mpf Mortgage Partnership Finance™

MPF Xtra® Product

Eligibility and Underwriting

August 25, 2020

FHLBANKS
A NATION OF LOCAL LENDERS

About this Material

This material is based on current information in the MPF Xtra® Product Selling Guide and Fannie Mae's 2020 Selling Guide.
The content in this presentation should not be used in their place. The aforementioned Guides are the governing documents and control in the event of discrepancies. The official versions of all MPF® Guides are available at www.fhlbmpf.com and AllRegs®.

"MPF" and "MPF Xtra" are registered trademarks and the "MPF Mortgage Partnership Finance" logo is a trademark of the Federal Home Loan Bank of Chicago.

Mortgage Partnership Finance™

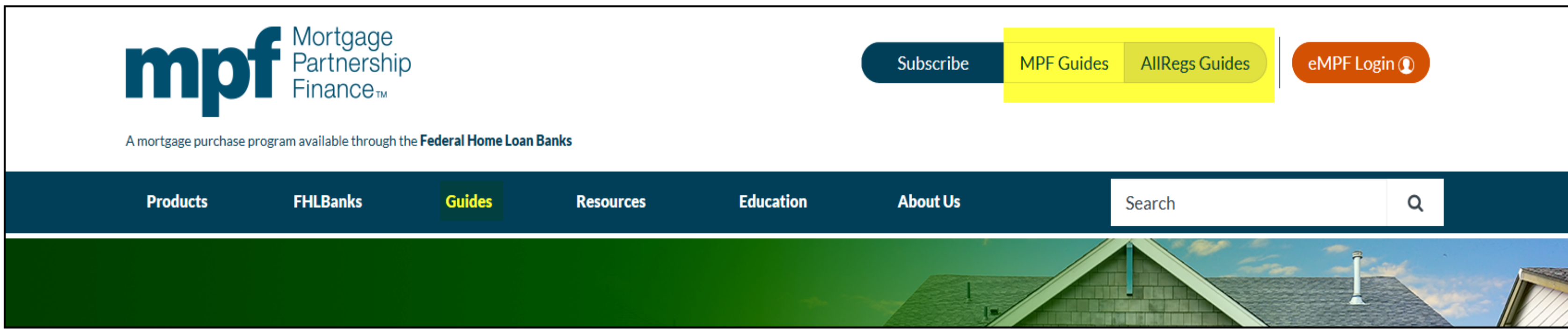
Agenda

- Where to find the MPF Xtra® Selling Guide
- Underwriting Methods
- General Mortgage Eligibility Factors
- Income and Employment
- Funds to Close and Reserves
- Credit and Liabilities
- Transactions and Loan Structuring
- Properties and Occupancy

mpf Mortgage Partnership Finance™

MPF Xtra Guides

The MPF Xtra product guides are available on the MPF® Website:
fhlbmpf.com at AllRegs.com



Underwriting MPF Xtra Loans

Each MPF Xtra mortgage delivered to the MPF Provider must first receive an underwriting approval from the originating lender.

- Loans may be manually underwritten or an Automated Underwriting System (AUS) may be used:
  - ✓Fannie Mae's Desktop Underwriter® (DU®)
  - ✓Freddie Mac's Loan Product Advisor® (LPA)

- Fannie Mae's Desktop Originator® (DO®) **is not an eligible** AUS system under the MPF Program.

Underwriting Methods- DU and LPA

Mortgage loans utilizing DU or LPA must follow the underwriting and eligibility requirements of the applicable GSE

- The MPF Program requirements that supersede the DU and LPA requirements are:
  - ✓Ineligible property types:
    - Co-ops
  - ✓Ineligible loan attributes:
    - Adjustable Rate Mortgages (ARMs)
    - Balloon mortgages
    - Interest-only mortgages
    - Home Improvement/rehabilitation loans
    - Construction loans where the construction phase is not completed.

Underwriting Methods- DU and LPA

- If using DU, loans must receive an *Approve/Eligible* recommendation.
- If using LPA, loans must receive an *Accept/Eligible (both Standard and Streamline documentation levels are acceptable).*
- Any verification message or approval conditions specified on the DU or LPA findings must be satisfied before closing with the borrower.
  - ✓ If DU or LPA returns any recommendation other than *Approve/Eligible* or *Accept/Eligible*, then the loan must be manually underwritten according to MPF Xtra/Fannie Mae manual underwriting guidelines.
  - ✓ The information supplied to DU or LPA must match the data verified on the 1003 and 1008.

mpf Mortgage Partnership Finance™

Underwriting Methods- LPA

Mortgage loans underwritten with LPA must meet the following requirements:

- Full interior/exterior appraisals only
- Maximum DTI of 50%
- Maximum LTV of 95%*
- Minimum 620 credit score
- No manufactured homes
- At least one borrower on the transaction must have a usable credit score.
- Standard MI coverage according to the Fannie Mae Selling Guide.
- The last feedback certificate must not include any requirement for recourse or other credit enhancement beyond standard MI requirements.
- Compliance with general and specific LPA eligibility requirements as published in the Freddie Mac Seller Guide Chapter 5101.

Special Feature Code (SFC) 361 must be provided at Loan Presentment for mortgage loans underwritten with LPA.

**LTVs over 95% are eligible under the Home Possible® Mortgage Product.*

Use of Validation Services

Fannie Mae and Freddie Mac validation services are eligible

- **Day 1 Certainty™** provides representations and warranties on key aspects of the mortgage origination process.
  - ✓ Fannie Mae is offering income, asset and employment validation services through DU.
  - ✓ Appraisal waivers may also be offered through DU.

- For detailed information visit the Fannie Mae website:
  https://www.fanniemae.com/singlefamily/day-1-certainty

- Follow the instructions provided by Fannie Mae for setting up the vendors offering the DU validation services for income, assets and employment.

- ***If using Freddie Mac's Asset and Income Modeler (AIM) the vendor must also be approved with Fannie Mae. Please note that Fannie Mae does not provide representation and warrant relief if using AIM, despite the vendor.***

General Eligibility

Conforming Loan Limits

Number of Units	Maximum Original Loan Amount- Conventional Mortgage Loans (Properties in Contiguous United States)	Maximum Original Loan Amount- Conventional Mortgage Loans (Properties in Alaska and Hawaii)
1	$510,400	$765,600
2	$653,550	$980,325
3	$789,950	$1,184,925
4	$981,700	$1,472,550

To determine the maximum loan amount for conventional high-balance mortgage loans, see **Exhibit N**: *High-cost Area Loan Limits* located in the *Exhibits* section of the MPF Guides.

The limits are determined by the Federal Housing Finance Agency visit their website for more details:
https://www.fhfa.gov/DataTools/Downloads/Pages/Conforming-Loan-Limits.aspx

mpf Mortgage Partnership Finance™

Agency High Balance Loans

Which requirement for mortgage loans secured by properties located in high-cost areas is not true?

a. All loans must be underwritten through DU or LPA.
b. All borrowers must have traditional credit and credit scores.
c. Loan Level Pricing Adjustments (LLPAs) apply.
d. Investment Properties are not permitted.

Special Feature Code of 808 must be used (even if underwritten with LPA).

mpf Mortgage Partnership Finance™

MPF Xtra Expanded LTV Options

Both purchases and limited cash-out refinances are eligible up to a 97% LTV under the standard mortgage guidelines

- DU must be utilized, manual underwriting is not permitted.
- LTVs over 95% require at least one borrower to be a first-time homebuyer.
- For limited cash-out refinances, Fannie Mae must be the owner of the existing mortgage.
- Standard Loan Level Pricing Adjustments (LLPAs) apply.
- At least one borrower on the loan must have a credit score.
- Non-occupant co-borrowers are not permitted.
- Up to 105% CLTV is permitted if the second mortgage is a Community Seconds.
- No high-balance mortgages.

Primary Residence Transaction Type	Number of Units	Maximum LTV/CLTV/HCLTV
Purchase and Limited Cash-Out Refinances	1 Unit	97%

mpf Mortgage Partnership Finance™

HomeReady® Overview

HomeReady® is an enhanced, affordable lending product available through Fannie Mae that is designed to help low-moderate income borrowers.

- 97% LTV financing with up to 105% CLTV available with approved Community Seconds.
- No minimum borrower contribution (1-unit properties).
- Reduced MI

HomeReady Basics

Income:

- Income may not exceed **80%** of the Area Median Income (AMI) limit for the property's location.
  - ✓Income from **all** borrowers signing the Note must be considered.
  - ✓AMI limits are available in the DU findings or on Fannie Mae's website.

Homeownership Education:

- Homeownership education is required for HomeReady purchase mortgage loans when all occupying borrowers are first-time homebuyers.
  - ✓At least one borrower on the loan must complete the homeownership education **or** HUD-approved homeownership counseling.
  - ✓Loans where at least one borrower completed *homeownership counseling* are eligible for an LLPA credit.
  - ✓The homeownership education requirement is available online through **Framework Homeownership, LLC.**

mpf Mortgage Partnership Finance™

Using LPA over 95% LTV

Freddie Mac Home Possible® loans are eligible for delivery with the following expanded eligibility requirements:

- Maximum LTV of 97%
- Maximum CLTV of 105% with an *Affordable Loan* complies with Fannie Mae eligibility guidelines.
- Home Possible loans that do not meet the criteria to use Fannie Mae HomeReady MI coverage must have standard MI coverage.

SFC 605 must be provided at Loan Presentment for Home Possible loans that meet the criteria to use Fannie Mae HomeReady MI coverage.

mpf Mortgage Partnership Finance™

Income and Employment

Stable and Predictable Income

While some income is considered "predictable" (like a salary), other types of income like bonuses, commissions and self employment are considered as "variable" and trends must be identified.

- If variable income is **stable or increasing** the amount should be averaged.
- If **declining but stabilized** with no reason to believe the borrower will not continue to be employed at the current level, the current, lower amount of variable income must be used.
- If **declining**, the income may not be stable.
  - ✓ Determine if the variable income should be used.
  - ✓ Do not average over the period that the decline occurred.

mpf Mortgage Partnership Finance™

Continuity of Income

Can you name income sources that require a three-year continuance?

Alimony or child support
Distributions from a retirement account (i.e. 401(k), IRA, SEP, Keogh)
Mortgage differential payments
Notes receivable
Royalty payments
Social Security (not including retirement or long-term disability)
Trust income
VA benefits (not including retirement or long-term disability)

The items represented above are common examples. There may be other situations not listed would also require a three-year continuance.

Secondary Income

Jess and Charlene are both teachers. During the summer, they like to work on their hobby farm and sell eggs to neighbors and the local farmer’s market. Can their secondary self-employment income (or loss) from farming on Schedule F be excluded?

Yes. Income (or loss) from secondary self-employment can be excluded if the borrower is using non-self-employment income to qualify (for example, salary or retirement income).

Rental Income

Angie lives with her fiancée, Walter. Walter owns his home, so currently Angie has no housing obligation. Angie has an opportunity to purchase a small condo as an investment property.

The market rent is $1,500 and the proposed PITIA is $975.
Which of the following statements is correct?

A: Reduce the rental income by 25% and subtract the PITIA. Add the positive cash flow as income ($150). Don't include the PITIA in her DTI ratio.
B: Reduce the rental income by 25% and subtract the PITIA. Add the positive cash flow as income ($150). Include the PITIA in her DTI ratio.
C: Hold the full payment against her without considering any rental income.

Funds to Close and Reserves

Mortgage Partnership Finance™

Unacceptable Sources of 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.
- Stock options and non-vested restricted stock.
- Personal unsecured loans.
- Interested party contributions.
- Cash proceeds from a cash-out refinance transaction.
- Any amount of a lender contribution.

Mortgage Partnership Finance™

Gifts

- **Gift letters should contain:** The amount of the gift, donor’s name, date of transfer, the donor’s address and telephone number, the relationship to the borrower, and a statement that no repayment is necessary.

- Proof of deposit into the borrower’s account or if not received in time, the donor may provide certified funds (i.e. cashier’s check) at the time of closing.

LTV, CLTV or HCLTV Ratio	Minimum Borrower Contribution Requirement from Borrower’s Own Funds	
80% or less	1-4 unit principal residence or second home	All funds may come from a gift
Greater than 80%	1--unit principal residence (except high-balance loans)	All funds may come from a gift
	2-4-unit principal residence or second home, high-balance mortgage loans.	Borrower must have a minimum of 5% from their own funds, the remaining amount may come from a gift.

- **Gift funds are not permitted for investment properties.**

Verifying Gifts

Verify that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account

- **Acceptable documentation includes:**
  - ✓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.
  - ✓A copy of the donor's check to the closing agent (must be in the form of a certified check, cashier's check or other official check).
  - ✓Evidence of an electronic transfer.
  - ✓A settlement statement showing receipt of the donor's check.

mpf Mortgage Partnership Finance™

Knowledge Check

If you exceed the guideline for an interested party contribution (IPC), what are you able to do with the excess amount?

A: You may net it out of the purchase price, but the LTV must re-calculated based on the lower purchase price and used for underwriting purposes.

Use caution with higher LTV loans to ensure they do not become ineligible once the LTV is re-calculated.

mpf Mortgage Partnership Finance™

Credit and Liabilities

Mortgage Partnership Finance™

General Liability Considerations

- **Paying off of revolving debt at closing:**
  - ✓ Revolving accounts that are paid down to zero at closing may remain open and no monthly payment needs to be included in the DTI ratio.
- **If no payment is reflected for a revolving debt on the credit report**:
  - ✓ use 5% of the balance **or** obtain documentation from the borrower to support a payment of less than 5%.
- **How to determine a student loan repayment if not reflected on the credit report:**
  - ✓ Use 1% of the outstanding balance.
  - ✓ A fully amortized payment based on the documented repayment terms.
  - ✓ If a lender is able to obtain documentation that a payment is $0, the $0 payment may be considered as long as it is associated with an income-driven repayment plan.

mpf Mortgage Partnership Finance™

Yes or No?

If a borrower has a loan out against their 401K, does that payment have to be included in their DTI ratio?

No.

Payments on loans against a borrower's personal financial assets do not have to be held against the borrower.

The amount of the loan must be subtracted from the asset value and only the remaining amount may be used as reserves.

mpf Mortgage Partnership Finance™

Timeshare Liabilities

Lucy and Gary own a timeshare in Florida. They financed their upfront fee and currently pay a monthly installment payment of $185. There is also a $600 annual maintenance fee.

Q: Does the annual maintenance fee need to be calculated as a monthly amount and included in their DTI ratio?

A: No. While the installment portion to finance the upfront fee must be included, associated maintenance fees are considered discretionary use of income and do not need to be included in the DTI ratio.

mpf Mortgage Partnership Finance™

Automobile Allowances

How are automobile allowances treated?

a. Add it to the borrower's income and include any applicable loans/leases in their DTI ratio.
b. If the allowance covers the borrower's loan or lease payment, remove the payment from the borrower's monthly obligations.
c. If the allowance doesn't cover the loan/lease payment, only count what is not covered in the borrower's monthly obligations.
d. Both answers b and c.

Mortgage Partnership Finance™

Lack of Traditional Credit

Loans that include a borrower with a credit score and a borrower without a credit score:

- ✓ Income from self-employment is now permitted.
- ✓ The borrower with the credit score is no longer required to contribute more than 50% of the qualifying income.

Underwriting Method	Source Requirements
Manual Underwriting	Four sources for each borrower without a score
Underwritten through DU	If no borrower has a score, at least two sources for each borrower
	If the borrower with a credit score contributes 50% or less of the qualifying income, two sources for each borrower without a credit score. If the borrower with a credit score contributes more than 50% of the qualifying income then no non-traditional credit history is required for the borrower(s) without a credit score.

See B3-5.4-02 in the **Fannie Mae Selling Guide** for more details.

Lack of Traditional Credit

Your borrowers have no credit scores, which item is not true?

a. The property must be a one-unit, principal residence, and all borrowers must occupy the property.
b. All property types are permitted, with the exception of manufactured housing.
c. The transaction must be a purchase or limited cash-out refinance.
d. The loan amount must meet the general loan limits—high-balance mortgage loans are not eligible.
e. The maximum LTV, CLTV, and HCLTV ratios are 90%.
f. The debt-to-income ratio must be less than 40%.
g. The loan must be manually underwritten.

DU must be used. Manual underwriting is not permitted.

mpf Mortgage Partnership Finance™

Transactions and Loan Structuring

Mortgage
Partnership
Finance™

True or False?

Borrowers must escrow for taxes if they want to include non-delinquent taxes into their limited-cash out loan amount

False. A tax escrow is no longer required if a borrower wants to include non-delinquent taxes into their loan amount (June 3, 2020).

- The payment of taxes must be handled through the closing and disbursed directly to the taxing authority, not to the borrower.

- For all limited cash-out transactions that include taxes, in the loan amount, taxes may not be more than 60 days delinquent.

mpf Mortgage Partnership Finance™

Limited Cash-Out Refinances

Which of the following are sufficient to document that all proceeds from a subordinate lien were used as purchase money?

A: A copy of the settlement statement for the purchase of the property.

B: A copy of the title policy from the purchase transaction that identifies the subordinate financing.

C: Other documentation from the purchase transaction that indicates that a subordinate lien was used to purchase the subject property.

D: All of the above.

mpf Mortgage Partnership Finance™

Purchases

Can a purchase contract include a rent back agreement?

Yes. Purchase contracts may include a rent back agreement however, if the subject property is owner-occupied, the borrower must occupy the property within 60 days of closing as noted in the security instrument.

Pending Sale

If your borrower's departure residence is not going to be sold before closing on their new home, do you always have to hold the entire PITIA against them for qualifying?

A: In most cases, yes unless the borrower can provide the following:

- An executed sales contract.
- Evidence that the buyers of the property have no outstanding financing contingencies.

Mortgage Partnership Finance

Property and Occupancy

Solar Panels

You are reviewing Barb and Kenneth's refinance file. The appraisal shows that the home has solar panels.

Q: What are some of the things you need to know to properly evaluate this loan?

Solar Panels

It's important to determine who owns the solar panels and if they are financed

Other questions to ask:

- Who owns the panels, the borrower or a third party?
- Are the panels leased?
- Are the panels financed separately and if so, what is serving as collateral?
  - ✓ The subject property
  - ✓ The panels/equipment
- Is there a power purchase agreement?
- Is there an alternative energy source that meets community standards?

mpf Mortgage Partnership Finance™

Solar Panels

<u>Scenario One:</u> The panels are financed and collateralized by the property

- In this case, a UCC filing showing the property as collateral may show on title and possibly on the credit report.
    1. Review the terms of the financing and include the payment in the borrower's DTI.
    2. If the panels cannot be repossessed if the borrower defaults, the appraiser should include the panels in the appraised value.
    3. Include the solar panel obligation in the CLTV ratio.
    4. If a UCC filing is recorded against the property, it must be subordinated.

mpf Mortgage Partnership Finance™

Solar Panels

Scenario Two: The panels are financed and collateralized by the solar panels/equipment

- A UCC filing may still be present for the financing of something considered to be personal property.
- Obtain documentation (i.e. UCC filing, financing agreement, credit or title report) to determine the financing terms.
  1. Include the payment amount it the borrower’s DTI ratio.
  2. Instruct the appraiser to not include the solar panels in the property value.
  3. Do not include the obligation for the panels in the LTV/CLTV.

Solar Panels

Properties with Solar Panels that are Leased or Covered by a Power Purchase Agreement

1. Review the Power Purchase Agreement.
2. Include the payment in the DTI ratio unless:
   - The power agreement provides for a specific amount of energy at a fixed payment during a given period, and has a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output requirement for that period.
   - Payments are calculated solely based on the amount of energy produced.
3. Do not include the property value or consider the amount owed in the LTV/CLTV.
4. Sometimes precautionary UCC filings may be present. Review the filing to determine that the collateral is the panels, not the property.

Solar Panels

Leases and Power Purchase Agreement Requirements

- Any damage due to installation, malfunctions, defects, or the removal of the solar panels is the responsibility of the equipment owner and any damage must be repaired and the property condition fully restored.

- The owner of the solar panels must agree to not to be named loss payee (or named insured) on the borrower's property insurance policy.

Please refer to Fannie Mae Selling Guide B2-3-04 for more details about evaluating homes with solar panels.

mpf Mortgage Partnership Finance™

What's the difference between a co-signor/guarantor and a non-occupying co-borrower?

	On the Credit Application	Occupies the Property	Ownership Interest in the Property	Signs the Mortgage or Deed of Trust	Is Jointly Liable on the Note
Non-Occupant Co-Borrower	Yes	No	Typically, Yes	Yes	Yes
Co-Signor or Guarantor	Yes	In most cases, No	No	Yes	Yes

In both cases the non-occupying co-borrower or co-signor may not have an interest in the property transaction, such as the property seller, the builder, or the real estate broker.

mpf Mortgage Partnership Finance™

Non-Occupant Co-Borrowers

<table>
<tr><th>AUS</th><th>Manual Underwriting</th></tr>
<tr><td>DU and LPA will consider the income, assets, liabilities and credit of a co-borrower, regardless of occupancy.</td><td>LTV/CLTV/HCLTVs greater than 80% require that the occupying borrower must make the first 5% of the down payment from their own funds.*</td></tr>
<tr><td rowspan="2">The LTV/CLTV/HCLTV may not exceed 95% if there is a non-occupying co-borrower (unless a Community Second is part of the transaction).</td><td>If the income of the non-occupying co-borrower is used for qualifying, the maximum LTV/CLTV/HCLTV may not exceed 90% (unless a Community Second is part of the transaction).</td></tr>
<tr><td>Using only the income of the borrower to qualify the maximum DTI is 43%.</td></tr>
</table>

** Some gift allowances may be permitted, refer to the **Fannie Mae Selling Guide** B2-2-04 for additional details.*

mpf Mortgage Partnership Finance™

Second Homes

If rental income is received on a second home:

- Rental income for a second home is permitted but the rental income may **not** be included to qualify.
- The borrower must continue to utilize/occupy the property as a second home for some portion of the year.

Summary

Always refer to the MPF Xtra Selling Guide and the Fannie Mae Selling Guide for guidance on underwriting MPF Xtra loans

- Pay close attention to announcements that refer to changes or clarifications to the MPF Xtra guidelines.
- Sign up to receive announcements directly from the MPF Provider (visit www.fhlbmpf.com to subscribe to e-alerts).
- Contact the **MPF Service Center** for additional assistance.

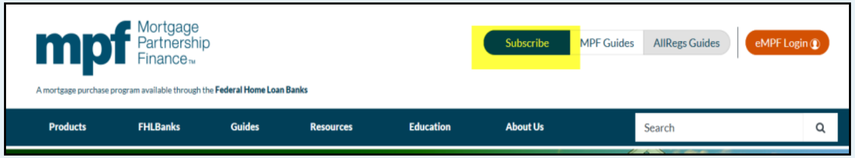
MPF Contacts and Resources

MPF Service Center

Email - MPF-Help@FHLBC.com
Hours - 8:30 am to 4:30 pm CST
Phone: (877) 463-6673

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

www.fhlbmpf.com



MPF National Education

mpf Mortgage Partnership Finance™ university

Check out our upcoming webinars:
https://www.fhlbmpf.com/education/upcoming-webinars

Register for MPF University
www.fhlbmpf.com

MPF National Education
mpftraining@fhlbc.com

Follow the Mortgage Partnership Finance Program (MPF) on Social media!

mpf Mortgage Partnership Finance™