

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

January 2025



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Underwriting Resources

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



The screenshot displays the MPF Program website. At the top, the MPF logo (Mortgage Partnership Finance) and FHLBanks logo (A NATIONAL ASSOCIATION OF FINANCIAL INSTITUTIONS) are visible. The navigation bar includes links for Products, FHLBanks, Guides (highlighted with a yellow arrow), Resources, Education, and About Us. A search bar is located on the right. The main header features the text "MPF Guides" in large white letters on an orange background. Below this, a breadcrumb trail shows "Home > MPF Guides". A paragraph states: "The MPF Guides outline program and product specific requirements and processes Participating Financial Institutions must follow in order to participate in the Mortgage Partnership Finance Program." An "Expand all" link is present. The "MPF Guides" section lists several guides, each with a plus icon to expand it. A yellow arrow points to the "MPF Traditional Selling Guide". The list includes: MPF Program Guide, MPF Traditional Selling Guide, MPF Traditional Servicing Guide, MPF Xtra Selling Guide, MPF Xtra Servicing Guide, MPF Government MBS Selling Guide, MPF Government MBS Servicing Guide, and Glossary, Exhibits, and Forms. On the right side, a "Contact Us" box provides the MPF Service Center phone number (877) 345-2673 and an E-Mail link.

mpf Mortgage Partnership Finance

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MPF Guides

Home > MPF Guides

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Expand all

MPF Guides

- + MPF Program Guide
- + MPF Traditional Selling Guide
- + MPF Traditional Servicing Guide
- + MPF Xtra Selling Guide
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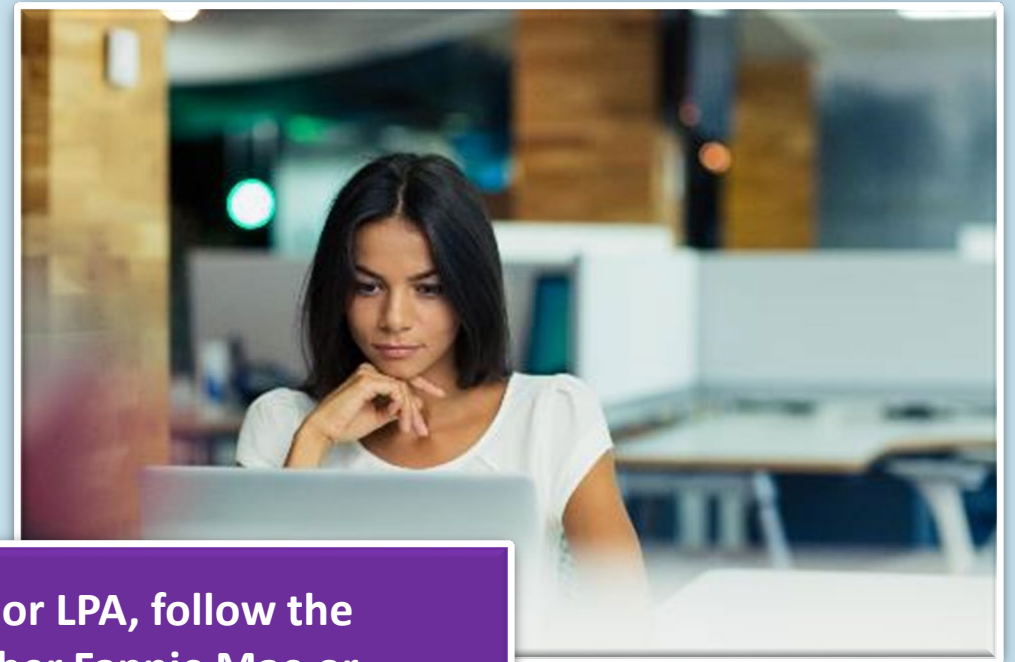
E-Mail

Underwriting MPF Traditional Loans

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

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

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



Overlays

Simple Overlays

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

Follow these sections of the MPF Traditional Selling Guide:

- Occupancy Requirements: **6.2**
- Property Type Eligibility: **6.1.1**
- Ineligible Transactions, Products, or Loan Attributes: **2.7**

Overlays

Examples of Ineligible Attributes (not all inclusive)*

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

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

Overlays

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

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

a. and c. are not permitted



Using DU or LPA

If you use DU or LPA to underwrite, which of the following are true?

- a. DTI ratios can exceed 43% with an approve/accept eligible finding.
- b. All loans require a full appraisal
- c. Borrowers with an ITIN are ineligible
- d. Tax transcripts are always required for loan underwriting

a. is true



Eligible or Not Eligible?

- Cash-out refinance transaction
- 2-unit, owner-occupied property
- 80% LTV
- Underwritten with DU or LPA

NO
Max LTV is 75%

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

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

**Manual UW
allows up to an
85% LTV**

What if the loan is manually underwritten?

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

Yes



Keep in mind that multiple risk factors can impact eligibility and overall loan quality

Value Acceptance: DU

An appraisal waiver cannot be used when which of the following characteristics are present:

- a. Two-to four-unit properties
- b. Construction-to-permanent loans
- c. Manufactured homes
- d. Transactions using a gifts of equity
- e. Properties with an estimated value or purchase price greater than \$1,000,000



All these characteristics require a full appraisal.

ACE Appraisal Waivers: LPA

LPA users may in some cases utilize an ACE Appraisal Waiver*. Fill in the blanks:

- The maximum LTV/TLTV for a cash-out refinance of a primary residence is 70%
- The maximum LTV/TLTV for a cash-out refinance of a second home is 60%
- The maximum LTV/TLTV for a no-cash out refinance of a primary residence is 90%
- The maximum LTV/TLTV for purchase transactions is 80%



Employment Offers and Contracts

MPF Traditional Selling Guide: 5.3.9.7

Fannie Mae Selling Guide: B3.1-09

Freddie Mac Selling Guide: 5303.2

True or False

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

True

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

No



Employment Offers and Contracts

If a borrower has not started their new employment at the time of closing, you may consider one of two options

Option #1

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



Employment Offers and Contracts

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

Option #2

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

Review the employment contract!

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

Employment Offers and Contracts

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

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

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

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

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

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

Tax Returns

Are individual tax returns required?
If so, how many years?



Roy is a salaried employee at his uncle's solar energy company

2 years are required when working for a family member



Alison is paid hourly and receives tip income

It depends upon whether the tips are reported as W2 earnings. If not and unreported tips are claimed using IRS Form 4137, two years of tax returns are required



Greg is salaried as an engineer. He has owned a rental property for 3 years

Rental income and losses for the past tax year should be analyzed

Business Tax Returns

In some cases, when two years of signed individual federal tax returns are provided, you may waive the requirement for business returns if:

- a. The borrower has been self-employed for at least 5 years
- b. The borrower must have had at least a 25% ownership in the business for the past 5 years
- c. The borrower's personal returns show an increase in self-employed income over the past two years
- d. The borrower must use their own personal funds for down payment and/closing costs in addition to satisfying reserve requirements

How would you verify this?



All the above apply.

Employment-Related Asset Income Stream

Jeffrey hasn't started taking distributions from his IRA.

He's 58 years old.

He is purchasing a second home and needs a little extra income to qualify. The loan is a 30-year fixed.

Assuming a \$300,000 IRA balance, fill in the blanks.

Subtract any penalties for early distribution and any funds that are being used for closing from the total balance.

$\$300,000 - \$30,000$ (10% penalty) = $\$270,000$. *Let's assume he does not intend to use any of the funds towards closing.*

$\$270,000 \div \underline{360^*} = \750.00 per month of additional qualifying income.

*Use the applicable loan term.



Income Stream Requirements

If you need to create an income stream, the following general guidelines apply:

- Purchases and limited cash-out refinances only
- 1-4 unit primary and 1-unit second homes are eligible
- Max LTV/CLTV is 70%
- Up to 80% LTV/CLTV is permitted if the owner of the asset is at least 62 years old at the time of closing. If the asset is jointly owned, all owners must be at least 62 years old



Employment-Related Assets as Income

If you want/need to create an income stream, the borrower must:

- Own the asset individually or the co-owner must be a co-borrower.
- There must be unrestricted access to the funds.
- Only rely on the income stream if a distribution isn't already set up or the currently distribution isn't enough to qualify.
- Lump sum severance or retirement packages must be documented with a distribution letter from the employer and deposited into a verified asset account.



Employment-Related Assets as Income: LPA

Freddie Mac guidelines seem to vary slightly from Fannie Mae and MPF Traditional manual underwriting guidelines

- 1 or 2-unit primary or second home
- Purchase or no cash-out refinance
- Max LTV/TLTV of 80%
- The borrower must be the sole owner of the account
- The asset must not currently be used as a source of income
- As of the Note date, the funds may not be subject to a withdrawal penalty or early distribution tax
- Obtain the most recent retirement asset account statement
- Document asset eligibility requirements are met
- Divide the eligible asset(s) by **240**



Non-Occupant Co-Borrowers

Amy's mother is helping her purchase her first home. Her mother will be on the loan application, but she has no intention of living in the property with Amy

Fill in the blanks:

When **manually underwriting** the loan, Amy must qualify on her own with a DTI ratio that doesn't exceed 43%

When **manually underwriting** the loan, Amy's mother would be required to occupy the property if the LTV exceeds 90%

When underwriting with **DU or LPA**, when the income of the non-occupying co-borrower is being used to qualify, the maximum LTV is 95%



Non-Occupant Co-Borrowers

Yes, or No?

When manually underwriting, non-occupant co-borrowers are permitted on loans using nontraditional credit

YES

When underwriting with DU or LPA, if no borrowers have a FICO score and nontraditional credit is used, can there be a non-occupant co-borrower?

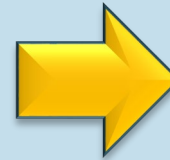
NO



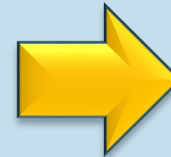
Trust Income

When considering income from a trust, which of the following are true?

- a. Evidence of a three-year continuance is always required
- b. If the borrower is receiving fixed payments, the payment must be verified with both trust documentation and a recent bank statement (or equivalent)
- c. Variable trust payments are not eligible
- d. If the borrower is a trustee, they may not supply the trustee statement



If the trust includes income from real estate, a three-year continuance is not required for the rental income



Variable trust payments may be eligible and should be calculated using variable income guidelines

b. and d. are true

Trust Income

What is needed to verify trust income?

One or more of the following documents to confirm the amount, frequency of receipt, and the date the trust was created

- Copy of the trust agreement
- The trustee's statement
- The trust's federal tax return
- A letter from an accountant or attorney who reviewed the trust when the above documents are not available, or when the borrower is the trustee

Confirm the trust was established for 12 months or longer unless all the following requirements are met:

- The trust payments are fixed
- The borrower is not the grantor (grantor=person who created and funded the trust)
- And at least one payment is received prior to closing

Trust Income: Freddie Mac (LPA)

Fixed Payments

- Copy of the fully executed trust agreement specifying the payment amount, frequency, and duration
- Copy of bank statements (or equivalent) verifying receipt for the most recent 1-year period
- Evidence of sufficient assets to support the income (bank statement or letter from the trustee*)

*If the borrower is the trustee, a letter from the trustee is not acceptable documentation

Fluctuating Payments

- Copy of the fully executed trust agreement outlining the payment terms
- Copy of complete federal individual tax returns for the most recent 2- year period verifying receipt of the income
- Evidence of sufficient assets to support the income (bank statements, letter from trustee*)

*If the borrower is the trustee, a letter from the trustee is not acceptable documentation

Credit Reports

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

The bankruptcy was discharged in January of 2022

His credit has been re-established, and he meets the minimum credit score requirement

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

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

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



Temporary Rate Buydowns

Penny is manually underwriting a loan with a temporary rate buydown. Which of the following are true?

- a. The borrower must qualify using debt-to-income ratios of 28% and 36%
- b. Limited to primary residences only
- c. If structured as a 3-2-1 buydown, the max LTV is 90%
- d. The promissory note must outline the rate buydown

a. and c. are true.

General Temporary Buydown Information

- Primary and second homes are eligible
- Purchases and limited cash-out refinances only
- DU/LPA follow findings for DTI and LTV
- Use the Note rate for qualifying

MPF Contacts and Resources

MPF Service Center

Email - MPF-Help@FHLBC.com

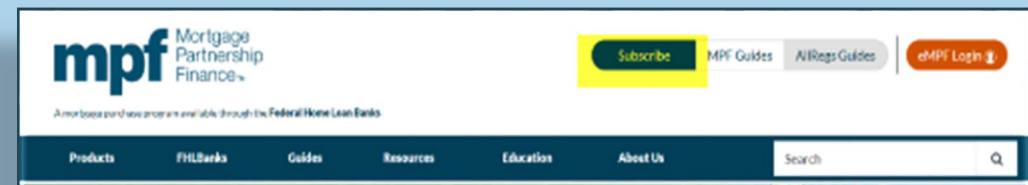
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