PFI Advisory

March 29, 2013

Special Attention: PFI MPF® Program Management, Origination Management, Underwriting Management and Quality Control Management

Subject: Quality Mortgage Guidance

Through the quality control review process the MPF Program identifies common underwriting deficiencies across all PFIs reviewed. As part of our effort to help PFIs originate and underwrite high quality mortgages, we will periodically remind PFIs of origination and underwriting policies and best practices based on recent common underwriting deficiencies. Our goals in providing PFIs with this information are to help your staff be aware of the MPF Program guidelines and to help you ensure that your organization will produce investment quality mortgages that are less likely to require corrective action on your part after delivery.

We are presenting each subject with a brief description of the governing policy, a related MPF Guide chapter reference and any educational opportunity that may be available to your staff on the subject. If there are any corresponding MPF Xtra® Manual chapters, they are included by reference here.

Revolving Debt Paid Off

When the balance of a revolving debt account, such as a credit card or retail store account or a line of credit, including a home equity line of credit (HELOC), is to be paid off in order to qualify the borrower for the mortgage, the PFI must document in the mortgage file that the account was paid off and that the account was closed and therefore cannot be used again by the borrower. Documentation of the account’s closing must come from the creditor. If the closing of the account cannot be documented by the creditor as required, the monthly payment, based on the paid-off balance, must be included as a debt in qualifying the borrower.

- MPF Underwriting Guide Chapter 4.4.2.1

Significant Deposits into Borrower Accounts

The source of all borrower funds contributed to a mortgage transaction must be from acceptable sources. This includes, but is not limited to, funds for the downpayment, closing costs, escrows, reserves and the pay-off of debts to qualify the borrower. If any of these funds are deposited into the borrower’s account(s) prior to closing, the PFI must obtain an explanation and documentation of the acceptable source of these funds.

- MPF Underwriting Guide Chapters 4.7 - 4.7.15
- The MPF Program is offering Radian’s Liquid Asset Eligibility and Documentation webinar on April 8, 2013. See the MPF Training Calendar at fhlbmpf.com for details.
Subordinate Financing with Balloon Payments
For any subordinate financing that includes a balloon payment, the balloon payment date must be greater than or equal to five (5) years after the note date of the mortgage.

- *MPF Underwriting Guide Chapter 4.7.9*

Incomplete Income Verification Documentation
The stability and likelihood of continuance of all borrowers’ qualifying income must be documented as follows:

- For manually underwritten mortgages: as required by the MPF Underwriting Guide; or
- For mortgages underwritten with the assistance of Desktop Underwriter® (DU®) or Loan Prospector® (LP); as required by the respective DU or LP feedback certificate.

If the PFI cannot obtain the required income verification documentation of the MPF Guides or the DU or LP feedback certificate the associated income cannot be used to qualify the borrower.

- *MPF Underwriting Guide Chapters 4.6 – 4.6.24*

Correct Income Calculation
The proper calculation of qualifying income is essential for a mortgage to be of investment quality. In addition to the income calculation requirements stated in *MPF Underwriting Guide Chapters 4.6 – 4.6.24*, PFIs may use the table below as a guide on how to properly calculation base employment income:

<table>
<thead>
<tr>
<th>How Often Paid</th>
<th>Monthly Income Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annually</td>
<td>Annual gross pay / 12 months</td>
</tr>
<tr>
<td>Monthly</td>
<td>Use monthly gross payment amount</td>
</tr>
<tr>
<td>Twice Monthly</td>
<td>Twice monthly gross pay x 2 pay periods</td>
</tr>
<tr>
<td>Biweekly</td>
<td>(Biweekly gross pay x 26 pay periods) / 12 months</td>
</tr>
<tr>
<td>Weekly</td>
<td>(Weekly gross pay x 52 pay periods) / 12 months</td>
</tr>
<tr>
<td>Hourly</td>
<td>(Hourly gross pay x average # of hours worked per week x 52 weeks) / 12 months</td>
</tr>
</tbody>
</table>

All of the income that results from these calculations must be stable. This is determined by comparing the calculated income with the documented year-to-date base earnings and earnings from past years.

Property Located in a Rural Area
All mortgages must be secured by a 1-4 family residential property. This requirement can be a challenge when the property securing the mortgage contains other than residential structures and/or some or a majority of the land is used for agricultural purposes. PFIs must ensure that the entire property’s current use is residential and that its highest and best use as it is currently improved is
residential as indicated on the appraisal. Any indication of anything other than residential highest and best use is not acceptable.

- **MPF Underwriting Guide Chapters 2.7, 2.7.1, 5.1.3, 5.2.3 and 5.3.1**
- **The MPF Program is offering a Rural Property Underwriting webinar on April 23, 2013. See the MPF Training Calendar at fhlbmpf.com for details.**

### Appraisal Sales Comparable Analysis

While the appraiser chooses the comparable sales to support the value and marketability of the subject property, it is the PFI’s responsibility to determine that those appropriate comparable properties in fact do support the value and marketability of the subject property. The PFI must carefully review the comparable property features, location, adjustments and other the information in the sales comparison section of the appraisal report to make this determination. The PFI should not simply accept the comparable properties because the appraiser chose them.

The PFI cannot use an opinion of market value other than that on the appraisal report, regardless of how the PFI arrives at its own market value conclusion. If the PFI disagrees with the market value on the appraisal report, the PFI should 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 cited by the PFI.

- **MPF Underwriting Guide Chapters 5.1.6 and 5.1.7**
- **The MPF Program is offering MGIC’s Residential appraisal Review webinar on April 4, 2013. See the MPF Training Calendar at fhlbmpf.com for details.**

### Delivered Data Integrity

When a PFI delivers a mortgage under the MPF Program it is warranting that all information submitted is complete, correct and accurate. PFIs should have a process in place to ensure that all data entered directly into eMPF® or delivered via the ULDD (for the MPF Xtra product) and entered into DU or LP, is the same, complete, correct and accurate everywhere it is entered and that it matches the information on the associated documents in the mortgage file.

- **MPF Origination Guide Chapters 23.2.1, 28.6.6 and 31.1, the Loan Presentment Request Form (Form OG3), the MPF Program Detailed Reference List of Required or Conditionally Required ULDD Fields (MPF Xtra Manual OG Exhibit S-X) and the MPF Xtra PFI Advisories on MPF Xtra product data.**

### Pre-Closing Quality Control Program

With PFI Notice 2012-7 the MPF Program announced that all PFIs are required to implement a pre-closing quality control review process as a component of their existing quality control program by June 30, 2013. We want to remind PFIs that they should be developing this pre-closing quality control process at this time. A pre-closing quality control program is an important component of a strong secondary market loan production operation.

- **PFI Notice 2012-7 and MPF Origination Guide Chapter 28 in its entirety**

Incomplete Mortgage Files

When a mortgage file is requested on a Notice of Quality Control Review, the PFI is to provide all of the documentation listed on the MPF Program Documentation Checklist for Quality Control Review form. Since a deficiency finding and a repurchase request may result if a document is not provided, we suggest that PFI have a process in place to ensure that all requested documents are in the loan file to be sent for quality control review.

- **MPF Origination Guide Chapters 26 and 27 in their entirety**

We encourage PFIs to review the referenced MPF Guide chapters for guideline details and to attend the highlighted webinars. Additional webinars can be found on the MPF Training Calendar at fhlbmpf.com.

The MPF Program also sponsors free training under the MPF Program Training Curriculum. The curriculum, available through AllRegs, offers 26 online, self-paced courses to expand your knowledge of the mortgage industry. The courses cover the following topics:

- Appraisals
- Closing
- Compliance
- Origination
- Processing
- Quality Control
- Servicing
- Underwriting

For MPF Program Training Curriculum registration information and a listing of the 26 FREE courses offered please see PFI Marketing Bulletin 2012-2 at http://www.fhlbmpf.com/transactions/bulletins.asp

If you have any questions, please contact your MPF Bank Representative or call the MPF Customer Support Desk at 877-INFO-MPF (877-463-6673).