Bankers Advisory
COMPLIANCE MONITOR

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FHLB Updates Mortgage Partnership Finance Xtra Underwriting Guidelines

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March 11, 2015, The Federal Home Loan Bank Mortgage Partnership Finance (MPF) program issued MPF Xtra® PFI Notice 2015-1. The notice was effective on March 11, 2015 unless otherwise noted and pertained to the PFI MPF® Program Management, Origination Management, and Underwriting Management. The Notice included the following statement: The MPF Xtra Manual and the MPF Xtra PFI Notices supplement, but do not replace, the MPF Guides. PFIs that sell under the MPF Xtra product must continue to monitor and adhere to PFI Notices and Advisories.

Subjects:

- Cash-Out Refinance LTV
- Multiple Financed Properties
- Financed Mortgage Insurance Endorsement
- Project Standard Policy Updates
- Liability Insurance for PUDs
- Fidelity Insurance for Condos

MPF Xtra Manual Underwriting Guide Changes:

- Maximum LTV, CLTV and HCLTV Ratios (Chapter 2.2.3)
- Cash-Out Refinance Mortgages (Chapter 3.2.2)
- Maximum Loans per Borrower (Chapter 4.3)
- Mortgage Insurance Ratios and Amounts (Chapter 7.1)
- Liability Insurance (Chapter 10.4)
- Fidelity Insurance (Chapter 10.5)
- Condominiums and PUDs (Chapter 12)

Description of Changes:

Each of the updates to the MPF Xtra Manual is described below. The affected topics and a brief description of the major policy changes are noted. PFIs should read the applicable referenced chapters of the Fannie Mae Selling Guide to ensure a full understanding of all policy changes.

Cash-Out Refinance Mortgages (Chapters 2.2.3 and 3.2.2)

The maximum LTV, CLTV, and HCLTV ratios for fixed-rate, cash-out refinance transactions secured by a one-unit primary residence are reduced to 80% for both manually underwritten loans and loans underwritten with Desktop Underwriter® (DU®). This change was announced in MPF Xtra PFI Advisory dated December 8, 2014 (Maximum LTV, CLTV and HCLTV Ratios for Cash-Out Refinance Transactions) and was effective with loan applications dated on or after December 13, 2014. In addition, the location of the Fannie Mae Eligibility Matrix has been added to this chapter for ease in locating the LTV, CLTV and HCLTV guidelines.   Please Note: Not all Fannie Mae product offerings and loan types are eligible for purchase under the MPF Program at this time. Please reference the chapter for a list.

Multiple Financed Properties for the Same Borrower; Maximum Loans Per Borrower (Chapter 4.3)

The requirements for multiple financed properties have been simplified by eliminating several of the more stringent additional underwriting requirements that previously applied. As a result of these changes, standard Fannie Mae Selling Guide requirements now apply for the following policies:

- Waiting periods and re-establishment of credit after a significant derogatory credit event;
- Mortgage payment history requirements;
- Rental income documentation; and
- Obtaining a signed IRS Form 4506T (obtaining IRS copies of the tax returns or the transcript via an executed 4506T will no longer be required).

All other additional requirements for borrowers who will own five to ten financed properties (as described in *Fannie Mae Selling Guide Chapter B2-2-03 Multiple Financed Properties* for the Same Borrower, and *B3-4.1-01, Minimum Reserve Requirements*) will continue to apply, including eligibility limits, minimum reserve requirements, and delivery requirements. PFIs are reminded to deliver SFC 150 when delivering loans with multiple financed properties.

Financed Mortgage Insurance Endorsement (Chapter 7.1)

Currently, the Fannie Mae Selling Guide states that PFIs must obtain a financed mortgage insurance premium endorsement to the mortgage insurance policy. Several mortgage insurers however, have the required language incorporated directly into their new master policies while others are continuing to use a financed premium endorsement for this purpose. The Fannie Mae Selling Guide has been clarified to include the option of allowing the language related to any financed mortgage insurance premium to be incorporated into a PFI's master mortgage insurance policy. PFIs may disregard this language in the message issued by DU® version 9.1. DU® version 9.2 will reflect the updated requirement. Note: Chapter 7.1 has been relocated from Chapter 12.1 of the Origination Guide.

Condominiums and PUDs (Chapter 12)

The changes and clarifications described below are effective with applications dated April 18, 2015, or projects reviewed on or after April 18, 2015, whichever is later.

The condominium and PUD project standards and policies have been updated to:

- Organize policy requirements based on the unit type (attached or detached), project type (condo or PUD), and project status (new or established);
- Streamline the project review methods; and
- Revise certain policy requirements in light of market trends.

The updated project review methods for units in condos are presented as the following:

- Limited Review;
- Full Review conducted with or without the use of CPM; and
- Fannie Mae Approval via the Project Eligibility Review Service (PERS).

The updates to the project standards chapters are extensive in terms of clarifications, reorganization, and streamlining of redundant text. Part of the intent of this update is to organize the policy requirements, and make it easier for PFIs completing a project review on an ad-hoc basis related to a single loan. Notable updates include, but are not limited to the following:

- The Limited Review requirements have been streamlined for attached units in established projects and for detached units in eligible new and established projects. The references to DU® requirements and spot loan eligibility have been removed.
- Key changes to the Full Review requirements include the following:
    - CPM and Full Review have been consolidated into one review method;
    - The pre-sale requirements for new projects has been decreased from 70% to 50%; and
    - The number of days for which 15% of unit owners may be past due on common expense assessments has been increased from 30 to 60 days.
- The requirement that new condo projects with units less than 400 square feet be reviewed through PERS has been removed.
- To assist PFIs with the PERS submission process, a list of required documents has been added.

- A new recommendation has been added for PFIs to obtain the homeowner's association IRS Tax Identification Number (ITIN) for all condo projects. Over time, this will improve tracking of projects and the risk associated with deliveries from each project.

Detailed descriptions of ineligible project characteristics have been updated to include new prohibitions, clarifications, and additional flexibilities:

- The additional flexibilities include:
  - Increasing the allowable commercial space allocation from 20% to 25% for condo projects,
  - Allowing a single entity to own up to two units in a project consisting of five to twenty units,
  - Specifying the situations in which up to 15% of non-incidental business income is allowed, and
  - Permitting live-work projects that allow unit owners to operate small home-based businesses from their residential dwelling.

- Additional requirements include prohibitions against projects that require mandatory fee-based memberships and projects that operate as continuing care facilities.

- Guidance has been added concerning how to research and confirm whether a project is, in fact, functioning as a condohotel and clarifying the circumstances under which boat slips, cabanas, or similar non-real estate properties are acceptable as project amenities.

- All reviews (with the exception of PERS reviews) will have a 180-day expiration date. The review must have been completed within 180 days prior to the note date.

- The topic on project insurance has been deleted, as these requirements are presented in Fannie Mae Selling Guide Chapter B7-4, Additional Project Insurance.

- The policies that are NOT changing with this update are those related to:
  1. Environmental hazards;
  2. The PERS process;
  3. Detached units in PUD projects;
  4. Project Eligibility Waivers; and
  5. Project Type Codes.

Links to the appropriate Fannie Mae Selling Guide chapter and a list of the topics in the chapter have been added to MPF Xtra Manual Underwriting Guide Chapter 12 for ease of use in locating the guidelines related to these updates. The information in the Fannie Mae Selling Guide provides PFIs with a more comprehensive resource on this topic, including specific information on the updates in addition to the topic references in this PFI Notice.

In addition, an attachment to this Notice details all chapters of the Fannie Mae Selling Guide that have been updated as a result of the policy changes related to project standards.

PFIs that sell loans under the MPF Xtra product must follow the Fannie Mae Selling Guide in it's entirety for all guidelines related to the eligibility and underwriting of loans in a condominium project or a planned unit development. Note: Chapter 12 has been relocated from Chapter 33 of the Origination Guide.

Liability Insurance for PUDs (Chapter 10.4)

The liability insurance requirements have been clarified for PUD projects. The policy more clearly states that liability insurance is only required and must be verified for attached units in new PUD projects.

Note: Chapter 10 has been relocated from Chapter 15 of the Origination Guide.

Fidelity Insurance for Condominiums (Chapter 10.5)

Condominium projects that qualify for a Limited Review will no longer require fidelity/crime insurance.

Additional Updates

The Fannie Mae Selling Guide currently contains references to "the date on which the note is signed" and the "note date." The only date on the note itself is at the top of the document; however, this date may not necessarily be the date on which the note was signed. As a result, references in the Guide to "the date on which the note is signed" have been changed to the more definitive "note date." This update also aligns with the delivery requirement to provide "note date."