properties with material environmental hazards and properties located in neighborhoods where material environmental hazards exist are not eligible.

An exception to this requirement is permitted if the following requirements are met:

- The appraiser is informed of the condition of the Mortgaged Property when the Appraisal is ordered;
- The conditions were evaluated and determined to have no impact on the investment quality of the Mortgage Loan;
- The Mortgage Loan File must contain a description of the conditions and their location relative to the Mortgaged Property, along with and the Originator’s opinion on the investment quality of the Mortgage; and
- The Mortgage Loan File must contain evidence of the corrective action as required by an inspector or appraiser. Removal or remedy of such hazards, if required, must be completed prior to the Note date.

Environmental conditions that may have a negative effect on value and marketability — such as proximity to a hazardous waste site, contamination of the Mortgaged Property or a nearby site, the presence of radon gas or asbestos, etc. — must be disclosed to the Borrower and the appraiser. The Appraisal must identify and fully explain the effect these conditions have on the value, marketability and safety of the Mortgaged Property. Comparables should have similar environmental conditions and fully support the value and marketability of the Mortgaged Property.

7.6 Changes in Value

If an increase in value is due to remodeling or renovation of the Mortgaged Property, the appraiser must provide acceptable photos of all improvements to support the increase.

Additional information may be required from the seller to document an increase in value. A desk review, field review, or second Appraisal may be requested if deemed necessary.

7.7 Prior Sales Activity

The appraiser must provide and analyze prior sales activity or transfers for the last thirty six (36) months or the minimum period required by Applicable Law, whichever is greater, for the Mortgaged Property and last twelve (12) for the comparables. The effect on the value of the Mortgaged Property and comparables of prior sales and transfers must be described. Adverse value trends need to be identified and explained. If the information and analysis was not provided, the appraiser must explain why it was not performed.

7.8 Comparable Sales

This section provides requirements for selecting comparable sales.

7.8.1 General Requirements (12/22/16)¹⁶⁸

Appraisals must include at least three (3) comparable sales that have closed within six (6) months prior to the effective date of the Appraisal. In some markets, compliance with this requirement may be difficult or not possible due to the lack of market data. In this case, a detailed explanation is required. The appraiser is expected to include two (2) sales that are as similar as possible to the Mortgaged Property, in order to show recent market activity, including the following:

- At least three (3) comparables must be closed sales and must be included on the Appraisal grid. Current listings or pending sales may be used in addition to the three (3) closed sales to support the Appraisal data and value of the property;
- At least two (2) comparable sales should be located within one (1) mile of the Mortgaged Property (an exception is made for rural properties where comparables may be farther away). Any comparables greater than one (1) mile from the Mortgaged Property must be explained by the appraiser;
- Appraiser must provide data on market trends in the subject area;
- Appraiser must address declining property values, any over-supply, or marketing times over six months;
- Appraiser must address the impact on marketability and value of both favorable and unfavorable factors;

¹⁶⁸ MPF Announcement 2016-30 (12/22/16)

- Appraiser must evaluate any sales concessions for their effect on the marketability of the property;
- Appraiser must avoid using subjective, racial or stereotypical terms, phrases, or comments within the Appraisal report;
- Days on the market must be reported for the Mortgaged Property and each comparable sale and must support the average marketing time listed on page one of the Appraisal report;
- The appraiser must provide and analyze prior sales activity or transfers for the last thirty six (36) months or the minimum period required by Applicable Law, whichever is greater, for the Mortgaged Property and last twelve (12) for the comparables. The effect on the value of the Mortgaged Property and comparables of prior sales and transfers must be described. Adverse value trends need to be identified and explained. If the information and analysis was not provided, the appraiser must explain why it was not performed; and
- The final value of the Mortgaged Property must reflect the most reliable sales data, not an average of the three (3) comparables.

7.8.2 New Projects/New Subdivision Requirements (10/31/17)¹⁶⁹

The following are required for new construction:

- One (1) closed comparable is required from inside the subject development/project;
- At least one (1) closed comparable is required from outside the development/project and/or from outside the influence of the developer;
- Additionally, if possible, a minimum of two (2) resale comparables should be provided to verify that current transactions have been exposed to the open market; and
- If resales cannot be obtained, the appraiser must address and adequately support the final valuation of the Mortgaged Property.

When there are no closed sales within a new project or subdivision, two pending sales from the project or subdivision may be used in place of one closed sale. In this instance, three closed comparables from outside the project or subdivision are also required.

An appraiser may need to rely on a builder in order to provide comparable sales data within the subject property's subdivision or project. In such a circumstance, the appraiser may rely on the builder's copy of the final settlement statement, signed by all parties, to verify the transaction of the comparable sale if the data is not yet available through typical data sources, such as public records or multiple listing services.

¹⁶⁹ MPF Announcement 2017-63 (10/31/17)
MPF Announcement 2016-30 (12/22/16)

7.9 Marketability/ Predominant Value

The Mortgaged Property must be located in a market area of similarly priced homes. The relationship between appraised value and predominant value should be reasonable. A Mortgaged Property with a value significantly in excess of the predominant value may be ineligible. Typically, the Mortgaged Property value should not exceed 50% of the market area's predominant value.

7.10 Lot Size (Acreage) (12/22/16)¹⁷⁰

A Mortgaged Property should not contain excess acreage as compared to like properties within its market. The lot size described in the Appraisal should correspond to the legal description provided in the Security Instrument, the final title policy/attorney's opinion, public records and, if provided, the survey. The underwriter should review the sales comparison analysis approach to determine if the comparables support the acreage and location of the Mortgaged Property.

The appraiser and the underwriter must address the acreage issue and the residential nature must be the highest and best use of the Mortgaged Property. If the land value is higher than the area norm, the appraiser must adequately explain the impact.

7.11 Adjustments (9/27/19)¹⁷¹

The size of the adjustments indicates the extent of differences between the comparables and the Mortgaged Property. Large adjustments must be fully explained by the appraiser. Large adjustments for site / view, design and appeal, quality of construction, age, or condition may be an indication that the comparables are not truly comparable. Adjustments must be consistent for all comparables.

The appraiser's adjustments must reflect the market's reaction to the difference in the properties. The number and/or amount of the dollar adjustments must not be the sole determinant in the acceptability of a comparable.

One-directional adjustments need further explanation. Property value may be inflated when all of the comparables are significantly superior or inferior to the Mortgage Property. When all of the adjustments are positive or all are negative, the valuation may be questionable.

See Chapter [6.1.4.1](#) for rural properties adjustment requirements.

7.12 Cost Approach

¹⁷⁰ MPF Announcement 2016-30 (12/22/16)

¹⁷¹ MPF Announcement 2019-52 (9/27/19)

MPF Announcement 2017-37 (7/24/17)

The cost approach method estimates value by determining the cost of reproducing the Mortgaged Property using current material prices, then subtracting estimated depreciation, and then adding the value of the site and site improvements. The cost approach method must be used for manufactured homes.

The site value and the proportion of the value of the site to the value of the residence must be in line with other values in the neighborhood. The cost per square foot should also be in line with other properties in the area.

The appraiser must make adjustments for any physical, functional, and external depreciation.

7.13 Income Approach

The income approach bases the value on the amount of income the Mortgaged Property could generate from rent. This approach may be used for two- to four-unit properties. The income approach may not be the sole method used to determine the value of the Mortgaged Property. Comparable sales must be used to support the value determination.

7.14 Improvements/Comments Section (12/22/16)¹⁷²

In this section of the Appraisal, the Originator should look for those physical features most like other similarly sized dwellings in the market area. Construction components and special features should be similar to the other properties in the marketplace. Certain characteristics that are not similar, for example, a room list that is not typical or amenities that do not meet market expectations, may negatively affect market appeal. The appraiser must comment on the effects the nonconformity has on value and marketability.

Curable structural factors may be acceptable under certain conditions when properly justified.

Condition of improvements

The property improvements should be at least in average condition and not negatively affect either the livability or marketability of the property. Minor cosmetic deficiencies are not a major concern. The condition of the major components such as the roof, foundation, plumbing, electrical, and heating, may be an issue.

The comparables should support a market demand for similar properties by reasonable proximity to the subject rather than being located in a different section of the city or town.

Additional Features (including Energy Efficiency Improvements)

¹⁷² MPF Announcement 2016-30 (12/22/16)
PFI Notice 2016-12 (9/1/16)

The appraiser should describe all additional features of a property. Over-improvements and limited market appeal features (e.g. gold fixtures and extensive sound systems) should be adjusted to reflect market demand rather than cost.

Additional builder options on newly constructed properties should be reviewed carefully. For example, if the subject has \$5,000 in options, such as upgraded wall coverings, carpeting and built-ins, the appraiser must be careful that the costs of these items are truly reflected in the resale market. Often the options do not recapture dollar-for-dollar cost in market value. At least one comparable sale should have options or extras similar to the subject's. Furniture, fixtures and other personal property cannot be included in the market value of a property and are considered sales concessions.

Homes with energy efficiency improvements are eligible under the MPF Program when marketability can be justified through comparable sales and any additional cost is supported by the market. The Originator should underwrite these properties based on the evaluation of the individual loan and not require special documentation or ratio guidelines for energy-efficient properties.

Off-site Improvements

Private road maintenance should be identified. Further explanation may be necessary if the condition or adequacy of a private road is not typical.

7.15 Properties Located in Major Disaster Areas (9/2/22)¹⁷³

A Major Disaster area is defined as a county, municipality or parish that has been identified as a Declared Disaster area by the Federal Emergency Management Agency (FEMA) (see <https://www.fema.gov/>). Where a mortgage loan that is being delivered into the MPF Program is secured by a property located in a Major Disaster area it must meet all MPF Program requirements, including the requirements in this section.

The appraiser of these types of properties and underwriter of mortgage loans secured by these types of properties must make additional considerations when completing or reviewing an appraisal report. Although the definition of a Major Disaster area in this Guide does not include state or locally declared disasters, Originators should use their knowledge of particular geographic areas to determine when to submit a request to their MPF Bank and/or the Master Servicer (as applicable) to apply the Major Disaster related requirements of the Guides to loans affected by natural disasters that are not Major Disasters, or when they encounter a particular situation they wish to address that does not meet MPF Program Major Disaster related requirements.

¹⁷³ MPF Announcement 2022-41 (9/2/22)
MPF Announcement 2019-26 (5/1/19)
MPF Announcement 2019-11 (1/28/19)
PFI Notice 2016-12 (9/1/16)
MPF Announcement 2018-39 (8/13/18)

The PFI is required to ensure that, on the date the Mortgage Loan is delivered into the MPF Program:

- The Mortgage Loan meets all the MPF Program requirements;
- No proceeding is pending for condemnation of all or any portion of the Mortgaged Property;
- The Appraisal for the subject property is dated no more than 180 days before the note date.
- There are no adverse circumstances involving the Mortgage Loan, the Mortgaged Property or the credit worthiness of the Borrower that would reduce the value or marketability of the Mortgage Loan or Mortgaged Property;
- The PFI must be able to make all loan delivery related representations and warranties.

Property Appraisals in Major Disaster Areas

When determining the value and marketability of a property located in a Major Disaster area, the appraiser must consider neighborhood characteristics using post-Major Disaster area comparable sales to support the value opinion. If there are limited post-Major Disaster area comparable sales available, the appraiser may need to utilize pre-Major Disaster area comparable sales to supplement the post-Major Disaster Area comparables. If the appraiser cannot arrive at an accurate assessment of market value as derived through analysis of both the property and neighborhood characteristics, the mortgage loan is not eligible for delivery under the MPF Program. The MPF Program will not recognize limiting conditions beyond those that are standard to industry appraisal forms.

When an Appraisal Waiver is offered on a property located in a Major Disaster area, PFIs may only exercise the offer if it is more than 120 days after the disaster ended. PFIs must still ensure the Mortgage Loan meets all other Guide requirements, including Appraisal Waiver requirements.

If the DU or ACE LPA Appraisal Waiver offer contains a message that identifies the property as being located in an area that may have been impacted by a recent disaster, the PFI may continue to use the Appraisal Waiver if it takes prudent and reasonable actions to determine whether the condition of the property has been materially impacted by the disaster, and if it complies with the property eligibility requirements that pertain to properties affected by a disaster in the Guides.

'As-Is' Versus 'As-Repaired' Appraisals

Properties located in Major Disaster areas must be appraised based on exterior and interior inspections. If no conditions exist that affect the habitability or structural integrity of the property, the Appraisal can be based on the 'as-is' condition of the property.

If conditions exist that the appraiser determines do affect the habitability or structural integrity of the property, the property must be appraised subject to completion of certain alterations or repairs ('as repaired'). The Originator must obtain a completion report from the appraiser indicating that all repairs have been completed prior to the Mortgage Loan being delivered under the MPF Program. In

the event that such repairs which do not affect the habitability or structural integrity cannot be completed prior to delivery of the Mortgage Loan, an escrow for completion can be established.

Appraisals with Supplemental Statements or Limiting Conditions

If the appraiser cannot arrive at an accurate assessment of market value as derived from a thorough analysis of property and neighborhood characteristics, the mortgage loan is not eligible for delivery under the MPF Program.

Properties Damaged After Date of Appraisal

A PFI delivering a mortgage loan into the MPF Program that is secured by a property that is, at the time of delivery, located in a Major Disaster area, but for which the appraisal is dated prior to the declaration of the disaster, the PFI must take prudent and reasonable actions to determine whether the condition of the property has materially changed since the effective date of the Appraisal. This would include determining if an inspection or new Appraisal of the property is required to support its representations and warranties.

7.16 Reconciliation Section (3/16/17)¹⁷⁴

In the reconciliation section of the Appraisal, the final value used for the “Certification of Appraisal and final value” must reflect the most reliable sales data, not an average of the three (3) comparables.

If the PFI considers an Appraisal report deficient, it should address the deficiencies as follows:

- Contact the appraiser to address deficiencies contained in the Appraisal report;
- Obtain a desk review or a field review of the original Appraisal report; or
- Obtain a new Appraisal report on the Mortgaged Property.

It is not acceptable for the PFI to arbitrarily change the opinion of market value from an Appraisal report, regardless of how the PFI arrives at such conclusions (such as averaging the two opinions of market value, etc.) in order to arrive at a final value.

The PFI may return the Appraisal report to the appraiser who completed the assignment, identifying the deficiencies found, and provide justification for the request that the appraiser address the deficiencies.

If the Appraiser fails to address the deficiencies, a desk or field review of the original Appraisal report may be requested or a new Appraisal may be completed. If a review Appraisal is requested, the

¹⁷⁴ MPF Announcement 2017-12 (3/16/17)
MPF Announcement 2016-30 (12/22/16)

appraiser completing the review must be licensed in the state in which the Mortgaged Property is located and possess the knowledge and experience to appraise the Mortgaged Property with respect to both the property type and geographical location. If a new Appraisal is completed, the new Appraisal must be based on the same level of inspection required for the original Appraisal report. The property value indicated in the review or new Appraisal must be used. Use of the value from the original appraiser is not acceptable.

The Mortgage Loan File must be documented when addressing any Appraisal deficiency with the underwriter's actions and determination to accept final property value and eligibility. In the event an Originator has a reasonable basis to believe an appraiser or appraisal management company is violating Applicable Laws, or is otherwise engaging in unethical conduct, it shall promptly refer the matter to the applicable state appraiser certifying and licensing agency or other relevant regulatory body in accordance with the Applicable Laws or applicable regulatory agency requirements.

7.17 Restrictions (9/20/23)¹⁷⁵

Occupancy restrictions are acceptable as long as such limitations are reasonable local, state, or federal restrictions applied to all occupants, that do not discriminate on the basis of race, age, color, religion, gender, national origin, disability, familial status, or any other prohibited basis under applicable anti-discrimination law.

7.18 Race or Racial Distribution

Any mortgage supported by an Appraisal that discloses race or the racial distribution of a neighborhood is ineligible.

7.19 Neighborhood (12/22/16)¹⁷⁶

The neighborhood of the property must be acceptable as collateral for a Mortgage Loan under the MPF Program. The appraiser must take all data, influences and factors into consideration including regulations, laws and taxes that are imposed on properties. Factors that affect the marketability of the neighborhood (such as proximity to employment and amenities and appeal to market) should be described. Analysis should include economic trends, location influences and neighborhood amenities. Market conditions and trends should be supported by statistical information.

7.20 Drainage/Flood Hazard (12/22/16)¹⁷⁷

¹⁷⁵ MPF Announcement 2023-74 (9/20/23)

¹⁷⁶ MPF Announcement 2016-30 (12/22/16)

¹⁷⁷ MPF Announcement 2016-30 (12/22/16)

Drainage problems or the existence of a flood hazard condition should be addressed by the appraiser. Such conditions or major problems may require physical correction or flood insurance.

CHAPTER 8. OTHER PROPERTY TYPES

This chapter provides guidelines for evaluating condominium and planned unit development (PUD) project eligibility. The intent of the project review is to assess the marketability and long-term stability of the project. Current market conditions and comparable sales on the Appraisal, if an Appraisal is obtained, provide information on the Mortgaged Property's marketability.

The project guidelines and documentation requirements in this chapter are applied to Mortgaged Properties that are part of condominiums or PUDs in addition to the standard property appraisal review guidelines.

8.1 Planned Unit Development

A Planned Unit Development (PUD) is a parcel of land that contains common elements and improvements that are owned and maintained by a homeowners association, corporation or trust. The common elements are for the benefit and use of the individual homeowners within the PUD. The housing units may be attached or detached. The individual homeowners must own or have a leasehold interest in a parcel of land improved with a dwelling that is not shared in common with other unit owners.

The unit owners must have an automatic, non-severable interest in the homeowners association and pay mandatory assessments.

The pre-sale and owner occupancy requirements that apply to condominium projects do not apply to PUDs, provided that the appraiser does not indicate marketability problems. If the appraiser indicates marketability problems, a review of the project must be performed to determine whether there may be an adverse impact on the value or marketability of the Mortgaged Property.

Requirements for 1- to 4-unit properties apply to similar residential properties within a Planned Unit Development (PUD).

A PUD project is ineligible if:

- The project contains two- to four-unit properties;
- The project contains manufactured housing;
- The project contains space devoted to commercial use; or
- The project is a multi-dwelling unit PUD project that permits an owner to hold title to more than one dwelling unit with ownership of all his units evidenced by a single deed and mortgage are ineligible.

8.2 General Condominium Eligibility Requirements (9/1/16)¹⁷⁸

The following guidelines apply to all condominium projects. Project information may be reported by the appraiser, disclosed by the homeowners association or developer, shown on the purchase contract, or obtained through a review of the homeowners association certificate or other condominium documents. The homeowners association assessment must be based upon either the size of the unit or the ratio to the total number of units in the project. The assessment cannot be based on the sales price of the unit. The charges for interior and exterior maintenance must be included in the assessment as the responsibility of the homeowners association.

8.2.1 Single Entity Ownership (6/13/23)¹⁷⁹

The maximum allowable number of units that may be sold to or owned by a single entity are as follows:

- Projects with 2– 4 units: 1 unit allowed;
- Projects with 5–20 units: 2 units allowed; and
- Projects with 21 or more units: 10% of total units allowed.

Note: while this addresses the number of units the project permits any one owner to own within the project, PFIs must ensure the number of units the Borrower actually owns in that project and the occupancy status of those units meet any applicable requirements and limitations in the MPF Guides on number of units a Borrower may own and their status of occupancy, to be eligible. See for example 6.2.2 Second Home.

8.2.2 Commercial Use

Commercial use within the project may not exceed 25% of the total square footage for the project and should be compatible with residential use.

8.2.3 Right of First Refusal

Any right of first refusal in the condominium project's constituent documents may not impair the rights of a first mortgagee to:

- Foreclose or take title to a condominium unit pursuant to the remedies contained within the security instrument;
- Accept a deed in lieu of foreclosure in the event of default by a mortgagor; or
- Sell or lease a unit acquired by the mortgagee.

8.2.4 Mortgagee Rights

¹⁷⁸ PFI Notice 2016-12 (9/1/16)

¹⁷⁹ MPF Announcement 2023-37 (6/13/23)

The condominium project's constituent documents must provide for a written notice to the mortgagee in the event of any of the following:

- Condemnation or casualty loss that affects a substantial part of the project or the unit secured by the mortgage;
- The owner of the unit securing the mortgage becomes sixty (60) days or more delinquent on HOA dues;
- There is a lapse, cancellation, or substantial change in the insurance coverage for the HOA; and
- There is any proposal made requiring agreement from a certain percentage of mortgagees.

8.2.5 Adverse Environmental Factors

Any adverse environmental factors affecting the condominium project must be addressed by the appraiser.

Any factors affecting safety, habitability, or marketability of the unit or project will render the project ineligible.

8.2.6 Litigation

If the HOA is involved in any litigation, arbitration, mediation, or other dispute resolution process, additional details must be obtained from the HOA. This information should be verified with an attorney's letter, insurance information, structural report, and/or other documentation.

The following types of litigation generally pose little or no risk to the project and are acceptable:

- HOA is suing individual owners for unpaid dues or assessments;
- HOA is being sued for a "slip and fall" liability issue and the project has adequate liability insurance to cover the damages being sought by the plaintiff; and
- Other suits filed by the HOA that do not impact the value or livability of the project are generally acceptable.

The following types of litigation may impact the project's marketability and are generally not acceptable:

- HOA is suing the developer for structural defects or other property deficiencies that impact health and safety. However, the project may be acceptable if the defects have been corrected and the project is financially sound and marketable; and
- Suits filed against the HOA in which the damages exceed or are not covered by the HOA's insurance.

Projects involved in pending litigation (i.e., lawsuit has not yet been filed) may be approved when the risk to the project is assessed and it is determined that:

- HOA insurance will cover potential damages; or
- HOA is in a position to benefit from the lawsuit.

8.2.7 Delinquent HOA Dues/Special Assessments (8/21/23)¹⁸⁰

For condominium projects with more than four (4) units, no more than 15% of the unit owners may be delinquent by more than sixty (60) days on their HOA dues.

For two- to four-unit projects, no unit owners may be sixty (60) days or more delinquent on HOA dues.

For all condominium projects, no more than 15% of the total units in a project are 60 days or more past due in the payment of each special assessment.

8.2.8 Insurance

The entire condominium project insurance policy must be reviewed to ensure coverage complies with MPF Program Requirements. See Selling Guide Chapter 9.

Projects with a pooled insurance policy are ineligible.

8.2.9 Agreement for Professional Management

Any agreement or contract for services of the builder, developer, sponsor, or a professional management firm or the condominium project must not exceed three (3) years. Any such agreement or contract must provide for termination by either party without cause and without payment of a termination fee on ninety (90) days or less written notice.

8.2.10 Taxes, Assessments and Charges

If Applicable Laws mandate that liens for taxes, assessments, and charges become priority liens over the Security Instrument, the liens must relate only to the individual condominium unit and not to the entire condominium project.

8.2.11 Actions of Homeowners' Association

When condemnation or a major loss occurs to the units and/or common elements of a project, a written approval by two-thirds (2/3) majority of the individual unit owners or their first mortgagees shall be required for the homeowners association to take the following measures:

- Abandon or terminate the condominium project, intentionally or inadvertently;
- Partition or subdivide any condominium unit;

¹⁸⁰ MPF Announcement 2023-65 (8/21/23)

- Abandon, partition, subdivide, encumber, sell, or transfer the common elements by act or by omission. The granting of easements for public utilities or other public purposes consistent with the intended use of the common elements within the meaning of this provision;
- Use Insurance Proceeds for losses to any condominium property, whether individual units or common elements, for any purpose other than the repair, replacement, or reconstruction of the property; and/or
- Change the pro rata interest or obligations of any unit in order to levy assessments or charges, allocate distribution of Insurance Proceeds or condemnation awards, or to determine the pro rata share of ownership of each unit in the common elements.

8.2.12 Phasing or Add-Ons

Any proposal or plan subjecting the condominium project to phasing or add-ons must comply with the following limitations:

- The real property must be described in the declaration of condominium;
- A condominium unit owner's undivided interest in the common elements must be stated in the declaration of condominium, master deed, or a similar instrument which will become subject to the condominium project if the alternative percentage becomes effective. The conditions whereby a change in that percentage may take place are fully described in the declaration provisions; and
- No change in the percentage interests in the common elements may be effective pursuant to such phasing or add-on plan more than seven (7) years after the declaration of condominium becomes effective.

8.2.13 MPF Bank's Rights Confirmed

No provision of the condominium document may give a condominium unit owner or any other party priority over any rights of the PFI, Servicer, or the MPF Bank, pursuant to the Security Instrument in the event of payment to the unit owner of Insurance Proceeds or condemnation awards for major losses to the condominium unit and/or common elements.

8.2.14 Amenities

All amenities of the project, such as the parking areas, recreation areas, and service areas must be covered by the Security Instrument to at least the same extent as the common elements. If any amenities are not completed as of the Note date for a particular Mortgage Loan, the sales contract must provide for a completion date and the necessary recourse measures in lieu of default or delay by the seller.

8.2.15 Age of Project Eligibility Determination

The maximum age of the Originator's project eligibility determination as of the Funding Date is:

- One (1) year for existing condominium projects; or
- Six (6) months for a new condominium project.

8.3 Condominium Project Classification Standards

This section covers the requirements for established projects and new projects.

8.3.1 Established Condominium Projects

Established condominium projects must meet the following requirements:

- At least ninety percent (90%) of all units are sold and closed;
- If the Mortgaged Property is a second home, at least fifty percent (50%) of all units in the project must be conveyed to principal residence or second home purchasers;
- The homeowners association is under the control of the unit owners;
- Project is not subject to additional phasing or annexation;
- All units and amenities are completed; and
- All units that have been conveyed must be owned in fee simple, and all unit owners must have exclusive ownership in the rights to use the amenities and common elements. The amenities, common elements or facilities may not be subject to a lease between the unit owners or the homeowners association and another party.

8.3.2 New Condominium Projects

A new condominium project or an existing building that was recently or is being converted to a condominium project is considered a new or newly converted condominium project if less than ninety percent (90%) of all units are sold and closed. New or newly converted condominium projects must meet the following requirements:

- Minimum presale requirements:
 - At least fifty percent (50%) of all units (or the Mortgaged Property's legal phase*) must be conveyed to principal residence or second home purchasers;
 - For small condominium projects with 2-4 units, no more than one (1) unit in the project may be conveyed and occupied as an investment property;

*To consider a Mortgaged Property's legal phase in lieu of all units in the condominium project, the Mortgaged Property's legal phase must be "substantially" completed. A legal phase is considered "substantially" complete when:

- A certificate of occupancy or other substantially similar document has been issued by the applicable governmental agency for the project or Mortgaged Property's legal phase;
- All the units in the building that contains the Mortgaged Property are complete, subject to the installation of common and customary buyer selection items;
- If the legal phase contains more than one building or structure, each must be 100% complete. Note that for manually reviewed new condominium projects, a single building cannot contain more than one legal phase; and
- Any additional phases or add-ons meet the requirements the following requirements:
 1. The real property shall be described in the declaration of condominium;
 2. A condominium unit owner's undivided interest in the common elements must be stated in the declaration of condominium, master deed, or a similar instrument which will become subject to the condominium project if the alternative percentage becomes effective. The conditions whereby a change in that percentage may take place are fully described in the declaration provisions; and
 3. No change in the percentage interests in the common elements may be effective pursuant to such phasing or add-on plan more than seven (7) years after the declaration of condominium becomes effective.

For two- to four-unit condo projects, all units and common elements must be 100% complete and may not be subject to additional phasing.

If the condominium unit owners are in control of the homeowners association, there must be a sufficient number of occupying unit owners to competently manage the homeowners association and support the budget required to fund the homeowners association budget; and

All units that have been conveyed must be owned in fee simple, and all unit owners must have exclusive ownership in the rights to use the amenities and common elements. The amenities, common elements or facilities may not be subject to a lease between the unit owners or the homeowners association and another party.

No more than 30% of the units in the project may be subject to rent regulations (i.e. regulations that protect the tenant from eviction).

Two- to Four-Unit Projects

For new or newly converted condo projects consisting of two- to four-unit properties, the following restrictions apply:

- All units and common elements in the project must be 100% complete. The project may not be subject to any additional phasing; and

- All except (1) unit in the project must be conveyed or under contract for sale to Primary Residence or second home buyers.

8.4 Ineligible Projects (8/21/23)¹⁸¹

All attached or detached Planned Unit Developments (PUDs) and condominiums must include a review of the project ineligibility characteristics for eligibility verification.

The following project types are ineligible:

- Timeshare, fragmented, or segmented ownership projects
- New condominium projects where the seller is offering any of the following:
 - Contributions in excess of the maximum interested party contribution limits permitted in this Selling Guide;
 - Contributions or concessions that are not fully disclosed on the final Settlement Statement;
 - Payment abatements of any homeowners association dues; and
 - Concessions to financing terms, including but not limited to below market interest rates or principal and interest payment abatements.
- Newly converted non-gut rehabilitation projects containing more than four attached units that have not been approved through Fannie Mae's Project Eligibility Review Servicer (PERS);
- Mortgage loans secured by units in projects with a status of "Unavailable" in Fannie Mae's Condo Project Manager (CPM) are ineligible;
- Projects that split ownership of the property or restrict the owner's ability to occupy the unit, including "common interest" apartment (also known as a community apartment or own-your-own);
- Projects with mandatory rental pooling agreements that require the unit owners to either rent their units or to give a management firm control over the occupancy of the units;
- Projects that include weekly and/or daily rentals or projects with units that are marketed for sale based on the availability of short term rental rates;
- Student housing projects;
- Multi-dwelling unit condominiums that permit an owner to hold title to more than one dwelling unit, with ownership of all of his or her owned units evidenced by a single deed and financed by a single mortgage.;

¹⁸¹ MPF Announcement 2023-65 (8/21/23)

- Projects that include manufactured housing units;
- Projects that permit individual residential unit owners to operate and run a small business from their residential unit (i.e. live-work projects);
- Projects that have documents on file with the Securities and Exchange Commission, or projects where unit ownership is characterized or promoted as an investment opportunity;
- Legal nonconforming projects where the appropriate local zoning and/or local statutes do not permit the reconstruction of the current property improvements and current density in the event of partial or full destruction;
- Projects with required membership fees for use of recreational spaces (such as a golf course or other recreational facility) owned by a party other than the HOA or master association;
- Projects with property that is not real estate (e.g.: Houseboats, boat slips, cabanas) (Note: Boat slips, cabanas, and other amenities are permitted when owned in common by the unit owners as part of the HOA);
- Projects that are continuing care facilities (Note: Projects that make continuing care services available to residents are eligible only if the continuing care facilities or services are not owned or operated by the HOA and residential unit owners are not obligated to purchase or utilize the services through a mandatory membership, contract, or other arrangement);
- Projects with non-incidental business operations owned or operated by the homeowners association such as, but not limited to, a restaurant, spa, health club, etc.
 - Project is ineligible is more than 10% of its budgeted income from non-incidental business arrangements related to the active ownership and/or operation of amenities or services available to unit owners and the general public. This includes, but is not limited to, businesses such as a restaurant or other food- and beverage-related services, health clubs, and spa services;
 - Non-incidental income not exceeding 15% of the project's budgeted income may be derived from:
 - income from the use of recreational amenities or services owned by the HOA for the exclusive use by unit owners in the project or leased to another project according to a shared amenities agreement, or
 - income from the leasing of units in the project acquired by the HOA through foreclosure;
- Projects in which the condominium units are subject to ineligible Private Transfer Fee Covenants;
- Projects for which the project sponsor, homeowners association, or developer (if the project has not been turned over to the homeowners), is a party to current litigation or is engaging in pre-litigation activities (such as, but not limited to, arbitration or mediation) that are reasonably

expected to proceed to formal litigation, except for “minor” litigation that has no impact on the safety, structural soundness, habitability, or functional use of the project. “Minor” litigation is defined as:

- Non-monetary litigation including, but not limited to, neighbor disputes or rights of quiet enjoyment;
 - Litigation for which the insurance carrier has agreed to provide the defense, and the amount is covered by the homeowners association’s insurance;
 - the reasonably anticipated or known damages and legal expenses are not expected to exceed 10% of the project’s funded reserves;
 - the HOA is seeking recovery of funds for issues that have already been remediated, repaired, or replaced and there is no anticipated material adverse impact to the HOA if funds are not recovered;
 - litigation concerning localized damage to a unit in the project that does not impact the overall safety, structural soundness, habitability, or functional use of the project; or
 - Actions in the normal course of business to collect HOA dues and assessments;
- Projects with space that is used for nonresidential or commercial purposes exceeding 35% of project space;
 - Condominium hotels;
 - Projects that are managed and operated as a hotel or motel, even though the units are individually owned (See 8.4.1 Hotels or Motels);
 - Projects that have been converted from a resort, hotel, motel, lodge (or any other property type that was used for temporary living arrangements), unless the project is an established project, meets all requirements for gut rehabilitation projects and all units are residential dwelling units without any of the characteristics of a hotel or similar type of transient housing building;
 - Projects that do not meet the ownership requirements of Section 8.2.1 Single Entity Ownership;
 - Projects in need of critical repairs, including material deficiencies and significant deferred maintenance (See 8.4.2 Projects in Need of Critical Repairs).

8.4.1 Hotels or Motels (8/21/23)¹⁸²

The following characteristics should be utilized to identify projects that operate as hotels or motels, which are ineligible:

¹⁸² MPF Announcement 2023-65 (8/21/23)

- The project is deemed ineligible under Fannie Mae or Freddie Mac's requirements because of condo hotel, resort, transient or short-term rental activity;
- The HOA is licensed as a hotel, motel, resort, or hospitality entity;
- The project is professionally managed by a hotel or resort management company that also facilitates short term rentals for unit owners or projects with management companies that are licensed as a hotel, motel, resort, or hospitality entity;
- Voluntary or mandatory revenue sharing agreements;
- Occupancy restrictions mandated by the zoning, by HOA or project's legal documents (including restricting owners' ability to occupy the unit during any part of the year);
- The project has a legal or common name that includes "hotel," "motel," "inn," "resort," or "lodge" unless the use is a reference to a historical use of the building and not reflective of its current use as a residential condo;
- The project is marketed as a hotel, motel, resort or investment opportunity;
- The project has obtained a hotel or resort rating for its hotel, motel, or resort operations through hotel ratings providers including, but not limited to, travel agencies, hotel booking websites, and internet search engines;
- The project shares facilities with a hotel or motel;
- The project is primarily transient in nature, or is in an area zoned primarily for transient accommodations (projects located in a resort area require additional due diligence);
- The unit is in a building that functions like a traditional condominium, yet the project contains additional resort type amenities or other buildings with resort type amenities (amenities that are common in hotels or resorts including spa services, concierge services, rentals of recreational equipment or amenities, childcare services for short-term renters, scheduled social or entertainment activities for short-term renters, airport shuttles, ski lift shuttles or ski lift and trail passes, or other vacation amenities and packages require additional due diligence);
- The unit is fully furnished or has restrictions on interior decorating;
- The unit does not have a full kitchen (units that do not contain full-sized kitchen appliance require additional due diligence);
- The unit is less than four hundred (400) square feet; and
- The project provides any of the following services:
 - Management desk;
 - Bellman;
 - Daily maid service;

- Food service;
- Centralized utilities (e.g., central telephone service or cable); and
- Centralized key system.

8.4.2 Projects in Need of Critical Repairs (8/21/23)¹⁸³

Projects in need of critical repairs are those needing repairs or replacements that significantly impact the safety, soundness, structural integrity or habitability of the project's building(s), or the financial viability or marketability of the project. Critical repairs include conditions such as:

- material deficiencies, which if left uncorrected, have the potential to result in or contribute to critical element or system failure within one year;
- any mold, water intrusions or potentially damaging leaks to the project's building(s);
- advanced physical deterioration;
- any project that failed to pass state, county, or other jurisdictional mandatory inspections or certifications specific to structural safety, soundness, and habitability; or
- any unfunded repairs costing more than \$10,000 per unit that should be undertaken within the next 12 months (does not include repairs made by the unit owner or repairs funded through a special assessment).

Examples of some items to consider include, but are not limited to, sea walls, elevators, waterproofing, stairwells, balconies, foundation, electrical systems, parking structures or other load-bearing structures.

If damage or deferred maintenance is isolated to one or a few units and does not affect the overall safety, soundness, structural integrity, or habitability of the project, then these requirements do not apply.

Routine repairs are not considered to be critical and include work that is:

- preventative in nature or part of normal capital replacements (for example, focused on keeping the project fully functioning and serviceable); and
- accomplished within the project's normal operating budget or through special assessments that are within guidelines.

A project with an evacuation order due to an unsafe condition, either for a partial or total evacuation of the project's building(s), is ineligible until the unsafe condition has been remediated and the building(s) is deemed safe for occupancy.

Special Assessments

¹⁸³ MPF Announcement 2023-65 (8/21/23)

Special assessments may be current or planned. PFIs must obtain and review the following information for each special assessment to determine if it addresses a critical repair:

- what is the purpose of the special assessment,
- when was the special assessment approved and is it planned (approved by the unit owners, but not yet initiated by the board) or already being executed,
- what was the original amount of the special assessment and the remaining amount to be collected, and
- when is the expected date the special assessment will be paid in full.

If the special assessment is associated with a critical repair and the issue is not remediated, the project is ineligible.

Inspection Reports

If a structural and/or mechanical inspection was completed within 3 years of the PFIs project review date, the PFI must obtain and review the inspection report. The report cannot indicate that any critical repairs are needed, no evacuation orders are in effect, and no regulatory actions are required.

If the inspection report indicates there are unaddressed critical repairs, the project is ineligible until the required repairs have been completed and documented accordingly. The PFI must review an engineer's report or substantially similar document to determine if the repairs completed have resolved the safety, soundness, structural integrity, or habitability concerns of the project.

Documentation

PFIs are responsible for determining which documents are needed to ensure compliance with the requirements of this Guide. Some examples of this documentation include, but are not limited to:

- HOA board meeting minutes,
- engineer report(s),
- structural and/or mechanical inspection reports,
- reserve studies,
- a list of necessary repairs provided by the HOA or the project's management company,
- a list of special assessments provided by the HOA or the project's management company, and
- other substantially similar documentation.

8.5 Unpaid HOA Assessments

In the event that the PFI or the MPF Bank obtains title to a condominium unit, either through Foreclosure or pursuant to the remedies in the Security Instrument, the MPF Bank will not be liable for more than six (6) months of the unit's unpaid, regularly budgeted homeowners association

assessments or charges accrued before the PFI's acquisition of the title. If the homeowners association has a priority lien for the costs of collecting unpaid assessments, the PFI will be responsible for those fees or costs related to that lien and for protecting the priority of the Mortgage lien.

8.6 Project Eligibility (8/8/22)¹⁸⁴

The Originator must use one of the methods in this section to determine if a condominium project is eligible. The Originator should use the Fannie Mae Condominium Project Questionnaire ([Form – 1076](#)) or an equivalent for assistance in determining project eligibility and should retain the questionnaire in the Mortgage Loan File.

A project review is not required for PUDs and site condominiums that meet the PUD and site condominium policies in this Guide.

8.6.1 Limited Review (7/27/23)¹⁸⁵

A limited review may be conducted for an attached unit in an established project. Manually underwritten loans and loans underwritten through DU and Loan Product Advisor are eligible for a limited review.

To be eligible for a limited review, the following requirements must be met:

- The Appraisal, if an Appraisal was obtained, complies with all standard appraisal requirements in this Selling Guide;
- The insurance in force complies with all applicable insurance requirements;
- Attached units in established projects must meet the LTV/TLTV requirements below:

Limited Review of Attached Units in Established Projects Located Outside Florida	
Occupancy Status	Maximum LTV/TLTV
Primary Residence	90%
1 Unit Second Home	75%

Properties in Florida must comply with different LTV ratio requirements. See Selling Guide Chapter [8.6.5](#).

¹⁸⁴MPF Announcement 2022-37 (8/8/22)
MPF Announcement 2017-63 (10/31/17)
MPF Announcement 2016-30 (12/22/16)

¹⁸⁵ MPF Announcement 2023-54 (7/27/23)
MPF Announcement 2019-26 (5/1/19)
MPF Announcement 2018-60 (12/11/18)

Originators are encouraged to use the Condominium Project Questionnaire – (Fannie Mae Form 1076/Freddie Mac Form 476) to assist with determining condominium project eligibility. If this form is used, it must be retained in the Mortgage Loan File.

If a project is ineligible for a limited review, then another review method must be used.

8.6.2 Full Review (5/1/19) ¹⁸⁶

The full review may be conducted for attached units in new and established condominium projects, provided that the following requirements are met:

- The Appraisal, if an Appraisal was obtained, complies with all applicable appraisal requirements in this Selling Guide;
- The insurance in force complies with all applicable insurance requirements in this Selling Guide;
- The HOA's budget must have sufficient funds to support the project, and at least ten percent (10%) of the HOA's total budget must be allocated toward a reserve fund for maintenance, repairs, and replacement of the common elements. (Projects with two- to four-units are exempt from this requirement);

The HOA budget requirement does not apply to two- to four-unit projects.

- The project must be on contiguous parcels of land. It is permissible for streets to divide the project;
- The unit owners must have exclusive ownership and use of the common elements and amenities;
- Parking spaces may be financed as part of the Mortgage Loan if the parking space and unit are on one deed as demonstrated by the legal description. The LTV and TLTV must reflect the value of the parking space and the unit; and
- If the project is a gut rehabilitation project (defined as a project where major components such as the roof, HVAC system, electrical, and plumbing were replaced) that was completed during the past three (3) years, then a licensed engineer's report must be obtained that indicates the structural integrity of the building and the condition of the major components are acceptable.

Newly converted non-gut rehabilitation projects with more than four (4) units must be reviewed using Fannie Mae's PERS process. Newly converted non-gut rehabilitation projects with less than four (4) units may be reviewed using the full review process.

Originators are encouraged to use the Condominium Project Questionnaire – Full Form (Fannie Mae Form 1076/Freddie Mac Form 476) to assist with determining condominium project eligibility. If this form is used, it must be retained in the Mortgage Loan File.

¹⁸⁶ MPF Announcement 2019-26 (5/1/19)

8.6.3 Fannie Mae's Project Eligibility Review Service (PERS)

The following projects must be submitted to Fannie Mae's PERS for review:

- New and newly converted condo projects with attached units located in Florida; and
- Newly converted non-gut rehabilitation projects with more than four (4) units. Note: The PERS process is optional for any projects not indicated above.

Projects that have been approved through PERS are eligible for delivery under the MPF Program if the following requirements are met:

- The project complies with MPF Program Requirements;
- The conditions of the Fannie Mae Review approval have not expired, been cancelled, or modified as of the Funding Date; and
- The Mortgage Loan File contains a copy of the Fannie Mae Review approval (Project Eligibility Review Service (PERS) or the FNMA Form 1028) or a screen print from the Fannie Mae accepted condominium project list documenting the unexpired, unmodified Fannie Mae Review approval.

8.6.4 Fannie Mae's Condo Project Manager (CPM)

The use of Fannie Mae's Condo Project Manager (CPM) is permitted, provided that the following requirements are met:

- The PFI delivering the Mortgage Loan requested and obtained the CPM project acceptance;
- The data entered into CPM is accurate and complete; and
- The Mortgage Loan File contains a copy of the unexpired CPM project acceptance certification that meets the following criteria:
 - For an established project, the certification date must be no more than (1) year old as of the Funding Date; and
 - For a new project, the certification date must be no more than six (6) months old as of the Funding Date.

8.6.5 Location-Specific Condominium Project Requirements (2/22/21)¹⁸⁷

This section covers specific requirements for projects located in Florida. A PERS review is required in accordance with this Selling Guide Chapter [8.6.3](#), for new and newly converted condo projects with attached units located in Florida.

¹⁸⁷MPF Announcement 2021-11 (2/22/21)
MPF Announcement 2017-63 (10/31/17)

The following table is for manually underwritten loans only and indicates the maximum LTV ratios allowed for a limited review for established condominiums in Florida. Loans underwritten using an AUS must follow the LTV ratio requirements of the applicable agency (Fannie Mae or Freddie Mac).

Attached Units in Established Condo Projects in Florida Manual Underwriting	
Occupancy	Maximum LTV/TLTV
Primary Residence	75%/90%
1 Unit Second Home	70%/75%

8.6.6 Two- to Four-Unit Condominium Projects

A 2-4 unit condominium project consists of from two to four 1-unit dwellings that are separately owned with separate legal descriptions. To be eligible, the Originator must determine that there is a demonstrated marketability for such condominium projects in the subject market area, and the project must have been approved using a permitted review method.

The project must meet the following requirements:

- The project, including all common areas and any amenities, is complete;
- Homeowners own the condominium units in fee simple or leasehold, and the homeowners are the sole owners of and have exclusive rights to the use of the project's common elements; and
- No more than one (1) unit in the project has been conveyed and is occupied as an investment property

8.6.7 Site Condominiums (5/1/19)¹⁸⁸

New or established condominium projects composed of only detached one-unit dwellings (site condominiums) are eligible and do not require a project review if they meet the following requirements:

- The condominium project consists solely of detached one-unit dwellings where the unit owners own the land and improvements on the land;

¹⁸⁸ MPF Announcement 2019-26 (5/1/19)
MPF Announcement 2018-60 (12/11/18)
MPF Announcement 2017-63 (10/31/17)
PFI Notice 2016-12 (9/1/16)

- The project does not include manufactured housing units;
- The project has few or no common elements, such as project signs and minimal undeveloped green space;
- The project does not own any common amenities (e.g. pool, fitness or recreational center, playground, laundry facility, clubhouse, etc.);
- The project does not own nor has responsibility for maintaining infrastructure such as roads, street signs, electricity, water, sewage, snow removal, or garbage disposal;
- The project has little to no engagement with an HOA, such as minimal or no dues or special assessments and no common element maintenance.
- The subject unit maintains the required property insurance coverage per Chapter [9](#);
- The Appraisal, if an Appraisal was obtained, specifically references the property as a "site condo" and verifies there is little to no difference in market value between this type of ownership and a single-family detached home; and
- The project complies with the requirements in this chapter regarding HOA assessment priority liens.

CHAPTER 9. INSURANCE REQUIREMENTS

9.1 Government Mortgage Insurance

Government Mortgage Loans must maintain the insurance or guaranty from the applicable Government Agency. If any premium is not paid to the Government Agency when due, or if the insurance or guarantee is canceled by the Government Agency for any reason, the MPF Bank may:

- Require repurchase of the Mortgage Loan; or
- Advance the premium on behalf of the PFI and debit the PFI's DDA for the amount of the advance.

9.2 Conventional Mortgage Insurance

This section addresses the mortgage insurance (MI) requirements for Conventional Loans, including acceptable insurers and coverage amounts.

9.2.1 General Mortgage Insurance Requirements (12/11/18)¹⁸⁹

MI is required for every Conventional Mortgage that has an LTV ratio greater than 80%. LTV / TLTV ratio must always be rounded up to the next whole percentage. (For example, 80.01 percent must be rounded up to 81 percent.)

The MI coverage must be under the mortgage insurance company's master policy, and its associated endorsements and forms, that were effective October 1, 2014, or the most current master policy, endorsements, and forms issued thereafter. Self-insurance is not acceptable.

MI must be in full force as of the Mortgage Loan disbursement date and must remain in full force until the Mortgage Loan meets the MI cancellation requirements in accordance with the Guides.

The LTV calculation for mortgage insurance for properties located in the state of New York is based solely on the appraised value of the Mortgaged Property as of the Closing date.

Mortgage Insurance Payment Structures

The following MI payment structures are acceptable:

- Borrower-paid MI with an upfront single premium. paid at closing;
- Borrower-paid MI with monthly premiums paid from escrow; and
- Borrower-paid MI with a split premium (i.e. combination of upfront single premium paid at closing and monthly premium paid from escrow).

¹⁸⁹ MPF Announcement 2016-30 (12/22/16)
MPF Announcement 2018-60 (12/11/18)

For Mortgage Loans secured by one-unit property types, the MI upfront single premium or the upfront portion of a split premium may be financed in the loan amount.

Solely for the purpose of determining the required minimum MI coverage level, the financed upfront single premium may be excluded from the purchase or refinance transaction loan amount in calculating the LTV ratio. However, for all other purposes, including Loan Presentment and loan eligibility determination, the financed upfront MI premium must be included in the loan amount for calculating LTV ratios. The LTV ratio, calculated using the purchase or refinance transaction loan amount plus the financed upfront MI premium, may not exceed 95% or a lesser LTV restriction published in the Guides.

The Originator must obtain a Financed MI Premium Endorsement to the mortgage insurance policy. This endorsement must indicate that the mortgage insurance will adjust its claim calculation so that the claim amount will include one hundred percent (100%) of the unamortized portion of the financed mortgage insurance premium.

Originator-paid MI is only permitted for single premium, life of loan, non-cancelable coverage.

9.2.2 Approved Mortgage Insurers (3/16/17)¹⁹⁰

MI must be provided by one of the approved mortgage insurers listed in Exhibit V who has been approved by the MPF Provider. However, each MPF Bank may make its own determination as to which mortgage insurers it will accept. The PFI should contact its MPF Bank to verify which insurers are approved for their district. If the PFI delivers a Mortgage Loan that is not insured by an approved mortgage insurance company, the Mortgage Loan may be subject to repurchase.

When the MPF Program removes a mortgage insurer from its approved list, the applicable insurance policy does not need to be replaced, provided that the amount and scope of coverage does not change, the insurer remains licensed in all pertinent jurisdictions, and the insurer meets the requirements for mortgage insurers in those jurisdictions. Coverage must run to the MPF Bank and nothing must have been done or not done that would impair the rights of the MPF Bank with respect to such coverage.

9.2.3 Mortgage Insurance Coverage (5/31/2019)¹⁹¹

The following table indicates the minimum required MI coverage:

¹⁹⁰ MPF Announcement 2017-12 (3/16/17)
MPF Announcement 2016-30 (12/22/16)
PFI Notice 2016-12 (9/1/16)

¹⁹¹ MPF Announcement 2019-31
MPF Announcement 2016-30 (12/22/16)

Standard Mortgage Insurance Coverage 1-4 Unit Primary Residences and 1 Unit Second Homes		
LTV	> 20 Year Term	≤ 20 Year Term
>97% to ≤100%*	35% Coverage	35% Coverage
>95% to ≤97%*	30% Coverage	30% Coverage
>90% to ≤ 95%	30% Coverage	25% Coverage
>85% to ≤ 90%	25% Coverage	12% Coverage
>80% to ≤ 85%	12% Coverage	6% Coverage

*Applicable to AHP loans only.

Standard Mortgage Insurance Coverage - Manufactured Homes		
LTV	> 20 Year Term	≤ 20 Year Term
>90% to ≤95%	Not Eligible	30% Coverage
>85% to ≤90%	30% Coverage	25% Coverage
>80% to ≤85%	17% Coverage	12% Coverage

9.2.4 Special Mortgage Insurance Requirements (6/13/23)¹⁹²

Mortgage Loans underwritten with an AUS must meet the mortgage insurance requirements of the applicable AUS, however, mortgage loans originated with reduced mortgage insurance coverage are not eligible for delivery. The "custom" mortgage insurance coverage option from Loan Product Advisor and "lower-cost" mortgage insurance coverage option from DU are not eligible.

For AHP loans with LTVs from 95.01% to 97%, a minimum of thirty percent (30%) mortgage insurance coverage is required. For AHP loans with LTVs from 97.01% to 100%, a minimum of thirty-five percent (35%) mortgage insurance coverage is required.

9.3 Title Insurance

Each Mortgage Loan must have a paid-up mortgage title insurance policy or an attorney's title opinion or certificate prior to delivery under the MPF Program. This section addresses the requirements for the policy or attorney's title opinion and any permitted exceptions. For Government Loans, title insurance must comply with applicable Government Agency requirements.

9.3.1 General Title Insurance Requirements (1/18/24)¹⁹³

¹⁹² MPF Announcement 2023-39 (6/13/23)
PFI Notice 2016-12 (9/1/16)

¹⁹³ MPF Announcement 2024-06 (1/18/24)
MPF Announcement 2017-12 (3/16/17)

The title insurance must list any additional liens on the Mortgaged Property and indicate that they are subordinate to the lien of the Mortgage. The title insurance must be enforceable and protect the MPF Bank's rights.

The title insurance coverage must run to the named Mortgagee or the mortgagee of record, , and its successors and/or assigns, as their interests may appear. The title insurance must protect the Mortgagee up to at least the original Principal Balance of the Mortgage Loan.

The effective date of the policy must be as of or later than the date of recording the Security Instrument. If the Security Instrument must be rerecorded, for any reason, an endorsement must be obtained showing the rerecording information, with the first lien position maintained.

Unless the final title policy is issued at settlement, the title insurance binder or commitment must be retained in the Mortgage Loan File until the final title policy is issued. Once the final title policy is issued, it must be retained in the Mortgage Loan File. The preliminary binder and the final title policy must be issued by the same company.

9.3.2 Title Insurer Rating

The title insurer must be legally authorized to write title insurance in the jurisdiction of the Mortgaged Property and must have an acceptable rating from at least one of the independent rating agencies listed below. A title insurer's rating may be obtained from the insurer or directly from one of the rating agencies, but the rating must be independently verified with the applicable rating agency every six (6) months. Acceptable ratings include the following:

- A "Financial Stability Rating" of "S" or better or a "Statutory Accounting Rating" of "C" or better by Demotech, Inc.;
- A "BBB" or better rating from Duff and Phelps Credit Rating Company;
- A "C" or better rating from LACE Financial Corporation;
- A "Baa" or better rating from Moody's Investor Services; and
- A "BBB" or better rating from S&P Global Ratings.

The MPF Provider reserves the right to refuse to accept title insurance policies from any insurer by giving the PFI advance notice of the intent to do so. The PFI should contact the MPF Provider in circumstances which would justify alternative requirements.

9.3.3 ALTA Policy Form (11/30/23)¹⁹⁴

The title insurance should be written on one of the following forms with all required endorsements.

For mortgage loans with Note dates prior to January 1, 2024:

¹⁹⁴ MPF Announcement 2023-89 (11/30/23)

- The 2006 American Land Title Association (ALTA) Loan Policy form or the 2021 Alta Loan Policy. In states where the 2006 Loan Policy is not available for use, the 1992 American Land Title Association (ALTA) Loan Policy form is acceptable;
- The October 21, 2000 ALTA Short Form Residential Loan Policy form or most current form of such policy issued thereafter; or
- A form policy which provides coverage that is at least as broad as that provided by the 2006 ALTA Loan Policy Form.

For mortgage loans with Note dates on or after January 1, 2024:

- the 2021 American Land Title Association (ALTA) Loan Policy;
- an ALTA short form if it provides coverage equivalent to the 2021 ALTA Loan Policy and does not materially impair protection to MPF Program;
- in states in which standard ALTA forms of coverage are, by law or regulation, not used, the state-promulgated standard or short form which provides same coverage as the equivalent ALTA form, provided that those forms do not materially impair protection to MPF Program.

The Environmental Protection Lien Endorsement (ALTA Form 8.1) or equivalent coverage must be included with every title insurance policy and may make an exception only for specific state statutes that provide for possible subsequent "superliens" that could take priority over the Mortgage Loan.

9.3.4 Title Endorsements (12/22/16)¹⁹⁵

The following special endorsement(s), or the equivalent, must be attached to the ALTA policy form, when applicable

- ALTA Endorsement Form 7.1-06 (manufactured home) if available, otherwise Form 7-06, or for policies other than 2006 ALTA Loan Policy, Form 7.1 if available, otherwise Form 7;
- ALTA Endorsement Form 9.3-06 (Restrictions, Encroachments, Minerals) if available, otherwise Form 9-06, or for policies other than 2006 ALTA Loan Policy, Form 9.3 if available, otherwise Form 9;
- ALTA Endorsement Form 13.1-06 (leasehold estate) or for policies other than 2006 ALTA Loan Policy, Form 13.1;
- An ALTA Form 4-06 endorsement (condominium unit), or for policies other than the 2006 ALTA Loan Policy, Form 4; and
- An ALTA Form 5-06 endorsement (PUD), or for policies other than the 2006 ALTA Loan Policy, Form 5.

¹⁹⁵ MPF Announcement 2016-30 (12/22/16)

9.3.5 Master Title Insurance Policy

Evidence of title insurance under a master title insurance policy is acceptable, provided that that master policy complies with all MPF Program title insurance guidelines and the following additional requirements:

- The scope of coverage given by the master policy must be equal to or greater than that provided by the ALTA policy form and all other MPF Program title requirements must be met;
- The PFI must obtain from the title insurer a fully executed master title insurance policy issued in the PFI's name as the insured and must provide a copy of the policy to its MPF Bank. The PFI agrees to assign its rights in this policy for the Mortgages Loan sold to the MPF Bank;
- The master policy must be approved by the applicable state or local authority where such approval is required; and
- The insurer will replace the title insurance certificate with a full individual ALTA form or similar policy upon ten (10) days' notice from the MPF Provider.

The MPF Provider reserves the right to refuse to accept the master title insurance policy of any title insurer.

9.4 Survey Standards

A current and accurate survey of the Mortgaged Property must be obtained. Upon request, the Originator must submit the survey to the title insurer or the attorney rendering a title opinion.

The survey provided must conform to the standards of the title insurance company or attorney and any Applicable Standards.

If the title insurance policy takes exception to survey matters other than those permitted in this chapter, the Originator must provide whatever information is required by the insurer to either remove the exception or must obtain an endorsement providing the insurance required. If it is not customary in a particular area to supply either the survey or an endorsement, the title policy must not have a survey exception.

If the Title Company will not issue a policy without coverage over a survey exception, the Mortgage Loan is not eligible for delivery under the MPF Program.

9.5 Opinion of Title (3/16/17)¹⁹⁶

An attorney's opinion of title is acceptable in place of a title insurance policy, provided that all of the following conditions are met:

¹⁹⁶ MPF Announcement 2017-12 (3/16/17)
MPF Announcement 2016-30 (12/22/16)

- The opinion must be addressed to the Originator and all successors in interest;
- The attorney must be licensed to practice law in the same jurisdiction as the Mortgaged Property;
- The attorney must be insured against malpractice in rendering opinions of title in an amount commonly prevailing in the jurisdiction, taking into account the volume of opinions rendered by the attorney;
- An attorney's opinion of title, including any supplemental provisions and exceptions, is commonly accepted in place of a title insurance policy by private institutional mortgage lenders in the jurisdiction where the Mortgaged Property is located. If the attorney's opinion of title is commonly accepted in the Mortgaged Property's jurisdiction but does not meet the requirements of the Guides, the PFI is responsible for any losses arising from title or related matters that would have been covered if the attorney's opinion was compliant with the Guides.
- The Mortgage Loan must not be secured by a unit in a condominium or PUD, a dwelling on a leasehold estate, a manufactured home, properties subject to deed restrictions or restrictive agreements, or a Mortgage Loan executed using a Power of Attorney; and
- The opinion below must be included in lieu of a Environmental Protection Lien Endorsement (ALTA Form 8.1) with an exception for possible subsequent superliens that could take priority over the Mortgage only if the Mortgaged Property is located in a state whose Applicable Laws provide for such a superlien:

"There is (i) no environmental protection lien recorded in those records established under state statutes for the purpose of imparting constructive notice of matters relating to real property to purchasers for value and without knowledge, or filed in the records of the clerk of the United States district court for the district in which the land is located, nor (ii) are there any environmental protection liens provided for by any state statute in effect on the date of this opinion, which could achieve priority over the Mortgage except those listed below (any state statute that allows a lien for environmental protection that can attain priority over the lien of the insured Mortgage should be listed; if none, state 'none')."

The opinion must provide the exact statement, as follows: "We [I] agree to indemnify you and your successors in interest in the [Mortgage] [deed of trust] opined hereto, to the full extent of any loss attributable to a breach of our [my] duty to exercise reasonable care and skill in the examination of the title and the giving of this opinion."

The opinion must be retained in the Mortgage Loan File and must not be subject to any title exceptions other than those permitted under MPF Program Requirements. The opinion must not take exception to survey matters. The Originator must provide the necessary information as required by the attorney to remove the exception.

Mortgage Loans with a survey title exception are not eligible for delivery.

9.6 Acceptable Title Exceptions (12/22/16)¹⁹⁷

Exceptions to the title insurance policy or the attorney's opinion of title are acceptable so long as they do not substantially affect the marketability or use of the Mortgaged Property (including the areas outside the easement that are not occupied by improvements) and do not impair the exercise of rights of repair and maintenance. Examples of acceptable exceptions are:

- Easements for subsurface residential distribution including, but not limited to, lines and/or cables for gas, water, electric, telephone, and television;
- Easements for surface public utilities for local residential distribution so long as the location of the easements is fixed, ascertainable and the easement is accessible for repair;
- Encroachments on easements such as a garage, tool or garden shed, or some other structure which is not attached to the dwelling structure. Such encroachments require a title insurance policy endorsement insuring against loss suffered from a court order or decree requiring the removal of the encroachment;
- Mutual easement agreements of record that establish a joint driveway or a party wall are acceptable. The agreement must allow all present and future owners and their heirs, successors and assigns unlimited use and enjoyment of the driveway or party wall without any restriction by reason of the mutual easement owners' rights in common and duties for joint maintenance;
- Fence encroachments on either side of the property line. The definition of fence does not include retaining walls or other permanent structures;
- Rights of tenants in possession, as tenants only, under prior unrecorded leases;
- Improvements on adjoining property which encroach upon the Mortgaged Property are acceptable provided that the encroachment does not touch any improvements of the Mortgaged Property or impair the usage of the Mortgaged Property;
- Liens for real estate or ad valorem taxes and assessments are acceptable which specifically state that such liens are not yet due and payable;
- Rights of tenants in possession, as tenants only, under prior unrecorded leases; and
- Oil, gas, water or mineral rights that are commonly accepted by private institutional mortgage investors in the area where the Mortgaged Property is located, provided that the exercise of such rights will not damage the Mortgaged Property. The rights must meet one of the following conditions (which must be documented in the Mortgage Loan File):
 - There is no right of surface or subsurface entry within two-hundred (200) feet of the residential structure;

¹⁹⁷ MPF Announcement 2016-30 (12/22/16)

- There is a comprehensive endorsement to the title insurance policy that insures the MPF Bank against damage or loss due to the exercise of such rights;
- The Mortgage Property is insured by a homeowners insurance policy that also insures the MPF Bank against damage or loss due to the exercise of such rights; or
- The PFI represents and warrants that it will either repurchase the Mortgage from the MPF Bank or indemnify the MPF Bank for any loss incurred by the MPF Bank that can be attributed to the exercise such rights if a comprehensive endorsement to the title insurance or homeowners insurance policy that affirmatively insures the MPF Bank against damage or loss due to the exercise of such rights is not available, but Applicable Laws where the Mortgaged Property is located provide for the payment of Miscellaneous Proceeds as defined in the Uniform Security Instrument. The decision to require either a repurchase of the Mortgage or an indemnification is solely that of the MPF Bank.

The following conditions must be met to permit exceptions for restrictive agreements or covenants of record related to cost, use, setback, minimum size and building materials, and architectural, aesthetic or similar matters (other than single-family-use restrictions on 2-4 unit properties):

- The restrictive agreements or covenants do not create or provide for any lien that would take precedence over the MPF Bank's Mortgage or provide for the elimination of the MPF Bank's Mortgage lien;
- The terms and provisions of the restrictive agreements or covenants are commonly acceptable to private institutional mortgage investors in the area where the Mortgaged Property is located; and
- An endorsement to the title insurance policy affirmatively insures that no violation of any such restrictive agreement or covenant exists and that any future violation shall not result in forfeiture or reversion of title.

The priority of the MPF Bank's lien on the Mortgaged Property shall remain in effect for any sum repaid and subsequently re-advanced under the terms of the Mortgage Loan.

9.6.1 Unexpired Redemption Periods

Many states give homeowners who have lost their homes due to foreclosure a "redemption period" that allows them to regain title if they meet financial obligations and other requirements within a certain period.

Title exceptions related to unexpired redemption periods are not permitted, unless all of the following requirements are met:

- The mortgagee title insurance policy contains a specific exception for the unexpired right of redemption and insures the mortgagee against all loss arising out of the exercise of any outstanding right of redemption;

- If any party exercises a right to redeem the Mortgaged Property, the Mortgage Loan must be paid off directly using the redemption proceeds with no requirement for any further action or claim for repayment;
- The MPF Bank must not incur any loss due to the exercise by any party of a right to redeem the Mortgaged Property; and
- The Mortgaged Property must be located in a state where it is “common and customary” to sell a 1-4 unit property during a redemption period.

It is highly recommended that the Originator provide a written disclosure to the Borrowers prior to Closing if the Mortgaged Property is subject to a redemption period.

9.7 Additional Title Insurance Requirements for Condominiums and PUDs

In addition to all other MPF Program title insurance guidelines, condominiums and PUDs must meet the additional requirements in this section.

Title Insurance Information

The title insurance policy must include the following information:

- The name of the project;
- The unit itself, as shown on a survey;
- The undivided interest in the common elements in a condominium project;
- The nonexclusive easement to use the common areas and facilities; and
- Any significant, limited, common elements or exclusive easements over the common areas.

If the unit owners hold title to the common areas of the development as tenants in common, the policy must reflect that ownership. The policy may describe limited common elements or exclusive easements specifically or by reference to the association documents.

Title Insurance Coverage

The title insurance policy must insure the following:

- The Mortgage is superior to any lien for unpaid common expense assessments. In jurisdictions that give these assessments a limited priority over a first or second Mortgage lien, the policy must provide assurance that those assessments have been paid through the effective date of the policy;

- Against any impairment or loss of title on the Mortgaged Property caused by any past, present, or future violations of any covenants, conditions, or restrictions of the master deed for the condominium project or PUD. It must specifically insure against any loss that results from a violation that existed as of the date of the policy;
- The Mortgage Loan is secured by a unit in a condominium project that has been created in compliance with the applicable enabling statutes;
- The owner of a PUD unit is a member of the homeowners association and that the membership is transferable;
- Assessments and liens for real estate taxes are only against an individual condominium unit and its undivided interest in the common elements, rather than against the project as a whole;
- The unit does not encroach on another unit or on any of the common elements, areas, or facilities. The policy must also insure that there is no encroachment on the unit by another unit or by any of the common elements, areas, or facilities.

If the HOA owns common elements, areas, or facilities separately (or holds them in a leasehold estate), a title policy is required for those areas. The title must be free and clear of any liens and encumbrances.

9.8 Property Insurance

Conventional Mortgage Loans must be covered by property insurance that complies with the requirements in this chapter. Government Mortgage Loans must comply with the property insurance requirements of the applicable Government Agency.

9.8.1 Insurer Requirements

All insurers (and reinsurers, if applicable) must be licensed or authorized to do business in the jurisdiction where the Mortgaged Property is located and must meet one of the following requirements:

1. The insurer meets any of the following ratings:
 - A.M. Best
 - Financial Performance Index of 6 or higher per Insurance Reports—Property/Casualty or Key Rating Guide—Property/Casualty;
 - Rating of B/III or higher per Insurance Reports—Property/Casualty or Key Rating Guide—
 - Property/Casualty; or
 - Rating of A/VIII or higher per Insurance Reports—International
 - Demotech, Inc.

- Rating of a minimum of "A" per First Rate/P&C Financial Stability Ratings
 - S&P Global Ratings
 - Rating of BBBq per Insurer Solvency Review—Property/Casualty Edition;
 - Rating of BBB or higher per Insurer Solvency Review —Property/Casualty Edition; or
 - Rating of AAisi or higher per International Confidential Rating Service or International Solvency Report Service
2. An insurer whose coverage is guaranteed by another company (“reinsurer”) that meets all of the following requirements:
- The reinsurer has a minimum rating of:
 - A. M. Best — B/III or (for non-U.S. insurers) A/VIII, or
 - Standard & Poor's Global Ratings— BBB or AAisi
 - Both the insurer and the reinsurer execute an assumption of liability endorsement or equivalent endorsement that provides for:
 - One hundred percent (100%) reinsurance of the primary insurer's liability for any covered loss payable but unpaid by the insurer for reasons of insolvency;
 - The reinsurer to give ninety (90) days written notice to the policyholder and the Originator before canceling or terminating the guarantee; and
 - The above endorsements are attached to each property insurance policy accepted by the Originator on account of the endorsements.
3. The insurer is Lloyd’s of London
4. Insurance underwritten by any of the following is acceptable, provided it is the only insurance coverage available for the Mortgaged Property:
- A state’s Fair Access to Insurance Requirements (FAIR) plan; or
 - State insurance plans covering specific geographic areas.
5. A non-admitted insurance company whose current rating is at least one of the following:
- A. M. Best – A
 - Standard & Poor’s Global Ratings– AA-
6. A carrier whose coverage is guaranteed under the National Flood Insurance Program (NFIP).

9.8.2 Property Insurance Coverage Requirements (12/22/16)¹⁹⁸

¹⁹⁸ MPF Announcement 2016-30 (12/22/16)

An All Risk Coverage property insurance policy is required for any properties maintaining an individually held insurance policy. If any hazards normally covered under the All Risk Coverage policy are limited or excluded, then a supplemental insurance policy for the limited/excluded hazard is required. Property insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, or any other perils that are normally included under an extended coverage endorsement are not acceptable. The MPF Program may require insurance covering losses from other hazards or risks as required.

The property insurance policy must meet the minimum amount required, which is the lower of:

- One hundred percent (100%) of the replacement cost of the insurable improvements; or
- The unpaid Principal Balance of the Mortgage Loan, provided that it is at least equal to 80% of the insurable value of the improvements or is the minimum amount required to compensate for damage or loss on a replacement cost basis.

Insurance contracts must state that no assessments may be assessed against the PFI or the MPF Bank, and that any assessment made against others may not become a superior lien on the Mortgaged Property.

9.8.3 Deductibles (12/22/16)¹⁹⁹

The maximum permitted deductible is five percent (5%) of the face amount of the insurance policy. This limit applies to each separate peril policy maintained and applies to any HO-6 policy. The deductible clause may apply to either fire, extended coverage or both.

This limit also applies to each blanket or master policy maintained by a PUD or condominium HOA and applies to each supplemental policy maintained. The HOA must have funds in its reserves specifically designated for the deductible.

9.8.4 Additional Insurance Requirements for Condos and PUDs (7/27/23)²⁰⁰

The HOA for all condominium and PUD projects must maintain a blanket or master policy that provides for All Risk Coverage to protect the buildings, general and limited common elements, fixtures, machinery, equipment and supplies used for the service of the project, and common personal property owned by the HOA. Blanket All Risk Coverage for all units in the PUD is acceptable if called for in the PUD's legal documents. Blanket coverage for all units in a condo or PUD project must include coverage for fixtures, improvements, alterations, and equipment within the units. Self-insurance or an insurance policy covering unaffiliated condominium associations or projects is not permitted.

¹⁹⁹ MPF Announcement 2016-30 (12/22/16)

²⁰⁰ MPF Announcement 2023-55 (7/27/23)

MPF Announcement 2016-30 (12/22/16)

If the PUD project's blanket or master policy does not provide coverage for each unit, then the Borrower must maintain an individual property insurance policy.

If the condominium blanket or master policy does not cover the individual condominium units (including interior improvements), then the Borrower must maintain an HO-6 policy. Coverage must be an amount, as determined by the insurer, sufficient to repair the condo unit to its condition prior to the loss event.

The blanket or master policy maintained by the condo or PUD HOA must provide coverage at least equal to one hundred percent (100%) of the insurable value of the project improvements, including all individual units.

The HOA must be the named insured on the blanket or master policy. An exception is made for condominium projects where the legal documents allow the policy to designate an authorized representative of the HOA, including the insurance trustee, as the named insured.

The blanket or master policy must require that the insurer provide written notice to the HOA and each Mortgagee at least ten (10) days prior to cancelling or reducing the insurance coverage.

The HOA must also obtain any additional coverage commonly required by private mortgage investors for developments with similar construction, location, and use.

The following special endorsements also are required for the condominium project:

- Agreed amount;
- Cost of demolition;
- An Inflation Guard Endorsement, when it can be obtained;
- Building Ordinance or Law Endorsement;
- Steam Boiler and Machinery Coverage Endorsement, if the project has central heating or cooling. (This endorsement should provide for the insurer's minimum liability per accident to at least equal the lesser of two million dollars (\$2,000,000) or the insurable value of the building(s) housing the boiler or machinery.); and
- Special Condominium Endorsement, which must provide that any Insurance Trust Agreement will be recognized; the right of subrogation against unit owners will be waived; the insurance will not be prejudiced by any acts or omissions of individual unit owners that are not under the control of the owners' association; and the policy will be primary, even if a unit owner has other insurance that covers the same loss.

9.8.5 Mortgagee Clause for Property and Flood Insurance (12/22/16)²⁰¹

All insurance policies obtained must include the insurance industry's standard mortgagee clause and must name the Servicer as the Mortgagee. The Servicer's name should be followed by the phrase "its successors and assigns." This requirement does not apply to condominium and PUD master or blanket policies. The Mortgagee clause must provide that the insurer will notify the named Mortgagee at least ten (10) days prior to any reduction in coverage or cancellation of the policy.

The Named Insured clause for the condominium HOA's policy must contain language that is similar to the following:

"Association of Owners of the... Condominium for the use and benefit of the individual owners (designated by name, if required by law or the legal documents)."

In deed-of-trust jurisdictions, the Mortgagee should be designated as "(Name of Servicer), its successors and assigns, beneficiary."

When a mortgagee clause is not appropriate (e.g., in a separate comprehensive general liability policy), a certificate of insurance must be provided to the PFI. This certificate must contain the information required for certificates or other evidence of insurance as required with the PFI named as certificate holder.

9.8.6 Evidence of Insurance

Evidence of all required property insurance coverage must be maintained in the Mortgage Loan File. Evidence of insurance coverage must be in one of the following forms:

- The original policy and applicable endorsements, including the PUD or condominium HOA's master or blanket policy; or
- A certificate of insurance or evidence or declarations of insurance that meets the following requirements:
 - Named insured and Mortgagee (for PUD or condominium units, the named insured association, unit owner and unit owner Mortgagee);
 - Address of the Mortgaged Property;
 - Type of coverage;
 - Amount of coverage;
 - Effective dates of coverage;
 - Deductible amount and coverage to which each deductible applies;
 - Any endorsement or optional coverage obtained and made part of the original policy;

²⁰¹ MPF Announcement 2016-30 (12/22/16)

- Insurer's agreement to provide written notice to the Mortgagee and Borrower (or applicable unit owner Mortgagee if for a PUD or condominium unit) at least ten (10) days prior to any reduction in coverage or cancellation of the policy; and
- Signature of an authorized representative of the insurer, if required by Applicable Law.

Data Files

In lieu of an original policy, the insurer may provide a data file. These data files are acceptable, provided they meet the following requirements:

- The data file contains sufficient information about the insurance policy, the property, and the Borrower to allow the Servicer to monitor and maintain property insurance in accordance with MPF Program Requirements;
- The Originator's errors and omissions insurance policy must provide coverage for electronic data transfers and provide full protection for the Originator and the MPF Bank against losses incurred as the result of erroneous data files or transfers;
- The insurance carrier must provide the Originator written confirmation that the data file is equivalent to a printed policy;
- The Servicer must have adequate procedures in place to mitigate risk exposure associated with not having an original hard copy of the policy. These procedures may include requiring the insurer to certify to the accuracy of the information; and
- The Servicer must be able to produce legible hard copies of the actual insurance policies and proof of premium payments if requested by the MPF Bank or the MPF Provider.

9.8.7 Insurance Premiums (12/22/16)²⁰²

The initial property insurance premium for any policy the Borrower maintains must be paid in full by the Borrower at or prior to Closing. Any subsequent premiums must be paid when due by the Borrower or by the Servicer if the premium is escrowed.

9.9 Flood Insurance (12/22/16)²⁰³

Flood insurance is required for the Mortgaged Property if a residential structure or any of the improvements are located in a Special Flood Hazard Area (SFHA) as determined by FEMA, or the Coastal Barrier Resources System or Otherwise Protected Area. The flood insurance policy may be issued by the National Flood Insurance Program (NFIP) or a private insurer.

²⁰² MPF Announcement 2016-30 (12/22/16)

²⁰³ MPF Announcement 2016-30 (12/22/16)

As required under Applicable Laws, premiums for flood insurance must be escrowed as part of the mortgage transaction. Borrowers may not elect to maintain and pay flood insurance premiums independent of the mortgage payment.

If flood insurance is required for the Mortgaged Property but the community does not participate in the NFIP, then the loan is ineligible.

Flood insurance is not required in the following circumstances:

- Non-residential detached structures on the Mortgaged Property are in the SFHA but the residential structure and improvements are not in the SFHA;
- The Borrower provides a Letter of Map Amendment (LOMA) from FEMA excluding the residential structure and improvements from the SFHA; or
- The Borrower provides a Letter of Map Revision (LOMR) from FEMA removing the community from the SFHA.

The use of the Standard Flood Hazard Determination form endorsed by FEMA is required when determining whether a Mortgaged Property is located within an SFHA.

9.9.1 Coverage Requirements for One- to Four-Unit Properties (7/12/19)²⁰⁴

Flood insurance policies issued by a National Flood Insurance Program must be at least equal to the lowest of:

- 100% of the replacement cost of the insurable improvements;
- The maximum insurance available under the National Flood Insurance Program; or
- The unpaid Principal Balance of the Mortgage Loan.

Flood insurance policies issued by a private insurer must meet the following requirements:

- The terms and amount of coverage must be at least equal to that provided under an NFIP policy based on a review of the full policy issued by a private insurer; and
- The policy must be issued by a private insurer that meets the insurer rating requirements as detailed in [Section 9.8.1](#) of this guide.

The minimum coverage requirements for one- to four-unit properties also apply to individual PUDs and detached condominium units.

²⁰⁴ MPF Announcement 2019-36 (7/12/19)
MPF Announcement 2017-03 (1/30/17)
MPF Announcement 2016-30 (12/22/16)

Refer to the National Flood Insurance Program for current limits. The deductible for coverage on a single family property must not exceed the maximum deductible amount permitted under the NFIP.

9.9.2 Deductibles (12/22/16)²⁰⁵

The deductible for master condo flood insurance or individual flood insurance policies must comply with NFIP requirements, unless Applicable Law mandates a higher maximum deductible. The maximum deductible applies to NFIP and private insurance policies. The HOA must have funds in its reserves specifically designated for the deductible.

9.9.3 Additional Flood Insurance Requirements for Condos (12/22/16)²⁰⁶

Flood insurance requirements for townhomes, row houses, and site condominiums are the same as for one- to four-unit residences.

The HOA must maintain flood insurance coverage for detached common elements and property equal to 100% of their insurable value.

Units in a high-rise or vertical condominium must have a master flood insurance policy in place that is maintained by the HOA. Individual flood insurance dwelling policies are not required for high-rise or vertical condominiums. The HOA's flood insurance policy must provide coverage for the individual units in the building, as well as the common elements, building machinery, and equipment. A separate HOA endorsement is required if not part of the policy.

The master flood insurance policy must meet the following requirements:

- Building coverage must equal at least 100% of the insurable value of the common elements and property, including any machinery and equipment that are part of the building; or
- Contents coverage must equal at least 100% of the insurable value of all contents, including machinery and equipment that are not part of the building but are owned in common by the HOA members.

If the minimum coverage requirements for the master policy are met, but the master policy does not meet the minimum coverage requirements for one- to four-unit residences, then the unit owner may obtain a flood insurance policy to cover the difference.

9.9.4 Coastal Barrier Resources System or Otherwise Protected Area

Properties located in the Coastal Barrier Resources System or an Otherwise Protected Area must maintain flood insurance. If the community does not participate in the Coastal Barrier Resources System or Otherwise Protected Area, the Mortgage Loan is only eligible if the Mortgaged Property is

²⁰⁵ MPF Announcement 2016-30 (12/22/16)

²⁰⁶ MPF Announcement 2016-30 (12/22/16)

not located in an SFHA but still maintains flood insurance coverage in accordance with MPF Program Requirements. The flood insurance coverage may be a private policy or an NFIP policy.

9.10 Liability Insurance (12/11/18)²⁰⁷

The HOA for a PUD or condominium project must maintain a comprehensive general liability insurance policy covering the entire project including all common areas, public ways, commercial space that is owned by the HOA, even if they are leased to others, and any other areas that are under the supervision or control of the HOA. The commercial general liability insurance policy should provide coverage for bodily injury and property damage that result from the operation, maintenance, or use of the project's common areas and elements.

The amount of coverage should be at least one million dollars (\$1,000,000) for bodily injury and property damage for any single occurrence. The MPF Program may require more coverage if higher amounts are usually required by mortgage investors for similar projects in that area.

If the policy does not include "severability of interest" in its terms, a specific endorsement is required, precluding the insurer's denial of a unit owner's claim because of negligent acts of the homeowners association or of other unit owners.

The policy should provide for at least ten (10) days' written notice to the HOA before the insurer can cancel or substantially modify it.

9.11 Fidelity Insurance (12/22/16)²⁰⁸

All condominium projects and PUD projects consisting of more than twenty (20) units that contain only attached dwellings must have blanket fidelity insurance coverage for anyone who handles (or is responsible for) funds held or administered by the HOA, whether or not that individual receives compensation for services. The insurance policy should name the HOA as the insured and the premiums should be paid as a common expense by the HOA. The policy for a condominium project must include a provision that calls for ten (10) days' written notice to the HOA before the policy can be canceled or substantially modified for any reason.

A management agent that handles funds for the HOA should be covered by its own fidelity insurance policy, which must provide the same coverage required of the HOA. The management agent must furnish proof of such coverage to the HOA.

The fidelity insurance policy should cover the maximum funds that will be in the custody of the HOA or its management agent at any time while the policy is in force. Where the condominium or PUD project's legal documents require that it or its management agent adhere to at least one of the following financial controls,

²⁰⁷ MPF Announcement 2016-30 (12/22/16)
MPF Announcement 2018-60 (12/11/18)

²⁰⁸ MPF Announcement 2016-30 (12/22/16)

the minimum amount of fidelity insurance coverage only needs to be equal to the sum of three (3) months of assessments on all units in the project:

- Separate depository accounts are maintained by the HOA or management agent for the association's working account and the reserve account(s), each with appropriate access controls, and the HOA receives copies of the monthly account statements directly from the institution where the accounts are maintained;
- The management agent maintains separate records and depository accounts for each HOA using its services, and does not have authority to draw checks on, or to transfer funds from, the reserve account(s) of the owners' association; or
- Two or more members of the Board of Directors are required to sign any checks written on the reserve account(s).

In a state that has statutory fidelity insurance requirements, the MPF Program will accept the state's requirements in place of the MPF Program's.

CHAPTER 10. MORTGAGE LOAN DOCUMENT EXECUTION AND RETENTION

10.1 Mortgage Loan File Contents (3/16/17)²⁰⁹

The Mortgage Loan File must be maintained in accordance MPF Program Requirements. All documents that demonstrate compliance with all Applicable Standards and MPF Program Requirements must be included in the Mortgage Loan File. All documents in the Mortgage Loan File must be legible.

10.1.1 Closing Documents (8/29/23)²¹⁰

The following Closing documents must be retained in the Mortgage Loan File:

- A copy of the front and back of the Note showing all endorsements, any applicable addenda and allonges, and any related modification or Assumption/Release of Liability instrument;
- POA (if applicable) attached to the copy of the Note;
- The original Security Instrument, complete with recording notation and any applicable riders and addenda. In jurisdictions where Applicable Law or common practice requires the presentation of the original Security Instrument to obtain a release, a certified copy of the original Security Instrument complete with recording notation must be retained in the file;
- A copy of all Assignments of the Security Instrument with any applicable riders and any documents that modify the mortgage terms;
- The final, fully executed Settlement Statement detailing all costs to the home buyer and seller;
- Closing instructions;
- All disclosures required under Applicable Law;
- Supplement Consumer Information Form (SCIF) (Fannie Mae/Freddie Mac Form 1103); (NOTE: PFIs must be able to provide the form and any data elements collected to the MPF Bank or MPF Provider if requested. For MPF Government mortgage loans, PFIs must ensure they comply with any additional applicable Government Agency requirements.)
- The following insurance documentation is required:
 - The original mortgage insurance certificate or proof of insurance from the MI company (if applicable);

²⁰⁹ MPF Announcement 2017-12 (3/16/17)

²¹⁰ MPF Announcement 2023-66 (8/29/23)
MPF Announcement 2017-63 (10/31/17)
MPF Announcement 2017-12 (3/16/17)
MPF Announcement 2017-03 (1/30/17)

- Title policy;
- Plat of survey or title insurance that provides coverage over "matters of survey";
- Current, endorsed property insurance policy, or suitable evidence of insurance, obtained at Closing;
- Flood zone determination;
- Flood insurance policy (if required); and
- All flood insurance documents necessary to comply with Applicable Standards.

Until the final evidence of flood insurance is available and placed in the Mortgage Loan File, one of the following documents must be retained in the Mortgage Loan File:

- Completed and executed NFIP flood insurance agent's receipt marked "paid";
- Completed and executed NFIP flood insurance application with the final Settlement Statement indicating the flood insurance premium collected at Closing;
- Completed and executed NFIP General Change Endorsement Form showing the assignment of the current flood insurance policy from the property seller to the Borrower; or
- An NFIP Certification of Proof of Purchase of Flood Insurance, executed by the insurance agent.

If the flood insurer is not the NFIP, the insurer's equivalent of the applicable NFIP form is acceptable.

10.1.2 Underwriting Documents (5/1/19)²¹¹

The following underwriting documentation must be retained in the Mortgage Loan File:

- The initial and final Uniform Residential Loan Application (most current version of the FNMA Form 1003 / FHLMC Form 65 as shown in Exhibit Y);
- A credit report meeting the requirements of this Selling Guide and which shows valid credit scores. For a Mortgage Loan originated in a jurisdiction that requires a Borrower's consent to obtain the Borrower's credit information (report), this consent must be included in the Mortgage Loan File, and must extend to the Originator's successors and assigns and/or to subsequent investors and Servicers;
- Verification of Employment and Income;
- Verification of all sources of cash or other equity or assets utilized for down payment, prepaid items, closing costs, financing costs, and reserves;

²¹¹ MPF Announcement 2019-26 (5/1/19)
MPF Announcement 2018-1 (1/4/18)
MPF Announcement 2017-12 (3/16/17)
MPF Announcement 2016-30 (12/22/16)

- An intelligible payment history for the Mortgage Loan is required beginning with the Closing date of the Mortgage Loan;
- Verification of the Borrower's housing payment history;
- A completed Uniform Underwriting and Transmittal Summary (most current version of FNMA Form 1008 / FHLMC Form 1077) is required for manually underwritten Mortgage Loans;
- A written explanation fully supporting the underwriting decision for any special or extenuating circumstances;
- The Uniform Residential Appraisal Report, if an Appraisal was obtained;
- Automated Underwriting System Certificate for loans underwritten with DU or Loan Product Advisor; and
- For Mortgage Loans with subordinate financing, the following documents must be retained in the Mortgage Loan File:
 - o A copy of the subordinate note;
 - o A copy of the subordinate security instrument; and
 - o A copy of the settlement statement or HELOC closing statement, as applicable.

10.1.3 Special Purpose Documents (5/1/19)²¹²

The following special purpose documents must be retained in the Mortgage Loan File, if applicable:

- For New York Consolidation, Extension, and Modification Agreements (CEMA) loans, the original previous Notes and the gap Note listed on Exhibit A of the FNMA/FHLMC Form 3172.
- A legible signed copy of the sales contract, or an equivalent document, is required for purchase transactions.
- The original buydown agreement and evidence of the total amount of Buydown Funds, property interested party contributions, and the calculation of the Principal and Interest Payments are required, if applicable.
- A Satisfactory Completion Certificate (FNMA Form 1004D / FHLMC Form 442), or equivalent, is required to be completed and maintained in the Mortgage Loan File when the Appraisal, if an Appraisal was obtained, is made subject to conditions.

²¹² MPF Announcement 2019-26 (5/1/19)
MPF Announcement 2017-12 (3/16/17)
MPF Announcement 2017-03 (1/30/17)

- The legal opinion, if any, addressed to the Originator and the MPF Bank, unconditionally confirming the legal conclusions in the certification of compliance with the warranties of condominium or PUD projects.
- If the Mortgaged Property is dependent upon assurance of an adequate supply of water from a water or irrigation company that supplies water only to its shareholders, the Mortgage Loan File must contain a stock certificate, duly endorsed to the MPF Bank, entitling the property owner to an adequate supply of water.
- If the Mortgaged Property is secured by existing subordinate financing, the Mortgage Loan File must contain a copy of the executed note, trust deed, and subordination agreement.
- If the Mortgaged Property is secured by new subordinate financing, the Mortgage Loan File must contain a copy of the note executed at closing on the subordinate financing, if available.
- If the Mortgaged Property is on a leasehold estate, the Mortgage Loan File must contain a Ground Lease Analysis (FNMA/FHLMC 461).

10.1.4 Access to Records

Upon request, the PFI must deliver all Mortgage Loan records and documents to the MPF Bank or MPF Provider. Each Mortgage Loan File must be clearly identified. If the records have been microfilmed or otherwise condensed, the PFI must reproduce them at its own expense. The MPF Bank will not execute any trust receipts for documents it requests and will not participate in, or provide compensation for, their delivery.

10.2 Document Execution

This section details the requirements for executing certain Mortgage Loan documents.

10.2.1 Uniform Instruments and Notes (5/19/22)²¹³

PFI must use the most recent version of the applicable Fannie Mae and Freddie Mac Uniform Instruments for all legal documents such as security instruments, notes, riders and addenda in connection with all conventional Mortgage Loans.

For Government Mortgage Loans, forms specified by the applicable Government Agency must be used.

Instruments (1-4 Family) for the jurisdiction where the Mortgaged Properties are located must be used for execution of the Security Instrument, riders, and Note.

The following riders are required, if applicable:

²¹³MPF Announcement 2022-21 (5/19/22)
MPF Announcement 2017-12 (3/16/17)

- Condominium or PUD rider - For units in a condominium or PUD;
- 1-4 Family rider – For two- to four-unit properties; and
- Second home rider – For Mortgage Loans secured by a second home.

No changes are permitted to the FNMA/FHLMC Uniform Instruments or to any Government Agency instruments, except in the following circumstances:

- Use of FNMA/FHLMC Uniform Instrument Riders;
- Modifications permitted by FNMA/FHLMC as authorized changes to Uniform Instruments, as required by the state where the Mortgaged Property is located;
- Modifications permitted by the applicable Government Agency; or
- Modifications where an Illinois Land Trust holds title to the Mortgaged Property.

The Originator may reproduce and use the current FNMA/FHLMC Uniform Instruments on their letterhead, by computer or as supplied by the MPF Provider. However, any such reproductions must remain unchanged and show the identification notation that the instrument is a FNMA/FHLMC Uniform Instrument.

The Originator must not take any action that violates the terms of any covenant in the Mortgage Loan documents. The PFI must enforce its rights under the Uniform Instruments based on instructions or guidance provided by the MPF Bank or MPF Provider.

10.2.1.1.1 Late Charges (12/22/16)²¹⁴

The monthly payment due date, amount of the late charge, and the grace period must be appropriately indicated on the Note.

Monthly payments must be due on the first (1st) calendar day of the month. Unless otherwise stated by Applicable Law, a late charge may be collected if the monthly payment is received after the end of the fifteenth (15th) calendar day of the month. The late charge amount collected may not exceed 5% of the late Principal and Interest payment. If Applicable Law does not allow a late charge as high as 5%, the maximum allowed late charge should be used.

If the Note provides for a shorter grace period or a late charge that exceeds the limits above, the Mortgage Loan is still eligible; however, the Servicer cannot collect a late charge in excess of 5% or collect a late charge on a monthly payment received prior to the end of the 15th calendar day of the month while the MPF Bank or any other investor under the MPF Program holds the Mortgage Loan.

²¹⁴ MPF Announcement 2016-30 (12/22/16)

10.2.1.2 Government Mortgage Loans

For Government Mortgage Loans, forms specified by the applicable Government Agency must be used. No modifications to any Security Instrument or Note is permitted other than as required by the applicable Government Agency or by law.

10.2.2 Master and Short Form Security Instruments

Certain states have statutes that allow originators to record a Master Form Security Instrument in a given county and then to record a Short Form Security Instrument for each subsequent mortgage loan originated and recorded in that county.

The state-specific Fannie Mae/Freddie Mac Uniform Master and Short Form Security Instruments are acceptable, provided that The Mortgaged Property is located in a state that permits the use of the Uniform FNMA/FHLMC Master and Short Form Security Instruments and the most current state specific FNMA/FHLMC Master and Short Form Security Instrument(s) are available for use.

10.2.3 Security Instrument Preparation

The Security Instrument must be properly executed, acknowledged and recorded in all places required to perfect a first lien security interest in the Mortgaged Property in favor of the Mortgagee.

These actions must be completed by the PFI at its own expense and include actions necessary to conform with the local practice and state law, or to fulfill a request from the MPF Bank, MPF Provider or Custodian. The PFI must inform the Custodian of any material changes to these requirements as they occur.

10.2.4 Assignment Preparation (3/16/17)²¹⁵

The Assignment must meet the following requirements:

- The Assignment must not contain any statement to the effect that the Assignment is “without recourse”. Any statement in the Assignment to the effect that the Assignment is made with recourse will in no way affect the PFI's delivery or repurchase obligations under the PFI Agreement;
- Must not be dated prior to the Note;
- Must include the date of the Security Instrument;
- Must include the Mortgaged Property's legal description or the property address; and
- The PFI must ensure the Assignments of the Security Instrument are prepared and completed for each applicable condition as follows:

²¹⁵ MPF Announcement 2017-12 (3/16/17)

- **Recordable But Unrecorded Assignments** - The PFI must prepare and execute an Assignment of the Security Instrument "in blank" in recordable form. The PFI must not record this Assignment;
- **Intervening Assignments** - If the PFI is not the original Mortgagee on the Security Instrument, the chain of Assignments must be complete and recorded from the original Mortgagee to the PFI. If the PFI concurrently or subsequently transfers the Servicing Rights, an Assignment must be completed to the new Servicer, thus keeping the chain complete; and
- **States without Recorded Assignments** - If a state does not accept or require Assignments for recordation, the PFI must provide a copy of an attorney's opinion maintained with the unrecorded Assignment, stating that the law in the state does not permit or require recordation of Assignments of the Security Instrument.

The MPF Provider or the MPF Bank reserves the right to require that the recordable Assignment be recorded at any time.

The PFI agrees to complete and record any Assignment necessary at its own expense to transfer the Security Instrument to the MPF Bank or its assignee, designee or transferee.

10.2.5 Note Preparation (3/16/17)²¹⁶

The Note must be prepared in accordance with the following requirements:

- The Note must be signed by any individual whose income or financial strength is used in the underwriting process;
- The Note Rate must be indicated in one-thousandth percent (.001%) increments. Examples of eligible Note Rates are: 5.000%, 5.001%, 4.999%, or 5.125%

Note Endorsement

The PFI must endorse the Note "in blank" as follows:

PAY TO THE ORDER OF
WITHOUT RECOURSE

(Name of PFI)

(Signature of authorized officer)

(Typed name and title of authorized officer)

²¹⁶ MPF Announcement 2017-12 (3/16/17)

This endorsement "without recourse" will in no way affect the PFI's obligations under the PFI Agreement.

The original payee on the Note may not delegate to an attorney-in-fact its authority to execute a Note endorsement. An authorized signer that is an employee of the original payee must execute the Note endorsement.

If the PFI is not the original payee on the Note, then the chain of endorsements must be proper and complete from the original payee shown on the Note to the PFI.

Use of an Allonge

An allonge to the Note may be used for the endorsement if the following requirements are met:

- If the allonge is dated, the endorsement must be dated on or after the Note date;
- The allonge must be permanently affixed to the Note;
- The allonge must identify the associated Note by referencing:
 - The Note date;
 - Borrower(s) name(s);
 - Note amount;
 - Mortgaged Property Address.
- The form of the allonge, and its use, complies with all Applicable Laws; and
- The use of the allonge does not impair the MPF Bank's or any other investors' rights or status as a "holder in due course".

10.2.6 Power of Attorney (12/13/2021) ²¹⁷

When the Borrower has designated an individual to act as attorney-in-fact by granting a Power of Attorney (POA), the POA must meet the requirements provided for within this Guide, must be legally enforceable, and comply with the laws of the applicable jurisdiction.

If a PFI determines that it is required by law to accept a POA presented by a Borrower, that does not meet the POA requirements in this Guide, the PFI must include a written statement in the mortgage loan file that explains that determination. Such written statement must be provided to the document custodian along with the POA.

²¹⁷ MPF Announcement 2021-88 (12/13/21)
MPF Announcement 2019-31 (5/31/19)

When title to the mortgaged property is held by a trustee under an inter vivos revocable trust, mortgage loan documentation may not be executed using a POA granted by such trustee unless:

- the related trust instrument expressly authorizes the trustee to use a POA to delegate powers to an agent, or
- the agent under the POA is the Borrower creating such inter vivos revocable trust.

A POA may be used for purchase or limited cash-out refinance transactions.

An agent under a POA may sign the Note and/or Security instrument on behalf of a Borrower if all of the following requirements are met:

- The PFI obtains a copy of the POA,
- The name(s) on the POA match the name(s) of the person on the relevant loan document,
- The POA is dated such that it was valid at the time the relevant loan document was executed,
- The POA is notarized, and
- The POA references the address of the subject property.

The following persons connected to the transaction may not serve as the attorney-in-fact or agent under a Power of Attorney unless they are the (a) Borrower's relative (as defined in this Guide), or a person who is a fiancé, fiancée, or domestic partner; or (b) a person listed with an "*" below that meets the conditions of the permitted exceptions provided for in this section:

- the lender;
- any affiliate of the lender;*
- any employee of the lender or any other affiliate of the lender;
- the loan originator;*
- affiliate of the loan originator;*
- any employee of the employer of the loan originator;
- the title insurance company providing the title insurance policy or any affiliate of such title insurance company (including, but not limited to, the title agency closing the loan), or any employee of either such title insurance company or any such affiliate;* or
- any real estate agent with a financial interest in the transaction or any person affiliated with such real estate agent; or
- property seller, or any person related to the property seller including a relative or affiliate.

The persons listed above with “” may have a permitted exception to act as the attorney-in-fact or agent under a Power of Attorney provided all the following additional conditions are met:

- The POA expressly states an intention to secure a mortgage loan not to exceed a stated amount from the PFI on a specific property;
- The POA expressly authorizes the agent to execute the required loan documents on behalf of the Borrower;
- In a recorded, interactive session conducted via the internet, and to the satisfaction of the agent, the Borrower must:
 - confirm their identity;
 - after reviewing the required mortgage loan documents, reaffirm their agreement to the terms and conditions of the Note and Security instrument evidencing the transaction; and
 - reaffirm their agreement to the execution of the loan documents by the agent;
- At the MPF Provider’s or the MPF Bank’s request the PFI must produce a recording and other documentary media memorializing the entirety of the interactive session. Such request may be at any time during the term of the related mortgage loan. The PFI must comply within a commercially reasonable time following such request and without additional expense to the MPF Provider or the MPF Bank; and
- If the agent is an employee of the title insurer or is an employee of the policy-issuing agent of the title insurer, such title insurer must issue a closing protection letter (or similar contractual protection) for the transaction for the policy-issuing agent, unless unavailable under applicable law.

The original POA must be attached to and delivered with the Note, unless in jurisdictions where a POA used for a signature on a Security Instrument must be recorded with the Security Instrument, in which the PFI must ensure it is recorded pursuant to applicable law, and a certified copy of the POA showing the recordation information must be attached to the Note.

If applicable law requires an original POA for enforcement or foreclosure purposes, the original POA must be forwarded to the document custodian.

If there is more than one Borrower, each may execute the Note and/or Security Instrument using a POA that complies with this section.

If either the Note or the Security Instrument and the final Form 1003 will be executed pursuant to a power of attorney in accordance with this Guide, then the initial Form 1003 must be personally signed by all Borrower (except as provided below) and included in the mortgage file.

However, a Power of Attorney may be used to execute both the initial and final Form 1003 in any of the following circumstances:

- a Borrower is on military service with the United States armed forces serving outside the United States or deployed aboard a United States vessel, as long as the power of attorney:
 - expressly states an intention to secure a loan on a specific property, or
 - complies with the requirements under the VA Lender's Handbook relating to powers of attorney for VA-insured mortgage loans, or
- the attorney-in-fact or agent is the spouse or domestic partner of the Borrower;
- the attorney-in-fact or agent signs the Security Instrument in their personal capacity with regard to their individual ownership interest in the mortgaged property; or
- such use is required of the PFI by applicable law.

10.2.7 Facsimile Signatures (3/16/17)²¹⁸

If facsimile signatures are used to endorse the Note, the documentation described below must be provided as evidence that such endorsements are valid in relevant states, are authorized by appropriate corporate action, and are valid and enforceable. The following documentation is required:

- A copy, certified by the PFI's secretary or other authorized officer, of the resolution by the PFI's board of directors: (i) authorizing specific officers to use their facsimile signatures to endorse Notes; (ii) stating that such facsimile signatures by the authorized officer will be a valid and binding act by the PFI; and (iii) authorizing the PFI's secretary or other appropriate officer to certify the validity of the resolution, the names of the officers authorized to endorse Notes using their facsimile signatures and the authenticity of specimen forms of facsimile signatures;
- A notarized "certification of facsimile signature", which includes both the facsimile and the original signatures of the signing officer(s) and each officer's certification that the facsimile is a true and correct copy of his or her original signature; and
- Legal opinions from the PFI's counsel indicating that facsimile signatures are valid for each jurisdiction in which the PFI uses them.

Additionally, the PFI must indemnify and hold the MPF Bank harmless against any claims, losses, judgments, costs and expenses, including reasonable attorneys' fees, arising from the invalidity of its use of facsimile signatures. The PFI must provide a copy of all documentation to the MPF Bank and must retain a copy in its records.

²¹⁸ MPF Announcement 2017-12 (3/16/17)

10.2.8 MERS Registration (3/16/17)²¹⁹

The PFI must comply with the requirements of the Mortgage Electronic Registration System (MERS) Membership Agreement if it is a MERS Member and delivers Mortgages registered in MERS to an MPF Bank.

If any requirement of the MERS Membership Agreement is in conflict with the requirements of the Selling Guide, the PFI must comply with the requirements of the Selling Guide.

If a Mortgage Loan has been registered with MERS, no Assignment from the PFI is required. However, the PFI must immediately register with MERS that the investor for that Mortgage Loan is "Org ID 1000491".

If MERS is the original Mortgagee (a MOM loan), a certified copy of the Security Instrument showing MERS as the original Mortgagee must be delivered to the Custodian.

Use of MERS Rider in Specified Geographic Areas

In the states listed below, use of the MERS Rider (Fannie Mae/Freddie Mac Form 3158) is required when a newly originated Mortgage Loan will be registered with MERS. In addition, the instructions to the MERS Rider must be followed in order to make changes to the standard Security Instruments for the following states:

- Montana;
- Oregon; and
- Washington

As the MERS Rider must be used in these specified states, post-closing assignments into MERS are prohibited. The new rider and instructions are available on the Single-Family Riders & Addenda page at ["https://singlefamily.fanniemae.com/fannie-mae-legal-documents"](https://singlefamily.fanniemae.com/fannie-mae-legal-documents). The instructions are under the "Summary" link for the Form 3158.

10.2.9 Electronic Signatures (10/05/23)²²⁰

Electronic signatures are acceptable provided the document is permitted to be electronically signed by applicable laws and the MPF Program, including the requirements provided in MPF Program Guide Section "7.4 Electronic Signatures in Global and National Commerce Act (E-SIGN)".

²¹⁹ MPF Announcement 2017-12 (3/16/17)

²²⁰ MPF Announcement 2023-79 (10/05/23)

In addition to the above requirements, PFIs must ensure that recording offices (if document is meant to be recorded), and all guarantor, insurer, Investor, or Government Agency (as applicable) permit electronic signatures and their requirements for the use of such electronic signatures are met.

10.2.10 Notarization Standards (10/05/23)²²¹

Certain loan documents and instruments may require notarization under applicable laws to allow for either recognition, enforcement, or recordation of the loan document or instrument. PFIs must ensure the notarization complies with applicable laws, MPF Program requirements, recording offices (if document is meant to be recorded) requirements, and all guarantor, insurer, Investor, or Government Agency (as applicable) requirements.

For the MPF Program requirements refer to MPF Program Guide section – “7.4.2 Notarization Standards”.

²²¹ MPF Announcement 2023-79 (10/05/23)

CHAPTER 11. LOAN PRESENTMENT

11.1 Loan Presentment Overview (12/11/18) ²²²

The Mortgage Loan must be submitted for Loan Presentment prior to delivery. The Loan Presentment Request (Form OG3) must be completed and submitted electronically via the eMPF website or via secure email to MPF-Help@fhlbc.com.

11.1.1 Submission (10/31/17) ²²³

A Loan Presentment Request (Form OG3) received via secure email will be accepted any time and will be processed each Business Day between 8:30 A.M. and 3:30 P.M. Central Standard Time. A Loan Presentment Request received via the eMPF Website will be accepted 7 days per week, including holidays, between 6:00 A.M. and 8:00 P.M. Central Time, except when system maintenance is necessary and the eMPF Website is not available. Note that during non-business hours and on holidays and weekends, MPF Service Center staff will not be available to provide assistance to PFIs who may experience problems with their Loan Presentments. If problems occur, PFIs need to contact the MPF Service Center for assistance the next Business Day.

For each Conventional Mortgage Loan, the MPF Provider evaluates the information on the Loan Presentment Request using the MPF credit enhancement rating system and determines a Loan Level Credit Enhancement amount and percentage. For certain MPF Mortgage Products, only the aggregate Loan Level Credit Enhancement amount plus any applicable Pool Level Credit Enhancement amount are reported to the PFI.

The Loan Presentment data and, if applicable, the Loan Level Credit Enhancement amount, will be confirmed with the PFI electronically or via e-mail. If submission is via secure email, confirmation will be returned via e-mail to the PFI within twenty-four (24) hours of submission or on the next Business Day, whichever is later.

11.1.2 Special Instructions (3/16/17) ²²⁴

In limited instances where a loan originator may be exempt from licensing or registration under the *de minimis* exception of the SAFE Act, and does not have a loan originator identifier through NMLS, the PFI should populate all applicable data fields related to an NMLS license number, including the OG3, with a value of "1000".

For loans with AHP funds that have an LTV greater than ninety-five percent (95%), the PFI must contact the MPF Servicer at 877-345-2673 or at MPF-help@fhlbc.com to submit the loan for Loan Presentment.

²²² MPF Announcement 2018-60 (12/11/18)

²²³ MPF Announcement 2017-63 (10/31/17)

²²⁴ MPF Announcement 2017-12 (3/16/17)

For the purposes of loan eligibility and Loan Presentment, the TLTV must be calculated using the full HELOC limit, even if undrawn.

The following table provides an example of how to calculate the TLTV for Loan Presentment:

1) First Mortgage Amount	2) Full HELOC Limit	3) Outstanding HELOC Amount	4) Mortgaged Property Value	TLTV (1+2) / 4
\$50,000.00	\$40,000.00	\$10,000.00	\$100,000.00	90%

11.1.3 Resubmission

If any of the Loan Presentment data changes after submission, the PFI must re-submit the Loan Presentment data. For a resubmission, only the data that has changed since the last submission should be submitted.

For Conventional Mortgage Loans, the most recent Credit Enhancement is considered the only valid Loan Level Credit Enhancement amount.

For Government Mortgage Loans, the most recent Loan Presentment submission is considered the only valid data.

11.1.4 Inability to Obtain a Usable FICO Score (3/16/17)²²⁵

Credit repositories are unable to provide FICO scores to the Originator when:

- No file is found; or
- There is a match, but there is insufficient credit data to calculate a FICO score (known as a “thin file”).

In the case where only a thin file can be obtained, the loan must be submitted for Loan Presentment, and the PFI must indicate “thin file” in place of a FICO score.

11.1.5 Loan Level Credit Enhancement Expiration

The Loan Level Credit Enhancement amount for a Mortgage Loan expires ninety (90) calendar days after the submission of the Loan Presentment data. However, the Loan Level Credit Enhancement amount expiration is subject to MPF Program credit enhancement rating system limitations such as upgrades, modifications or enhancements to MPF Program methodology and changes in data element requirements.

²²⁵ MPF Announcement 2017-12 (3/16/17)

11.1.6 Use of Credit Enhancement Data

Credit Enhancement information, both on a loan level basis and on a pool level basis, supplied by the MPF Provider on behalf of the MPF Bank is proprietary information. This information is shared with the PFI for the sole purpose of assisting the PFI to evaluate whether to sell the mortgage to, the MPF Bank, and for the PFI to determine the appropriate capital treatment for such mortgage(s), and for no other purpose, including but not limited to valuation for market securitization purposes.

The MPF Bank and MPF Provider, their vendors and licensors and all Affiliates thereof do not and cannot warrant the accuracy, adequacy or completeness of, or performance or results that may be obtained by using the MPF Provider's system and/or any information or data generated with the use of this system. The information and data generated by the MPF Provider's system are provided "as is" without any express or implied warranties, including but not limited to any implied warranties of merchantability or fitness for any particular purpose or use. The MPF Bank and MPF Provider, their vendors and licensors and all Affiliates thereof shall not be liable to any PFI or anyone else for any inaccuracy, delay, interruption in service, error or omission, regardless of cause, or for any resulting damages.

Neither the MPF Bank, MPF Provider, their vendors and licensors and all Affiliates thereof nor anyone else who has been involved in the creation or production of the MPF Provider's system and/or the delivery of the information and data generated by the system or any component of the forgoing shall be liable for any indirect, incidental, special, punitive, consequential or similar damages, such as but not limited to, loss of anticipated profits or benefits resulting from the use of the information and data generated by the MPF Provider's system, even if any of them has been advised as to the possibility of such damages. This limitation of liability shall apply to any claim or cause whatsoever whether such claim or cause arises in contract, tort or otherwise. In the event that liability is nevertheless imposed, the cumulative liability of the MPF Bank and MPF Provider, their vendors and licensors and all Affiliates thereof shall not exceed twenty thousand dollars (\$20,000) in the aggregate.

CHAPTER 12. MASTER COMMITMENTS

12.1 Master Commitment Overview (3/16/17)²²⁶

A Master Commitment is an agreement between the PFI and the MPF Bank which defines the terms under which the MPF Bank will purchase a pool of Mortgage Loans delivered by the PFI. A Master Commitment must be completed and signed by an authorized party of the PFI in accordance with the PFI Agreement, and must be signed as accepted by the MPF Bank.

The signing of a Master Commitment does not require the PFI to originate or sell any mortgages under the agreement, but it does constitute the PFI's best efforts commitment to deliver mortgages to the MPF Bank. The MPF Bank reserves the right to limit the number and/or total dollar amount of Master Commitments.

Each Conventional Mortgage Loan Master Commitment will have an associated First Loss Account (FLA) and a Maximum and/or Actual Credit Enhancement amount. Both the FLA and CE amount may be used to cover Realized Losses from the assigned pool of Mortgage Loans.

12.2 Establishing a Master Commitment (11/24/20)²²⁷

Master Commitments must be established for each distinct Mortgage Loan type and distinct remittance type. No more than 15% of the aggregate principal balance of each Master Commitment may be comprised of manufactured housing.

When establishing a Master Commitment, the PFI and the MPF Bank must determine and/or be aware of the following:

- The estimated number and dollar amount of Mortgage Loans it believes it will deliver to the MPF Bank over the term of the Master Commitment (The estimated dollar amount of Mortgages will be shown as the amount of the Master Commitment);
- The remittance type for the Master Commitment (actual/actual, actual/actual single remittance or scheduled/scheduled);
- The initial term of the Master Commitment
 - Terms for Master Commitments for MPF Original, MPF 125 and MPF 35 must be at least three (3) months, but may not exceed twelve (12) months.
 - Terms for Master Commitments for MPF Traditional Government loans must be at least three (3) months and, at the discretion of the MPF Bank, may be up to five (5) years with a renewal term of up to an additional five (5) years.

²²⁶ MPF Announcement 2017-12 (3/16/17)

²²⁷ MPF Announcement 2020-76 (11/24/20)
MPF Announcement 2016-30 (12/22/16)

- Whether Servicing of the Mortgage Loans will be retained, or sold concurrently with the sale of Mortgage Loans.

The following combinations of Mortgage Loan types are not allowed within the same Master Commitment and require separate Master Commitments:

- Conventional Mortgage Loans may not be combined with Government Loans;
- HUD Section 184 loans may not be mixed with any other Government or Conventional Mortgage Loans;
- RHS Section 502 loans may not be mixed with any other Government or Conventional Mortgage Loans; and
- Remittance types (actual/actual, actual/actual single remittance, and scheduled/scheduled) may not be combined.

12.2.1 Credit Enhancement and First Loss Account (3/16/17)²²⁸

The Maximum Credit Enhancement amount is the maximum amount of Realized Losses for which the PFI can be required to reimburse the MPF Bank for the subject Master Commitment. The PFI must pledge collateral to secure its Credit Enhancement obligations to the MPF Bank.

The MPF Bank will establish a Maximum Credit Enhancement amount for Conventional Mortgage Loan Master Commitments based on the MPF Mortgage Product. The PFI may be required to provide a sample of mortgages that is similar in credit characteristics, mix, and term to the mortgages that the PFI expects will make up the given Master Commitment. For each mortgage in the sample, the PFI shall complete a Loan Presentment Request (Form OG3) and submit it to the MPF Provider via the eMPF Website or secure email.

For MPF Original Master Commitments, the MPF Provider will use the sample of mortgages to develop a target Credit Enhancement amount. This amount represents the Credit Enhancement that would most probably be required if the Mortgage Loans delivered under the Master Commitment have the characteristics estimated by the PFI.

12.2.2 Loan Level Credit Enhancement (3/16/17)²²⁹

A Loan Level Credit Enhancement must be calculated before delivering a Conventional Mortgage Loan under an MPF Traditional Product. The data submitted for the most recent Loan Level Credit Enhancement must be complete, correct, accurate, and unexpired.

Every Conventional Mortgage Loan requested to be delivered under a Master Commitment will be subject to the following procedures:

²²⁸ MPF Announcement 2017-12 (3/16/17)

²²⁹ MPF Announcement 2017-12 (3/16/17)

- The Mortgage Loan must have first been submitted for Loan Presentment;
- The Loan Level Credit Enhancement for the requested Mortgage Loan will be added to the Credit Enhancements of all Mortgage Loans previously delivered under the same Master Commitment;
- If required by the MPF credit enhancement rating system, the sum of the projected Loan Level Credit Enhancement amounts will then be added to the new Pool Level Credit Enhancement;
- If the sum of the projected Loan Level Credit Enhancement plus the new Pool Level Credit Enhancement does not exceed the Maximum Credit Enhancement amount of the Master Commitment, and the other MPF Program delivery requirements are satisfied, the Mortgage Loan will be purchased and the Loan Level Credit Enhancement amount for that Mortgage Loan will be assigned to the specified Master Commitment; and
- If the Maximum Credit Enhancement amount is exceeded, the specific mortgage loan will not be purchased.

12.2.3 Pool Level Credit Enhancement (12/3/19)²³⁰

In addition to the specific Loan Level Credit Enhancement amount assigned to a Master Commitment, a Pool Level Credit Enhancement amount may also be calculated and assigned to a Master Commitment each time a new Mortgage Loan is delivered under that Master Commitment, if required by the MPF credit enhancement rating system. Additionally, on occasions that are expected to be highly unlikely and no later than 30 days after all open Delivery Commitments have been satisfied and the Master Commitment is closed, the Credit Enhancement amount for a Master Commitment may need to be increased in order for the Credit Enhancement amount to be sufficient to meet regulatory requirements applicable to the MPF Bank. Although such circumstances are anticipated to be highly unlikely and can occur for any Master Commitment, it is generally more likely to occur for very small Master Commitments containing fewer than 10 loans. On request from the PFI, the MPF Bank will communicate a preliminary assessment of Credit Enhancement sufficiency during Master Commitment fill-up.

12.2.4 Actual Credit Enhancement Amount

The Actual Credit Enhancement amount is the sum of Loan Level Credit Enhancement amounts for each Mortgage Loan and the Pool Level Credit Enhancement for the same Mortgage Loans in the Master Commitment.

The Actual Credit Enhancement amount must always be less than, or equal to, the Maximum Credit Enhancement amount for a given Master Commitment.

12.2.5 FLA Percentage (3/16/17)²³¹

²³⁰ MPF Announcement 2019-62 (12/3/19)

²³¹ MPF Announcement 2017-12 (3/16/17)

For MPF Original Master Commitments, the MPF Bank establishes the FLA percentage by examining potential credit losses from the sample of mortgages provided by the PFI. The FLA percentage will be determined solely at the MPF Bank's discretion. Master Commitments for other Conventional MPF Traditional Mortgage Products will provide for the FLA as specified for the applicable MPF Mortgage Product.

12.2.6 Credit Enhancement Income (8/14/23)²³²

Subject to the performance of the Mortgage Loans in a Master Commitment (if the Credit Enhancement Income is performance based), the MPF Bank will pay the PFI a Credit Enhancement Income based on the Principal Balance of the Mortgage Loans in the Master Commitment as of the last calendar day of each month. If the performance based CE Income is withheld they will be applied to losses before the CE obligation. The Credit Enhancement Income will be paid to the PFI on the eighteenth (18th) calendar day of the following month or on the preceding Business Day if the eighteenth (18th) is not a Business Day.

Credit Enhancement Income for newly purchased Mortgage Loans will be prorated on a 30/360 day basis for the period starting with the Funding Date through the end of the month.

12.3 Filling a Master Commitment

The Master Commitment gets filled when Delivery Commitments are obtained under the Master Commitment and when Mortgage Loans are delivered under the Delivery Commitments.

The PFI must assign each Delivery Commitment to a specific open Master Commitment. A Master Commitment is open for the issuance of a new Delivery Commitment as long as the sum of open Delivery Commitments and the Mortgage Loans already delivered under the Master Commitment is less than the Master Commitment amount.

12.4 Amending a Master Commitment (8/14/23)²³³

The PFI may request that the MPF Bank amend an open Master Commitment at any time. Any Master Commitment amendment made by the MPF Bank will be made at the MPF Bank's sole discretion.

Amendments may be requested to:

- Change the size and term of the Master Commitment;
- Change the Maximum Credit Enhancement amount; or
- Extend the expiration date of the Master Commitment.

Amendment requests are subject to the following conditions:

²³² MPF Announcement 2023-60 (8/14/23)

²³³ MPF Announcement 2023-60 (8/14/23)

- Requests for amendments must be accompanied by complete information and supporting data;
- No request for amendment may be made which would affect a Mortgage Loan or Delivery Commitment already assigned to a specific Master Commitment, the Actual Credit Enhancement amount, the First Loss Account, or the Credit Enhancement Income.

12.5 Resetting the PFI Credit Enhancement Obligation

For Master Commitments for which a reset is specified, the PFI's Credit Enhancement obligation is recalculated based on the current MPF credit enhancement rating system. Some Master Commitment characteristics taken into consideration include, but are not limited to, the unpaid Principal Balance of the Mortgage Loans, the credit evaluation of remaining Mortgage Loans and the remaining balances of the MPF Bank's FLA and/or stop loss account, where applicable.

The recalculation process is conducted and completed the month following the recalculation time frame as determined by the MPF Mortgage Product and the Master Commitment. For example, if the recalculation is as of the month of August, the recalculation process will be completed in September.

This recalculation will utilize the current MPF credit enhancement rating system to determine the Credit Enhancement. If this recalculated amount is less than the prior Credit Enhancement obligation, the PFI's Credit Enhancement obligation will be reset to the new, lower level. The new Credit Enhancement obligation will not be less than 20 Basis Points (0.20 %) of the remaining Principal Balance of the Master Commitment, unless a lower Credit Enhancement is permitted for the specific Master Commitment.

12.6 Closing a Master Commitment

A Master Commitment is closed when any of the following occurs:

- The sum of open Delivery Commitments and the Mortgage Loans delivered under the Master Commitment equals or exceeds the Master Commitment amount;
- The Master Commitment term has expired; or
- In the MPF Bank's or the MPF Provider's judgment, the Actual Credit Enhancement may exceed the Maximum Credit Enhancement due to existing Delivery Commitments.

CHAPTER 13. DELIVERY COMMITMENTS

13.1 Overview (10/31/17)²³⁴

A Delivery Commitment is an agreement between the PFI and the MPF Bank that defines the Note Rate, premium or discount, Closing time interval, product type, subproduct type total dollar amount, and other terms pertaining to the purchase of Mortgage Loans under the terms of the corresponding Master Commitment.

Except for Best Efforts Delivery Commitments delivered under specified MPF Xtra® Master Commitments, all Delivery Commitments are mandatory and may be filled with a single Mortgage Loan or multiple Mortgage Loans. For information on Best Efforts Delivery Commitments, see the MPF Xtra Selling Guide.

A Delivery Commitment cannot be assigned to a closed Master Commitment, nor reassigned to another Master Commitment.

13.2 Establishing a Delivery Commitment (10/31/17)²³⁵

By 8:30 A.M. Central Time each Business Day, the MPF Provider will publish electronically on the eMPF® Website, the Rate and Fee Schedules for each remittance type, if available from the MPF Bank. Each individual Rate and Fee Schedule posted will have a unique schedule number.

Posted Rate and Fee Schedules expire at 3:30 P.M. Central Time on the date of issue. The MPF Provider may cancel, withdraw and/or reissue the Rate and Fee Schedules at any time during the Business Day. Each new issue of a Rate and Fee Schedule will be assigned a new unique schedule number and will be published electronically as indicated above.

The Rate and Fee Schedules posted directly by the MPF Provider on the eMPF Website or by a third-party investor for the MPF Direct product provide indicative pricing and do not constitute an offer by the MPF Bank to the PFI for a Delivery Commitment.

At any time between 8:30 A.M. Central Time and 3:30 P.M. Central Time, the PFI may obtain a Delivery Commitment using the following methods:

- For Delivery Commitments less than \$10 Million, the PFI may utilize the eMPF Website; or
- For Delivery Commitments greater than or equal to \$10 Million, the PFI must contact the MPF Servicer Center. All telephone conversations relative to obtaining a Delivery Commitment will be tape-recorded.

²³⁴ MPF Announcement 2017-63 (10/31/17)

MPF Announcement 2017-12 (3/16/17)

²³⁵ MPF Announcement 2017-63 (10/31/17)

MPF Announcement 2017-62 (10/27/17)

MPF Announcement 2017-12 (3/16/17)

The PFI will supply the following information to the MPF Provider:

- PFI name and number (if via telephone);
- The name of the person calling and authorized to obtain a Delivery Commitment (if via telephone);
- The number of the Master Commitment to which the Delivery Commitment is to be assigned;
- The associated product type, subproduct type, and commitment term/expiration date;
- The Note Rate for the Delivery Commitment; and
- The Delivery Commitment amount.

The PFI is required to make specific representations and warranties when requesting a Delivery Commitment for certain MPF Mortgage Products.

The MPF Provider will verify the following information:

- The referenced Rate and Fee Schedule is still valid; and
- The referenced Master Commitment is open and the remaining amount equals or exceeds the amount of the Delivery Commitment.

If the above items are confirmed, the MPF Provider will assign a Delivery Commitment number and issue a binding Delivery Commitment. The terms of each Delivery Commitment will be confirmed with the PFI on the day of issuance via on-screen notification and e-mail.

13.2.1 Note Rate Range

For each Delivery Commitment, the PFI must specify a Note Rate from the appropriate Rate and Fee Schedule. The acceptable Note Rate range for the Mortgage Loans in a Delivery Commitment is plus or minus 25 Basis Points (0.25%) from the specified Note Rate, or the limit of the price range, whichever is more restrictive.

Since Delivery Commitment pricing is published and obtained in one-eighth percent (0.125%) increments, pricing will be determined for Mortgage Loans that are delivered with Note Rates in between one-eighth percent increments by interpolating the pricing difference between the upper and lower one-eighth percent rate published for the specific Delivery Commitment.

13.3 Extending a Delivery Commitment (3/15/18)²³⁶

A Delivery Commitment may be extended prior to its expiration by contacting the MPF Service Center or via the eMPF website. The extension is in one-day increments up to a maximum of thirty (30)

²³⁶ MPF Announcement 2018-18 (3/15/18)

calendar days. A Delivery Commitment extension fee will be assessed for each extension. The Delivery Commitment must have delivery capacity available in order to be extended.

13.4 Closing a Delivery Commitment

A Delivery Commitment is closed on the applicable expiration date or on the date the Delivery Commitment is filled, whichever occurs first.

A Delivery Commitment is considered filled when Mortgage Loans aggregating the maximum permitted dollar amount have been delivered. The maximum permitted dollar amount is the greater of:

- 101% of the original Delivery Commitment amount; or
- The original Delivery Commitment amount plus \$100,000.

Price adjustment fees may apply when the aggregate principal amount of the Mortgage Loans delivered under the Delivery Commitment is greater than the Delivery Commitment amount at expiration.

No Mortgage Loan may be delivered under a Delivery Commitment if it would cause that Delivery Commitment to exceed the maximum permitted dollar amount.

13.5 Delivery Commitment Fees

This section describes the fees that may be assessed in relation to a Delivery Commitment.

13.5.1 Pair-off Fees

For each Delivery Commitment of \$2 Million or less, the PFI will be assessed a Pair-off Fee at expiration when the aggregate principal amount of the Mortgage Loans delivered under a Delivery Commitment is less than ninety-five percent (95%) of the original Delivery Commitment amount. The Pair-off Fee will be calculated on the difference between the aggregate principal amount of the Mortgage Loans actually purchased by the MPF Bank and ninety-five percent (95%) of the original Delivery Commitment amount.

For each Delivery Commitment of greater than \$2 Million or for each MPF Government MBS Mortgage Loan Delivery Commitment of any amount, the PFI will be assessed a Pair-off Fee at expiration when the aggregate principal amount of the Mortgage Loans delivered under a Delivery Commitment amount is less than ninety-nine percent (99%) of the original Delivery Commitment amount. The Pair-off Fee will be calculated on the difference between the aggregate principal amount of the Mortgages actually purchased by the MPF Bank and ninety-nine percent (99%) percent of the original Delivery Commitment amount.

The Pair-off Fee will be calculated as of the close of business on the expiration date of the Delivery Commitment.

Reduced Delivery Commitment

The PFI may reduce the amount of a Delivery Commitment prior to the expiration of that Delivery Commitment. For all Delivery Commitments which are reduced, a Pair-off Fee will be calculated on one hundred percent (100%) of the reduction amount of the Delivery Commitment.

The reduction amount of the Delivery Commitment is the amount of the existing Delivery Commitment less the amount of the reduced Delivery Commitment. The Pair-off Fee will be calculated at the time of the reduction.

13.5.2 Price Adjustment Fees

For each Delivery Commitment of \$2 Million or less, the PFI will be assessed a Price Adjustment Fee when the aggregate principal amount of the Mortgage Loans delivered under a Delivery Commitment is greater than one hundred-five percent (105%) of the Delivery Commitment amount at expiration. The Price Adjustment Fee will be assessed at expiration and calculated on the difference between the aggregate principal amount of the Mortgage Loans actually purchased by the MPF Bank and one hundred-five percent (105%) of the original Delivery Commitment amount at expiration.

For each Delivery Commitment of greater than \$2 Million, the PFI will be assessed a Price Adjustment Fee when the aggregate principal amount of the Mortgage Loans delivered under a Delivery Commitment is greater than one hundred-one percent (101%) of the Delivery Commitment amount at expiration. The Price Adjustment Fee will be assessed at expiration and calculated on the difference between the aggregate principal amount of the Mortgage Loans actually purchased by the MPF Bank and one hundred-one percent (101%) of the original Delivery Commitment amount at expiration.

The Price Adjustment Fee will be calculated as of the close of business on the date that the aggregate principal amount of the Mortgage Loan purchased exceeds the amount of the Delivery Commitment.

13.5.3 Calculation of the Pair-off Fee and the Price Adjustment Fee (10/31/17)²³⁷

The MPF Provider will calculate the Pair-off Fee and Price Adjustment Fee based on the following:

- The nature and amount of the pair-off;
- The premium or discount corresponding to the Note Rate issued for the Delivery Commitment; and
- The premium or discount in effect at the time of pair-off for Delivery Commitments that have the same product type, subproduct type, Note Rate, and delivery period that most closely approximates the remaining term of the Delivery Commitment being paired off.

²³⁷ MPF Announcement 2017-63 (10/31/17)

Pair-off Fees and Price Adjustment Fees will be charged to the PFI's DDA. Under no circumstances will these fees be paid directly to the PFI.

CHAPTER 14. MORTGAGE LOAN PURCHASE

All Mortgage Loans delivered under the MPF Program must be of investment quality.

14.1 Conventional Mortgage Loan Seasoning Requirements (10/31/17)²³⁸

In addition to complying with all other MPF Program Requirements, Conventional Mortgage Loans must also meet the following criteria:

Category	Mortgage Loans with 24 or fewer monthly payments applied	Mortgage Loans with more than 24 monthly payments applied
Notification to MPF Bank prior to submitting the loan for Loan Presentment or opening a Delivery Commitment.	Not Required.	Required. At its discretion, the MPF Bank may require the Mortgage Loans to meet additional criteria.
Applicable eligibility and underwriting requirements	MPF Program Requirements in effect on the Note date, with the exception of the maximum original loan amount, which must comply with MPF Program loan limits in effect on the Funding Date.	MPF Program Requirements in effect on the Funding Date. If the Loan Application Date is on or after January 10, 2014, the Mortgage Loan must be a “safe harbor” qualified mortgage.
FICO score maximum age on Funding Date	180 days.	180 days and the FICO score must be the greater of: <ul style="list-style-type: none"> • 660; or • The minimum applicable credit score in effect on the Funding Date for the loan characteristics.
Minimum Transaction Amount	None.	\$2,500,000 for a single transaction.
Payment History on Funding Date	<ul style="list-style-type: none"> • The Mortgage Loan has not been thirty (30) days or more delinquent in the most recent twelve (12) months. 	

²³⁸ MPF Announcement 2017-63 (10/31/17)
MPF Announcement 2017-12 (3/16/17)

Category	Mortgage Loans with 24 or fewer monthly payments applied	Mortgage Loans with more than 24 monthly payments applied
	<ul style="list-style-type: none"> The Borrower's most recent monthly payment cannot be past due as follows: <ul style="list-style-type: none"> For Actual/Actual and Actual/Actual Single remittance types, the monthly payment must not be more than fifteen (15) days past the payment due date; For Scheduled/Scheduled remittance types, the Mortgage Loan must be current through the end of the month prior to the Funding Date. 	

By delivering the Mortgage Loan under the MPF Program, the PFI represents and warrants that from the Note date to the Funding Date, the Mortgage Loan has met the following requirements:

- The value of the Mortgaged Property has not declined;
- The Mortgage Loan has not been modified;
- The Mortgage Loan's lien priority has not been adversely affected;
- The occupancy status of the Mortgaged Property has not changed; and
- The Mortgage Loan has been serviced in compliance with Applicable Standards.

14.2 Government Mortgage Loan Seasoning Requirements (3/16/17)²³⁹

In addition to complying with all MPF Program and applicable Government Agency requirements for Government Mortgage Loans, Government Mortgage Loans must meet the following criteria:

Category	Mortgage Loans with 24 or fewer payments applied	Mortgage Loans with more than 24 payments applied
Notification to MPF Bank prior to submitting the loan to Loan Presentment or opening a Delivery Commitment.	Not required.	Required. At its discretion, the MPF Bank may require the Mortgage Loans to meet additional criteria.
Applicable eligibility and underwriting requirements	MPF Program and Government Agency requirements in effect on the Note date.	MPF Program and Government Agency requirements in effect on the Funding Date.

²³⁹ MPF Announcement 2017-12 (3/16/17)

Category	Mortgage Loans with 24 or fewer payments applied	Mortgage Loans with more than 24 payments applied
Minimum Transaction Amount	None.	\$2,500,000 for a single transaction.
Payment History on Funding Date	<ul style="list-style-type: none"> The Mortgage Loan has not been thirty (30) days or more delinquent in the most recent twelve (12) months. The Borrower's most recent monthly payment cannot be past due as follows: <ul style="list-style-type: none"> For Actual/Actual and Actual/Actual Single remittance types, the monthly payment must not be more than fifteen (15) days past the payment due date; For Scheduled/Scheduled remittance types, the Mortgage Loan must be current through the end of the month prior to the Funding Date. 	

14.3 Data to be Submitted (9/20/23) ²⁴⁰

In order to deliver a Mortgage Loan under the MPF Program, the following data must be submitted electronically via the eMPF website:

- PFI number and name
- PFI loan number
- Loan Application Date
- Name of the person submitting data and authorized to deliver Mortgages
- Master Commitment number
- Delivery Commitment number
- Borrower(s) name
- Borrower(s) ethnicity
- Borrower(s) race or national origin
- Borrower(s) gender
- Borrower(s) age

²⁴⁰ MPF Announcement 2023-75 (9/20/23)
MPF Announcement 2023-56 (7/28/23)
MPF Announcement 2019-26 (5/1/19)

- Borrower(s) date of birth
- Borrower(s) monthly income
- Borrower(s) Social Security Number
- Borrower(s) FICO score
- Borrower(s) FICO score source
- Number of Borrowers
- NextGen FICO®²⁴¹ score
- Borrower(s) self-employed
- First time buyer
- Loan Origination Source
- Mortgage Identification Number (if MERS registered)
- Loan plan type
- Loan purpose
- Occupancy
- Loan feature
- Product type
- Loan term (in months)
- Note Rate
- Original loan amount
- Appraised value
- Sales price
- Note Date
- Loan-to-Value (LTV) Ratio
- Subordinated financing
- Total Loan-to-Value (TLTV) Ratio
- Housing expense ratio
- Total debt ratio

²⁴¹ NextGen® FICO is a registered trademark of the Fair Isaac Corporation.

- Mortgage insurance coverage level (%)
- Mortgage insurance company code (if required)
- Documentation type
- Asset verification
- Automated Underwriting System (AUS)
- Automated Underwriting System (AUS) certificate number
- Appraisal Type
- Buydown
- Anti-predatory lending (APL) category
- HOEPA status
- Rate/APR spread or Average Prime Offer Rate/APR spread
- Higher Priced Mortgage Loan status
- Property street address and apartment number
- City, state and zip code
- Mailing address (**Note:** must use Special Feature Code (SFC) 877 when borrower is enrolled in a State Address Confidentiality Program)
- Property county name
- Federal Information Processing Standards (FIPS) code
- Property type
- Manufactured housing information
- Number of bedrooms per unit
- Unit owner occupied per unit
- Rent level per unit
- Rent plus utilities per unit
- Principal and Interest Payment (as reflected on the Note)
- Outstanding loan balance
- First payment due date
- Next payment due date
- Aggregate Curtailment Amount, if applicable

- Maturity date
- Funding Date
- Investor due date
- Disbursement date (if refinance)
- Loan Originator and Originator's Company ID numbers
- Appraiser state license number, if an Appraisal was obtained
- Supervisory appraiser state license number (if signor on Appraisal form)
- Agency case number (Government Loan only)
- Current Loan-to-Value ratio (seasoned loan only)
- Pay history (seasoned loan only)

Borrower and Co-Borrower income must be collected and delivered to the MPF Provider for all Government Mortgage Loans, regardless of the applicable Government Agency's requirement to use or collect such information.

14.4 Purchase Requirements (3/16/17)²⁴²

In order to qualify for purchase under the MPF Program, the Mortgage Loan must meet the following requirements:

- Be assigned to an open Delivery Commitment that corresponds to the applicable MPF Mortgage Product;
- Not cause the maximum permitted amount of the referenced Delivery Commitment to be exceeded (within tolerance limits);
- For Conventional Mortgage Loans, not cause the Actual Credit Enhancement amount to exceed the Maximum Credit Enhancement amount of the relevant Master Commitment; and
- Have the entire principal amount of the Mortgage Loan fully disbursed to the Borrower, or disbursed or advanced in accordance with the direction of the Borrower, prior to the purchase of the Mortgage Loan by the MPF Bank. For example, a refinance Mortgage Loan cannot be delivered under the MPF Program during any applicable rescission period for the refinance Mortgage.

14.5 Amount to be Paid

²⁴² MPF Announcement 2017-12 (3/16/17)

Mortgage Loans will be purchased in the amount of the current principal balance plus interim interest, from the prior payment date to the Funding Date, calculated on a 30/360 basis at the pass-through rate, plus or minus any applicable premium or discount.

For the Scheduled/Scheduled remittance type, the "outstanding loan balance" on the Loan Presentment Request (Form OG3) is the scheduled principal balance as of the month delivered (if the first payment date is in the future, it is the scheduled principle balance following application of the first payment).

For the Actual/Actual and actual/actual single remittance types, the "outstanding loan balance" is the actual principal balance as of the Funding Date.

14.5.1 Payment Method (10/27/17)²⁴³

Upon determination that a Mortgage Loan can be purchased, the MPF Bank will deposit funds in the PFI's DDA. The purchase of a Mortgage Loan will be confirmed with the PFI on the Funding Date via e-mail or electronically.

The first payment due date for all Mortgage Loans should be the first day of the second month following the disbursement date of the Mortgage Loan.

14.5.2 Reconciliation

If at a later date it is determined that a payment error has taken place, regardless of the source of the error, the MPF Bank will make adjusting debits or credits to the PFI's DDA and confirm the details of such adjustments with the PFI.

14.5.3 Premium Pricing Reimbursement (12/22/16)²⁴⁴

The MPF Bank reserves the right to request reimbursement for any premiums paid in connection with Mortgage Loans that are paid off within 120 days of the Funding Date.

²⁴³ MPF Announcement 2017-62 (10/27/17)

²⁴⁴ MPF Announcement 2016-30 (12/22/16)

CHAPTER 15. DOCUMENT DELIVERY TO THE CUSTODIAN (8/14/23) ²⁴⁵

The PFI's must use the MPF Program Custodian. The PFI must obtain acceptance from the Custodian that documents are in proper form and are properly executed. PFIs should reference MPF Custody Frequently Asked Questions and Answers (Exhibit J) for assistance with the MPF Custody process.

15.1 Collateral File Package (7/1/21) ²⁴⁶

Documents must be submitted to the Custodian in the order specified in a legal-sized manila folder. The outside of the manila folder must identify the MPF Program, the PFI's name, the Master Commitment number, the Borrower's name, the MPF loan number and the PFI's loan number. Collateral Files must be sent in MPF loan number order to the Custodian.

The following documents must be sent to the Custodian in the order indicated:

- Original Note with proper endorsements;

In a circumstance where the original Note is lost or destroyed prior to delivery to the Custodian, the PFI may substitute the following:
 - A lost note affidavit along with a copy of the fully-executed Note; or
 - A lost instrument bond in accordance with the Initial Certification Review Checklist for MPF Traditional (Exhibit K).
- The original unrecorded Assignment of the Security Instrument "in blank" from the PFI;
- Original unrecorded Assignments of the Security Instrument from the Affiliate to the PFI (if applicable);
- All recorded Intervening Assignments or certified copies of Intervening Assignments sent for recording (if applicable);
- Original/certified copy of the Power of Attorney (if applicable);
- Any rider, addendum, modification or Assumption that modifies the Note (if applicable); and
- Trust Agreement(s) (if applicable).

²⁴⁵ MPF Announcement 2023-58 (8/14/23)
MPF Announcement 2017-62 (10/27/17)
MPF Announcement 2017-12 (3/16/17)

²⁴⁶ MPF Announcement 2021-50 (7/1/2021)
MPF Announcement 2017-37 (7/24/17)

Any copies provided must be certified with the following signed statement: “certified to be a true and correct copy of the original.”

15.1.1 New York Consolidation, Extension, and Modification Agreements (12/22/16)²⁴⁷

For CEMA, the following documents must be submitted to the Custodian:

- Original/Certified Copy of the most current version of CEMA (FNMA/FHLMC Form 3172);
- FNMA/FHLMC Form 3172 Exhibits "A", "B", "C", and "D". Exhibit "A" must list all Notes and Security Instruments being consolidated, modified and extended; and
- The original consolidated Note evidencing the new indebtedness endorsed "in blank", without recourse.

See the Initial Certification Review Checklist for MPF Traditional (Exhibit K) for more CEMA requirements.

15.1.2 Data Accuracy

The PFI is responsible for reviewing all Mortgage Loan documents for completeness and accuracy, and is responsible for the correction of all errors prior to submission to the Custodian. All Closing documents must be error-free. If corrections are necessary, strike-overs that are initialed by the Borrower must be used. Corrective coverings are not acceptable.

The names and signatures of each Borrower must be consistent on all Closing documents, and must correspond to the names appearing on the title insurance policy.

15.2 Document Safeguarding

The PFI must protect and safeguard all Mortgage Loan documents before they are sent to the Custodian or upon release from the Custodian. These practices include protection from external elements (such as fire), identification of documents as MPF Bank assets, and separation from other unrelated documents. Collateral Files should be stored in secure, fire resistant facilities with customary controls on access to assure their safety and security.

15.2.1 Transit Insurance (3/16/17)²⁴⁸

If the PFI has not contractually agreed with the Custodian to have the Custodian assume liability for Notes and Assignments and any other documents in the Collateral File while in transit, the PFI must obtain insurance covering physical damage or destruction to, or loss of, any Notes, Assignments and other documents while such documents are in transit between the Custodian's premises and

²⁴⁷ MPF Announcement 2016-30 (12/22/16)

²⁴⁸ MPF Announcement 2017-12 (3/16/17)

anywhere, regardless of the means by which they are transported. For the purpose of this insurance, Mortgage Notes are considered to be "Negotiable Instruments" under Section 3-104 of the Uniform Commercial Code (UCC).

The PFI or PFI's insurer, insurance broker or agent must notify the MPF Provider at least thirty (30) calendar days prior to cancellation or nonrenewal of the insurance.

The PFI's insurance policy must:

- Be underwritten by an insurer that has a B+ or better rating and also a financial size category of VI or better according to the A.M. Best Company, or be affiliated with Lloyd's of London;
- Be maintained in an amount that is deemed adequate for the number of Notes and Assignments held in custody and that is deemed appropriate based on prudent business practice; and
- Have a deductible amount no more than the greater of five percent (5%) of the PFI's GAAP net worth or \$100,000, but in no case greater than \$10,000,000.

If the PFI is covered under its parent's insurance program rather than by its own insurance, then the following additional requirements apply:

- The acceptable deductible amount for each insurance policy may be no more than the greater of five percent (5%) of the parent's GAAP net worth or \$100,000, but in no case greater than \$10,000,000; and
- The PFI must be a named insured.

15.3 Initial Certification Review (8/14/23)²⁴⁹

The PFI must deliver all required documents to the MPF Program Custodian for review, certification and safekeeping within seven (7) calendar days of the Funding Date by the MPF Bank. The MPF Program Custodian will review the Collateral File in accordance with the Initial Certification Review Checklist for MPF Traditional (Exhibit K).

For each Collateral File not received and certified within the required time frame, an uncertified loan fee will be assessed to the PFI each calendar day thereafter until the date of Initial Certification by the MPF Program Custodian or repurchase of the Mortgage Loan.

Any Mortgage Loans for which an Initial Certification has not been received from the Custodian within thirty (30) calendar days of the Funding Date will be deemed "Not Eligible" and must be repurchased by the PFI.

²⁴⁹ MPF Announcement 2023-58 (8/14/23)
MPF Announcement 2017-12 (3/16/17)

The MPF Provider will notify the PFI of all Mortgage Loans for which the MPF Program Custodian has not received a Collateral File.

If the MPF Program Custodian determines that the documents submitted are not acceptable, the Collateral File will be suspended or deemed ineligible. The MPF Provider will notify the PFI of any Mortgage Loans for which the Collateral Files are suspended or ineligible, and the detailed reasons for the suspension or ineligibility.

If the MPF Program Custodian sends documents to the PFI for correction, the PFI must immediately correct any defects and return all documents to the MPF Program Custodian. Penalty charges may be assessed for delays in correcting and resubmitting required documents.

15.3.1 Correction of Exception (10/27/17)²⁵⁰

When the PFI discovers an Exception, which includes an error on one of the documents in the Collateral File or a discrepancy between the Loan Presentment information and the loan document information, the PFI must immediately report the Exception by emailing the MPF Custody Department at MPFCustody@FHLBC.com and work with the MPF Custody Department to correct the Exception.

Exceptions are detailed in the Exception Report on the eMPF website. PFIs should reference Exhibit H (Document Codes) and Exhibit I (Exception Codes) for a translation of the codes on the Exception Report.

15.3.2 Loan Not Eligible

If the Custodian determines that the documents in the Collateral File do not meet the MPF Program Requirements, the Custodian will inform the MPF Provider of the conditions that cause ineligibility, and the Mortgage Loan must be repurchased by the PFI. The MPF Bank will affect the repurchase by withdrawing the required funds from the PFI's DDA.

15.4 Final Certification (3/16/17)²⁵¹

The Final Certification requirements in this section apply to all Government Mortgage Loans, regardless of the Custodian used.

The documents for Government Mortgage Loans must be submitted to and certified by the Custodian for Final Certification within twelve (12) months of the Funding Date (Conventional Mortgage Loans are not subject to Final Certification). The documents may be forwarded on a piecemeal basis as the PFI receives them, or the documents may be immediately forwarded once the PFI receives all of them. Multiple documents must be delivered in Master Commitment number order and then within each Master Commitment, by MPF loan number order. The final documents may be provided in a

²⁵⁰ MPF Announcement 2017-62 (10/27/17)

²⁵¹ MPF Announcement 2017-12 (3/16/17)

legal-sized manila folder, or as an alternative, the PFI may provide the applicable Government Agency insurance certificate or loan guaranty in the acceptable delivery format listed in the Government Mortgage Final Certification Review Checklist (Exhibit L). The Custodian will review the Collateral File in accordance with Exhibit L.

An uncertified loan fee will be assessed to the PFI each calendar day for each Mortgage Loan that fails to receive Final Certification in the required time frame.

15.4.1 Required Documentation (6/13/23)²⁵²

For Final Certification, the PFI must submit an electronic stamped certified true copy of the Loan Guaranty Certificate (LGC), Mortgage Insurance Certificate (MIC), Loan Note Guaranty (LNG) or Indian Loan Guaranty Certificate (ILGC) evidencing the Mortgage Loan has received insurance or a guaranty from the applicable Government Agency. The certificate or guaranty must be initialed by the PFI and display the MPF loan number.

While a Government Mortgage Loan is pending receipt of the loan guaranty or mortgage insurance certificate from the applicable Government Agency, the PFI is responsible for ensuring that the mortgage loan continues to meet the applicable Government Agency requirements and assumes all risk if any losses that occur that would deem the government mortgage loan ineligible. If the PFI is unable to obtain the applicable certificate or guarantee, the PFI must contact their MPF Bank representative.

15.4.1.1 HUD Guaranteed Section 184 Loans

A PFI that is unable to obtain an Indian Loan Guaranty Certificate for a HUD section 184 loan before loan delivery, represents and warrants, by delivery of the loan, all of the following:

- A complete and satisfactory mortgage guaranty application was submitted to the government agency within the required time frame, either based on an agency's prior approval of the loan application and issuance of a commitment to insure or guarantee, or subject to an agency's delegated or automatic loan approval processing, as applicable.
- All applicable fees (e.g. funding fee, guarantee fee etc...) were paid to the government agency within the government agency's required time frame.
- The government agency has the legal authority to issue the guaranty or insurance and will have such authority for long enough to issue the guaranty within a time period that is consistent with its past practice.

²⁵² MPF Announcement 2023-39 (6/13/23)
MPF Announcement 2019-18 (3/1/19)
MPF Announcement 2017-62 (10/27/17)
MPF Announcement 2017-37 (7/24/17)
MPF Announcement 2017-12 (3/16/17)

The MPF Bank, the MPF Provider or the Master Servicer may require the PFI to provide periodic reports on the guaranty status for such loans. Such reports must be provided within the requested timeframe.

PFI's must notify their MPF Bank of any delays in obtaining an Indian Loan Guaranty Certificate, or final certification, for any HUD section 184 loan delivered into the MPF Program. A PFI that fails to submit the Indian Loan Guaranty Certificate to the custodian and obtain final certification of a HUD section 184 loan within twelve (12) months of the Funding Date or in a timely manner as determined by the MPF Bank, must repurchase the Mortgage Loan and make the MPF Bank whole for any losses incurred by the MPF Bank. In addition, the MPF Bank may suspend or terminate the PFI's authority to deliver any or all mortgage loans into the MPF Program.

15.4.2 Past Due Final Certifications (3/1/19)²⁵³

No more than four percent (4%) of the Mortgage Loans in the PFI's MPF Government Master Commitments may be past due for Final Certification. If the past due ratio exceeds 4%, at the sole discretion of the MPF Bank, the PFI must:

1. Pledge collateral equal to one hundred percent (100%) of the aggregate unpaid Principal Balance of the overdue Government Mortgage Loans, as of the date the MPF Provider notifies the PFI, in accordance with the PFI's Advances Agreement. The amount due for all Government Mortgage Loans requiring collateralization may be combined into a single collateralization. If the PFI brings its Government Mortgage Loans into compliance with the tolerance levels stated above before the collateralization expires, the PFI may request that the MPF Bank release its collateral. If after the six-month period the Government Mortgage Loans are still not in compliance with the Final Certification thresholds, the collateralization must be extended prior to expiration; or
2. Repurchase the overdue Government Mortgages.

For any Government Mortgage Loans, other than HUD section 184 loans, past due for Final Certification after three (3) years, the PFI will be required to collateralize the Principal Balance of the overdue Government Mortgage Loans or repurchase such Mortgage Loans, regardless of the percentages of total Mortgage Loans past due for Final Certification. The MPF Bank will have discretion to impose the same requirement, or other additional requirements, for any HUD section 184 loans past due for Final Certification after three (3) years or longer, as determined by the MPF Bank.

²⁵³ MPF Announcement 2019-18 (3/1/19)
MPF Announcement 2017-12 (3/16/17)

15.5 MPF Program Custodian Fees and Service Charges (3/16/17)²⁵⁴

The MPF Program Custodian assesses the PFI the following fees and service charges:

- Rush release or rejected release request: (i) a request issued within the timelines listed below or (ii) for an invalid release request as determined by the MPF Program Custodian.
 - 1 Business Day turnaround -- \$5.00
 - 2 Business Day turnaround -- \$3.50
- Nonstandard or rejected release request - A fee charged to the PFI for: (i) the release of a Collateral File for a purpose other than Liquidation, Foreclosure or other Servicing responsibility that requires the physical possession of the Note or other documents (such as Exception correction for Initial or Final Certification requirements, etc.) or (ii) an invalid release request as determined by the Custodian.
 - 1 Business Day turnaround -- \$5.00
 - 2 Business Day turnaround -- \$3.50
 - 3-4 Business Day turnaround -- \$2.00
- Non-standard or rejected file reinstatement requests -- A fee charged to the PFI for: (i) the file reinstatement following a release request for a purpose other than Liquidation, Foreclosure or other Servicing responsibility that requires the physical possession of the Note or other documents (such as Exception correction for Initial or Final Certification requirements, etc.) or (ii) an invalid reinstatement request as determined by the Custodian -- \$3.00
- Copies of documents -- \$1.00 plus \$0.25 per single sided copy
- Exception correction (per Exception) – A fee charged to the PFI for every Exception cited by the MPF Program Custodian for Initial Certification, Final Certification, or recertification. Exception fees will be billed to a new PFI once one of the following occurs: sixty (60) calendar days have passed from first receipt of Collateral Files or one hundred (100) Collateral Files have been received by the Custodian from the PFI -- \$3.50
- External file transfer (change of Custodian) -- \$3.50

The MPF Provider will create preliminary custody invoices no later than the first (1st) Business Day of each month for the custody fees and service charges accrued in the previous month. The MPF Provider will create the final custody invoices on the eighteenth (18th) calendar day of each month or on the preceding Business Day if the eighteenth (18th) is not a Business Day, indicating the amount that will be drafted from the PFI's DDA. Both the preliminary and final invoices are available on the

²⁵⁴ MPF Announcement 2017-62 (10/27/17)
MPF Announcement 2017-12 (3/16/17)

eMPF website. The MPF Provider reserves the right to amend the custodian fee schedule from time to time.

CHAPTER 16. POST-CLOSING REQUIREMENTS

16.1 Payments and Correspondence

If the Originator is not the current Servicer, any payments and correspondence that the Originator receives from the Borrower after Closing must be immediately forwarded to the current Servicer of the Mortgage Loan.

16.2 Rescission Notice

The Originator must immediately notify the current Servicer of the Mortgage Loan, the MPF Provider, the investor, and the MPF Bank if a rescission notice is received from a Borrower. To avoid delays, the notification to the MPF Provider must include at minimum the following information:

- MPF loan number;
- Borrower name(s);
- Loan product, name of Investor(s) and any applicable Government Agency insuring or guaranteeing the Mortgage Loan;
- Who inquiry was received from and relationship to Borrower (Note that any request received related to inquiry from alleged successors in interests will be assumed to have been confirmed as a Successor in Interest by Servicer pursuant to its policies and procedures);
- Date and method notice of rescission was received;
- Copy of the Notice of Rescission;
- Copy of any other communication received from Borrower or Borrower's representative related to the rescission; and
- Any other relevant loan or Borrower information that may be needed to address the rescission demand.

CHAPTER 17. SERVICING REQUIREMENTS

This chapter provides an overview for servicing retained loans and servicing released loans.

This chapter does not cover the requirements for the following types of transfers (which are addressed in the Servicing Guide):

- Transfers of servicing initiated post-loan delivery; or
- Transfers of servicing arising from mergers or other portfolio dispositions.

17.1 Servicing Retained

PFI that are retaining the Servicing of the Mortgage Loans must refer to the Servicing Guide for the MPF Program servicing requirements.

17.2 Servicing Released (7/5/17)²⁵⁵

This section addresses the options for PFIs to sell a Mortgage Loan Servicing released. To participate in these Servicing released options, PFIs must contact their MPF Bank Representative.

The following requirements apply for Mortgage Loans sold Servicing released:

- The PFI selling the Mortgage Loan (Selling PFI) must transfer servicing to the Assuming Servicer in full compliance with Applicable Law and the Guides;
- The Selling PFI must endorse the Note prior to delivery to the MPF Program Custodian;
- The Selling PFI must prepare an Assignment to the Assuming Servicer, or if the loan is registered with MERS, the Assignment must be prepared in accordance with MERS requirements. The Assuming Servicer is responsible for preparing the Assignment “in blank”;
- The Selling PFI must submit the Collateral File to the MPF Program Custodian and is responsible for the Initial Certification and, if applicable, Final Certification with the Custodian;
- The Selling PFI is responsible for conducting quality control reviews in accordance with the Guides;
- The Selling PFI is responsible for providing copies of any documents requested by the MPF Provider if the MPF Provider selects the Mortgage Loans for a quality control review;
- The Selling PFI represents and warrants that the Mortgage Loans were serviced in accordance with Applicable Standards for any Servicing activity that occurred prior to the sale to the MPF Bank;
- The Selling PFI is responsible for Servicing the Mortgage Loans in accordance with the MPF Traditional Servicing Guide and Applicable Standards for any Servicing activity that occurs after

²⁵⁵ MPF Announcement 2017-34 (7/5/17)

the Mortgage Loans have been sold to the MPF Bank but prior to the effective servicing transfer date. Also see MPF Traditional Servicing Guide Chapter 13 for additional information; and

- The Selling PFI will remain liable for origination representations and warranties under its PFI Agreement.

17.2.1 Whole Loan Sale (11/1/21)²⁵⁶

Whole loan sales involve the PFI selling Conventional and certain Government Mortgage Loans, including the Servicing Rights for those Mortgage Loans, to the MPF Bank at loan delivery. The MPF Bank concurrently transfers the Servicing Rights to the Federal Home Loan Bank of Chicago (MPF Provider) for sale to the Assuming Servicer. The Selling PFI must obtain a Master Commitment that (i) indicates it will sell MPF Traditional Mortgage Loans on a whole loan basis and (ii) lists an Assuming Servicer as directed by the Selling PFI's MPF Bank.

For specific requirements regarding the servicing transfer process, see the applicable Servicing Transfer Manual posted as an Exhibit on the MPF Website or from the Assuming Servicer.

²⁵⁶ MPF Announcement 2021-75 (11/1/21)
MPF Announcement 2017-34 (7/5/17)

THE SELLING SERVICER MUST TRANSFER SERVICING TO THE ASSUMING SERVICER IN FULL COMPLIANCE WITH APPLICABLE LAW, THE GUIDES, AND IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE APPLICABLE SERVICING TRANSFER MANUAL.

17.2.2 Concurrent Sale of Servicing (11/1/21)²⁵⁷

Concurrent sales or transfers of Servicing involve the PFI selling the Servicing Rights for Conventional and certain Government Mortgage Loans to an Assuming Servicer at the same time the Mortgage Loan is sold to the MPF Bank.

For specific requirements regarding the servicing transfer process, see the applicable Servicing Transfer Manual posted as an Exhibit on the MPF Website or from the Assuming Servicer.

The Selling Servicer must transfer servicing to the Assuming Servicer in full compliance with Applicable Law, the Guides, and in accordance with the terms and conditions of the applicable Servicing Transfer Manual.

²⁵⁷ MPF Announcement 2021-75 (11/1/21)
MPF Announcement 2017-34 (7/5/17)