mpf Mortgage Partnership Finance™

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

February 2025

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Underwriting MPF Xtra® Product Loans

- Loans may be manually underwritten or Fannie Mae's Desktop Underwriter® (DU®) may be used
- The guidelines published in the **Fannie Mae Selling Guide** should be followed for both manually underwritten loans and loans underwritten with DU
- Some overlays apply
- Refer to the MPF Xtra Selling Guide for additional information on overlays related to ineligible transactions, products, and mortgage attributes

Overlays

There are some property types, products, and loan features that Fannie Mae allows that are not eligible under the MPF Xtra product

Examples of ineligible items include*:

- Co-ops
- Adjustable-rate (ARMs), balloon, and interest-only mortgages
- HomeStyle Renovation Loans
- HomeStyle Energy Loans
- High Loan-to-Value Refinance Loans
- Manually Underwritten Refi Plus Loans
- Shared Equity Transactions
- Government loans

**This list is not all-inclusive*

Using DU

Sometimes things change and resubmission to DU may be required

Resubmit? Yes, No, or Maybe:

1. The borrower's DTI ratio has increased from 46% to 48% **No**

2. The borrower's DTI ratio has increased from 44% to 46% **Yes**

3. If the income for a HomeReady® loan is greater than what is indicated on the loan application **Yes**

4. Due to an increase in assets required to close, the verified reserves are now less than what DU is requiring **Maybe**

Using DU- Refinances

Your borrower's payoff came in higher than expected and you need to increase their loan amount from $150,500 to $150,900. Do you need to resubmit to DU?

Maybe

Resubmission may be required if any of the following applies:

- The increase changes the loan level pricing adjustment (LLPA)
- The MI (if applicable) coverage/premium changes
- If loan eligibility changes (i.e., limited cash-out is now cash-out)

Permitted Refinance Tolerances

- The loan amount may increase by $500 or up to 1% of the loan amount, whichever is less
- The loan amount may decrease up to 5% of the loan amount

DU: Eligible or Not Eligible?

Owner-occupied cash-out refinance of a manufactured home

- What's the maximum LTV? **65%**

Limited cash-out refinance, 1-unit investment property 80% LTV

- What's the maximum LTV? **75%**

HomeReady limited cash-out refinance of a 3-unit property

- What's the maximum LTV? **95%**
- What else is an important eligibility factor for HomeReady limited cash-out transactions?
  The loan being refinanced must be owned by Fannie Mae

LTVs

What's the maximum LTV for the purchase of a 1-unit investment property?

85%

What's the maximum LTV for the purchase of a manufactured home?

97%

- **97%** for MH Advantage and **95%** for standard manufactured housing

What's the maximum LTV for a cash-out refinance of a second home?

75%

Manufactured Homes

Fill in the blanks:

Fannie Mae requires a manufactured home to be at least **400** square feet and at least **12** feet wide

Yes, or no?

Cash-out refinances of single-wide units are permitted for both standard and MH Advantage manufactured homes **No**

- Cash-out refinances are permitted on multi-width, primary residences only
- The maximum LTV is 65%

Manufactured Homes

Alice is reviewing an appraisal for a manufactured home. Per Fannie Mae, the presence of what item(s) must be confirmed in the appraisal?

a. HUD Data Plate only
b. HUD Data Plate and the HUD Certification Label
c. Either the HUD Data Plate or the HUD Certification Label
d. The HUD Certification Label only

c. Both are acceptable

What if you can't obtain/locate one or the other?

A label verification letter or duplicate HUD Data Plate may be provided

Condominiums

Reserve Allocations

- For full condo reviews, Fannie Mae requires that condo projects set aside at least 10% for capital expenditures and deferred maintenance
- The budget should show these funds independent from general operating expenses

How do you determine if the account meets the 10% minimum requirement?

Divide the
annual budgeted replacement reserve allocation

by the association's annual budgeted assessment income

Let's look at an example

Condominiums

Shady Acres Condominium consists of 20 units and each unit owner pays and HOA fee of $420 per month

The 2025 budget shows an annual reserve allocation of **$11,000**

Do they have enough in reserves to support the 10% requirement?

$420 x 20 = $84,00 HOA income per month

$8,400 x 12 = $100,800 HOA income per year

$11,000 ÷ $100,800 = 0.11 (11%)

You could also calculate 10% of $100,800 which is $10,080 (minimum required budget allocation)

Rural Properties

Rural properties sometimes come with characteristics that can make it difficult to determine eligibility

What are some factors to look for when reviewing a rural property?

- Are there signs of agricultural activities?
- What do the borrowers do for a living?
- Are there outbuildings on the property?
- How are the outbuildings currently being used?
- If a purchase, what features of the property are being emphasized in the marketing of the property?
- Is the highest and best use of the property residential?

Purchase Contracts

Ron received an amended contract after the appraisal was completed

Which of the following contract changes would require the appraiser to update the appraisal?

a. Updated sales price unrelated to the home inspection
b. Changes to the transaction terms
c. Revised plans and specifications for new construction
d. Clerical errors such as misspellings and/or missing initials

c. Any contract changes that affect the **description of the property** require an updated appraisal. Examples include legal description changes, renegotiated seller concessions or new sales price due to damage or deferred maintenance discovered during the home inspection.

Rent-Back Credits

Deborah is reviewing a purchase contract and sees that the seller is temporarily renting back the property from the borrower

Which of the following statements are true?

a. The rent received cannot be considered towards the borrower's funds to close
b. The rent should be counted as an interested party contribution
c. If the property is owner-occupied, the borrower must occupy within 60 days of closing
d. A rent-back credit may appear on the closing disclosure as a credit to the borrower

All but b are true. Rent-back payments do not count as interested party contributions

Departure Residence Converting to Investment

Ben is purchasing a new single-family home and will be renting out his current home (condo). He owns no other properties

What documentation is required to offset the PITIA for the condo?

- A fully-executed lease to document the rental income
- Evidence the lease has gone into effect with **one of the following**:
  - 2 months consecutive bank statements or electronic transfers showing receipt of the rental payments
  - Copies of the security deposit and first month's rent check

Rental Income

Greg owns a rental property with his cousin. On Schedule E, they each report 50% of the rental income and expenses for the property.

Greg is purchasing a new primary residence. How would you approach the income/liabilities for the jointly owned rental property?

a. Analyze Schedule E and subtract 50% of the PITIA.
b. Do not use Schedule E. Use 75% of the current lease and subtract the entire PITIA.
c. Analyze Schedule E and subtract the entire PITIA.
d. Do not use Schedule E. Use 75% of the lease and subtract 50% of the PITIA.

b. Fannie Mae does not allow a mortgage obligation to be discounted based on the borrower's percentage of ownership. In the event the borrower only claims a portion of the rental income due to partial ownership, a current lease may be used.

Vested Assets

How to calculate the 20% liquidation threshold for stocks, stock options, bonds, and mutual funds

Does Gwen need to provide evidence of liquidation for the mutual fund portion of the funds to close? No

$41,300 - $28,000 = $13,300

$13,300 x 20% = $2,660

$13,300 + $2,660 = $15,960 this is the minimum balance in the mutual fund account required to waive the liquidation requirement

Gwen needs $41,300 to for her downpayment and closing costs. She plans to use the following funds:

Checking: $10,000

Savings: $18,000

The remaining amount is coming from her mutual fund account which has a verified balance of $18,000

Determining the Value of an Asset

Stocks and Mutual Funds

Most recent monthly or quarterly statement **or** a copy of the stock certificate with evidence of the stock price (i.e., newspaper/internet) dated as of or near the application date. If the borrower has a margin account, the balance of the margin account must be subtracted

Vested Stock Options

A statement that lists the number of options and the option price **and** the current stock price to determine the gain that would be realized from exercise of an option and the sale of the stock

Government Bonds

The value of the government bonds must be based on their purchase price unless the redemption value can be documented

Employment-Related Assets as Qualifying Income

Employment-related assets can be used as qualifying income

Which of the following is considered employment-related income?

a. 401(k)
b. IRA
c. Simplified employee pension (SEP)
d. Stock options

All but d.

What is an employment-related asset?

Generally, any money you save in a retirement account while working

Lump sum severance and retirement packages are also eligible with a distribution letter from the employer and proof of deposit into a verified asset account (does not have to be a retirement account)

Employment-Related Assets as Qualifying Income

You may build an income stream if the borrower is not currently taking a distribution or if the current distribution amount is not enough to qualify

- Primary and second homes only
- Purchase and limited cash out refinance
- Maximum LTV/CLTV/HCLTV is **70%**
- Up to **80%** LTV/CLTV/HCLTV is permitted if the owner of the asset(s) is at least 62 years old at the time of closing. If the asset(s) is jointly owned, all asset owners must be 62 years old
- The owner of the asset must have unrestricted access to the funds

Employment-Related Assets as Qualifying Income

Start with the total amount of the eligible asset(s)

Subtract any applicable penalties for early withdrawal (typically when under 59 ½ years old)

Subtract any amounts being used towards down payment or closing costs

Divide the net amount by the loan term (i.e., 360, 180, etc.) This equals the amount that may be added as additional monthly income

Bob is 58 years old. He's cashing- out $50,000 from his IRA account to use towards his down payment. He's applying for a 30-year fixed mortgage

IRA balance:	$267,850
10% Withdrawal penalty:	-$ 26,785
Used for closing:	-$ 50,000
Net asset value:	$191,065

$191,065 ÷ 360 = $531. of monthly income

Standard 97% LTV Option

What property/occupancy types are eligible for the Standard 97% LTV option?

- One-unit principal residences
- Condo units
- Units in a planned unit development (PUD)
- MH Advantage homes

Does Fannie Mae require that one of the borrowers is a first-time homebuyer when the LTV is over 95%?

Yes

Fannie Mae Standard 97% transactions must have at least one borrower who is a first-time home buyer

Fannie Mae Selling Guide: B5-6-01-03, B2-2-06, B7-1-02, B2-1.3-01, and B2-1.3-02

Standard 97% vs. HomeReady®

Several differences exist between the Standard 97% option and HomeReady guidelines for purchase transactions

	HomeReady	Standard 97%
First-time home buyer requirements	None	At least one borrower must be a first-time buyer
Income limits	80% of AMI in all census tracts	No income limits
Mortgage Insurance	25% coverage for LTVs 90.01-97%, Standard coverage for LTVs of 90% or less. Minimum MI coverage may be used and is subject to the applicable LLPA	Standard MI coverage. Minimum MI coverage may be used and is subject to the applicable LLPA
Homeownership Education	If all occupying borrowers are first time buyers at least one borrower must complete homeownership education	If all occupying borrowers are first time buyers at least one borrower must complete homeownership education
Pricing Loan level pricing adjustments (LLPAs)	LLPAs are waived except for LLPAs related to minimum MI coverage	Standard LLPAs apply

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Monthly Obligations

Your borrower co-signed on his brother's car loan. You have the brother's 12-month payment history but notice that 2 of the payments weren't made by him, they were made by his fiancé.

Can you exclude the payment from the DTI?

The Selling Guide doesn't specifically say it isn't allowed but always be sure to make prudent underwriting decisions based on individual circumstances!

To exclude non-mortgage or mortgage debts from the borrower's DTI ratio, the lender 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.

Student Loans

Maya has three student loans on her credit report. All are in deferment until July 2026

Do you have to hold the payments against her? Yes

If the credit report provides balances but does not show any monthly payment amounts, how would you determine the payments?

- Use 1% of the balances (even if lower than the fully amortizing payment)
- A fully amortizing payment using the documented loan repayment terms

Can you combine the balances of all three to calculate the total qualifying payment? Yes

Monthly Obligations

Bryan is recently divorced. While he was married, he and his wife owned a vacation home. The divorce decree assigned the vacation home's mortgage debt to Bryan's now ex-wife.

The property wasn't refinanced to remove Bryan from the liability.

Do you need to consider this obligation in Bryan's DTI?

No.

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 lender is not required to count this contingent liability as part of the borrower's recurring monthly debt obligations.**

The lender is not required to evaluate the payment history for the assigned debt after the effective date of the assignment. The lender cannot disregard the borrower's payment history for the debt before its assignment.

Credit History

Ken is working on a new loan and sees that there is a mortgage disclosed on the application that is not appearing on the borrower's credit report.

Fill in the blanks:

Ken must confirm that the account is not __2__ or more payments past due as of __the date of the application__ and that the loan has not been past due by __2__ or more payments in the last __12__ months.

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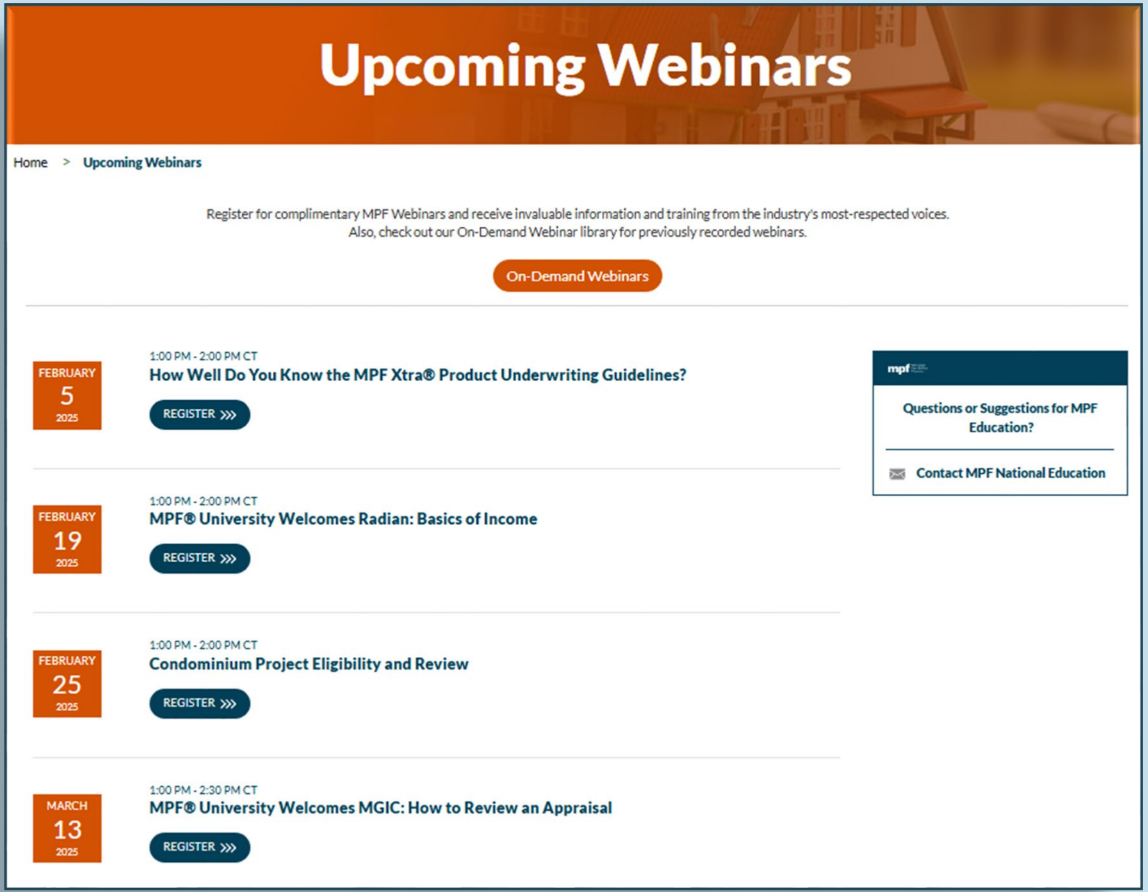

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