

TURN UP YOUR  
**VOLUME**



## SECONDARY MORTGAGE OPERATIONS CONFERENCE

October 23, 2008 | 8 am - 4 pm



## MPF<sup>®</sup> Quality Assurance Overview



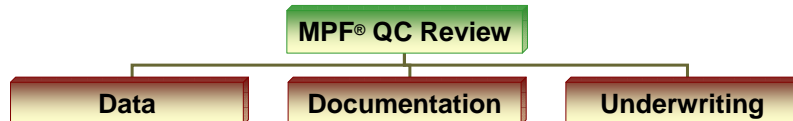
10/23/08

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## Key Exception Categories

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## QC Review Types

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- **Alternative** (Data & Limited Doc Review)

Alt Review Docs – Appraisal, Credit Report, HUD-1, Final 1003, Final DU/LP AUS if applicable, MI Cert

- **Full Review** - Review of entire loan file  
Data, Documentation and Underwriting

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## Data Fields - LTV Calculation

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- **Purchase** – Loan amount divided by lower of appraised value or purchase price at time of closing.  
  
**Refinance** - Loan amount divided by value of subject property at time of closing
- **LTV** calculation can determine whether MI is required, and also affect eligibility.
- **LTV** is reported out to three decimal places for loan presentment.

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## Key Data Fields

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- **Property Type** (Primary Residence) – Manufactured home, Low-Rise/High Rise Condo, PUD, attached Condo or PUD, SFR, 2-4 Unit.
- **Property Type** (Second/Vacation Home) - attached and detached single (1-unit only) family properties, condominiums and PUDs, no manufactured homes. (UG 2.7)
- **Loan Purpose** – Refinance – C/O vs. no C/O  
If paying off a first/second mortgage & second was used to purchase home, equals No-C/O Refinance, otherwise, payoff of a first and non-purchase money second is a cash-out refinance.

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## Key Data Fields

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- **Limited cash out refi** – A limited cash-out refinance Mortgage is a transaction for which the loan proceeds are limited to amounts used to buy out the equity of a co-owner or to provide flexibility to our standard refinance policy for borrowers impacted by a natural disaster. Should be reported as a cash-out refinance at loan presentment.

(UG 3.2.3)

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## Key Data Fields

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- **Expedited Refinance** – Submitted as no cash-out refinance. Loan must be eligible for “expedited” refinance processing.
- **Minimum documentation required:**  
Newly completed 1003, mortgage payment history for existing loan for last 12 months, or since inception if less than 12 months, new “in-file” credit report (minimum 1 repository), borrower and CB verified income from 1003 of existing (no decline in stated income on New 1003), original appraisal

UG 3.3.1

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## Key Data Fields

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- **Appraisal Type** – Exterior only inspections Form 2055, 1075 (Condo), 2070, 2075 regardless of AUS approval may not be used for, but not limited to:

Manually Underwritten Loans

Areas with declining values

Properties with more than 10 acres

Manufactured Homes

Property is New Construction, Not Yet Occupied

UG 2.17.1 for Complete List

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## Key Data Fields

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- **FICO Scores** – At least 2 should be obtained, 3 standard.

Example: B = 752, 745, 752; CB – 720, 700, 710

UG 4.5.1

- **Documentation Type** – Reflects level of income Documentation found in the loan file. 24 months required for manual underwrite; AUS conditions must be met if applicable. (OG 3 Forms and Exhibits Section of MPF Guide)

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## Key Data Fields

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- Subordinate Financing – Yes/No
- Self Employed – Yes/No (owns at least 25% of a partnership or corporation or is a sole proprietor)
- Asset Verification (purchase transactions) – Yes/No
- Zip Code and Property State
- Appraised Value – At time of closing

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## Key Data Fields

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- Sales Price
- PMI % and PMI Insurer – Required Level of Coverage
- Original Loan Amount
- Occupancy – Primary or Second Home
- Loan Origination Source – Retail, Broker or Correspondent

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## Key Data Fields

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- Buy-Down – Yes/No – **UG 2.18**
- Predatory Lending Classification
- Borrower & Co-Borrower Monthly Income
  
- Total Housing & Total Debt Ratios – within MPF Guidelines or agree with DU/LP AUS approval
- Provide Explanation for ratios that exceed MPF ratios guidelines of 33%/38%.

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## Questions

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## Documentation Exceptions

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- Complete Initial 1003/Final 1003 – most current form dated 7/05
- Note/Mortgage or Deed of Trust –Riders, correct form – FNMA/FHLMC Uniform Instruments OG 31.6
- Title Commitment and Endorsements – OG 13

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## Documentation Exceptions

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- Title Opinions, Indemnity Language – OG 13.5
- Uniform Underwriting Transmittal 1008 if “manually underwritten”; compensating factors noted, signed by loan approver – UG 4.8.1

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## Documentation Exceptions

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- **Verifications** – Maximum age from Note date; 120 days, or 180 days if new construction
- **VOE** – 24 months history documented, YTD
- **VOD** – Average Balances indicated, loans addressed

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## Documentation Exceptions

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- **Pay stubs** – computer generated, W-2s, tax returns signed, Form 4506 included.
- **Divorce decree** - document alimony/child support; is it ongoing at least 3 years?

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## Documentation Exceptions

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- **Credit Report** – All mortgages and rent verified, credit report for all borrowers
- All accounts shown – compared to 1003
- Adverse credit explained

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## Documentation Exceptions

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- **Bankruptcy** Discharge Papers if applicable
- **Gift Letter** – Gift letter signed by the donor, indicating (1) the dollar amount and date of the gift; (2) the donor's name, address, telephone number, and relationship to the Borrower; and (3) the donor's statement that no repayment is required; and verification that gift has been deposited into the Borrower's account. UG 4.7.4

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## Documentation Exceptions

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- Funds to Close Verified – HUD-1 from Sale of Prior residence
- Sales Contract
- Hazard Insurance/Flood Insurance, if applicable
- Flood Certificate

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## Documentation Exceptions

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- DU or LP AUS certificate, if applicable
- Secondary Financing Documentation – Note, Security Instrument, HUD-1
- All documentation must be legible copies.

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## Questions

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## Underwriting & Eligibility, Ratios

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- **Ratio Guidelines** – Letter of Explanation supporting underwriting decision when ratio guidelines are exceeded.
- **General Ratio parameters** – Greater than 15 up to 30 year amortization – 33%/38% Total housing and debt ratios
- **15 year** and under amortization – 38%/38%
- **Total** recommended maximum is 50% total debt ratio.

UG 27.10.7, UG 4.4.3

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## Underwriting & Eligibility, Alternative Credit

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- For borrowers with no established credit history, at least 4 open and active accounts for at least 12 months:

### Primary Sources:

- \* Housing payments (mortgage or rental)
- \* Utilities (if not included in housing payment), such as electricity, gas or water payments
- \* Telephone or cable television service payments

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## Underwriting & Eligibility Alternative Credit

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- **Secondary sources:**
  - \* Automobile insurance payments
  - \* Medical insurance coverage payments (excluding payroll deductions)
  - \* Local store payments

See OG 20.1.5 for complete list

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## Underwriting & Eligibility Expedited Refinance

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- **Expedited Refinance SFR :**
- Newly completed FNMA Form 1003
- 12 month Mortgage payment history for existing first mortgage or since inception
- New in-file credit report, including a FICO score from a minimum of one repository

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## Underwriting & Eligibility Expedited Refinance

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- **Verified income** from previous 1003 can be used provided stated income has not declined
- **Original Appraisal** or new appraisal (if rep and warrant cannot be made for value)
- **To be eligible** the mortgage must be originated or serviced by the PFI, and the PFI must possess or have access to the original or copy of the underwriting file; the mortgage must have been originally underwritten to standards set forth in the MPF Origination and Underwriting Guides.

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## Underwriting & Eligibility Expedited Refinance

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- Meet LTV and TLTV ratio requirements **UG 2.2.3**
- Satisfactory mortgage payment record
- Secured by property meeting requirements of UG 2.7; no manufactured homes

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## Underwriting & Eligibility LTV/TLTV

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- Sales Price = \$157,500.00
- Appraised Value = \$158,000.00
- Loan Amount - \$126,350.00
- Home Equity Loan Opened at Closing for \$16,000.00
- What is the LTV/TLTV to be reported at loan presentment?

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## LTV/TLTV Answer

- $\$126,350/\$157,500 = 80.222\%$  LTV, 12% MI required for mortgage with a 30 year term
- If appraised value was used, the LTV was *incorrectly* calculated at 79.968%
- $\$126,350 + \$16,000 = \$142,350/\$157,500 = 90.381\%$  TLTV. Loan eligible for purchase transaction.
- If cash-out refinance, loan is ineligible with secondary financing at 90.095% TLTV.  
 $\$142,350/\$158,000 = 90.095\%$
- MPF UG Chapter 2.2 discusses maximum LTV/TLTV Ratios, OG 12.1 for MI ratios

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## Underwriting & Eligibility Source of Funds

- **Funds** toward transaction that come from secondary financing require that:
  - Borrower's need 3% of their own funds invested in transaction (purchase)
  - Meet LTV and TLTV requirements
  - Monthly payments on secondary loan are included in Borrower's monthly housing expense ratio
- UG 4.7.9

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## Underwriting & Eligibility Income Stability

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- **Income stability** reflects a Borrower's future ability to maintain mortgage payments
- Can the originator determine that the Borrower's income is stable, predictable and likely to continue?
- To be considered qualifying income, income must be likely to continue at least 3 years
- UG 4.6.1

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## Property Located in Declining Markets

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- **Maximum financing** is defined as an amount within five percent (5%) of the maximum LTV allowed for a specific type of Mortgage or program.
- Financing to the maximum LTV, as shown in Chapter 2.2 of the Underwriting Guide, is permissible only when property values are not declining. The Originator is not permitted to offer maximum financing in any case in which property values are declining (see Chapter 5.1.2 of the Underwriting Guide for property values and declining markets).

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## Underwriting & Eligibility For Property Located in Declining Markets

Neighborhood Characteristics			One-Unit Housing Trends			One-Unit Housing		Present Land Use %
Location	<input type="checkbox"/> Urban	<input type="checkbox"/> Suburban <input type="checkbox"/> Rural	Property Values	<input type="checkbox"/> Increasing	<input type="checkbox"/> Stable <input type="checkbox"/> Declining	PRICE	AGE	One-Unit %
Built-Up	<input type="checkbox"/> Over 75% <input type="checkbox"/> 25-75% <input type="checkbox"/> Under 25%	Demand/Supply	<input type="checkbox"/> Shortage	<input type="checkbox"/> In Balance	<input type="checkbox"/> Over Supply	\$ (000)	(yrs)	2-4 Unit %
Growth	<input type="checkbox"/> Rapid <input type="checkbox"/> Stable <input type="checkbox"/> Slow	Marketing Time	<input type="checkbox"/> Under 3 mths	<input type="checkbox"/> 3-6 mths	<input type="checkbox"/> Over 6 mths	Low		Multi-Family %
Neighborhood Boundaries						High		Commercial %
						Pred.		Other %
Neighborhood Description								
Market Conditions (including support for the above conclusions)								

Taken from FNMA Form 1004, March 2005

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## Underwriting & Eligibility Appraisal Review Key Points

- The value and marketability of a property should be sufficient to provide adequate security in the event of Borrower default.
- Was the Sales Comparison Approach used to determine value? At least 3 comps provided?
- Are comps within the subject market?
- Are comps similar in design and utility?
- Are large adjustments reasonably explained?

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## Underwriting & Eligibility Appraisal Review Key Points

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- Does subject have any adverse conditions; for example needed repairs, conditions that affect livability, soundness or structural integrity?  
UG 5.1.1
- A property's market value is the most probable price the property would sell for within a reasonable period on the open market under normal market conditions.

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## Underwriting & Eligibility Loan DU<sup>®</sup> or LP<sup>®</sup> AUS Underwriting

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- **AUS** may be used to assist in making underwriting decision.
- **Data** must be correct; conditions from the AUS output met and documented in the file.
- **Decision** must be Accept and Eligible to Purchase (LP) and Approve/Eligible (DU) and meet MPF Guidelines
- UG 2.17

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## Underwriting & Eligibility Manufactured Homes

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- Must be classified as real property for tax purposes
- Maximum lot size of 10 acres
- One unit dwelling, double wide or larger, minimum width 22 feet.
- Permanently attached to a pre-built permanent foundation
- Wheels, Axles and trailer hitches removed prior to anchoring to a permanent foundation

**UG 5.2.6.1**

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## Underwriting & Eligibility, Borrower's Ability to Make Mortgage Payments

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- Regardless of the underwriting method the PFI uses, the PFI's underwriting of the Mortgage confirms that, at the time of origination, the Borrower can afford to make the Mortgage payments. This determination of the Borrower's ability to repay is made by comparing the Borrower's income, assets and liabilities to the proposed Mortgage payment.

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## Underwriting & Eligibility, Borrower's Ability to Make Mortgage Payments

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- The MPF Banks' willingness to fund or to purchase Mortgages made to Borrowers with higher credit risk, is still predicated on the use of the MPF Program underwriting guidelines that require the Borrowers' have a reasonable ability to make the Mortgage payments and likelihood to do so in a manner that will enable him or her to successfully maintain homeownership.

OG 2.6.3

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MPF Helpdesk

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MPF<sup>®</sup> Help Desk  
877-345-2673  
Or  
MPF<sup>®</sup>-Help@fhlbc.com

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## Questions

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## MPF® Quality Assurance Overview

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**Thank you**  
for your interest and participation  
in the  
MPF® Program!

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