Advantage MPP

INFORMATIONAL BULLETIN

MPP BULLETIN 02-18
August 1, 2018

Please contact Advantage MPP at 1-800-274-4636 with questions concerning MPP Guide changes.

FHLBank Indianapolis Releases Revised *MPP Guide*

The revised *Mortgage Purchase Program Guide* (*MPP Guide*) is now available online. The revised MPP Guide is effective for Mandatory Delivery Contracts issued on or after August 1, 2018.

The new *MPP Guide* incorporates all outstanding bulletin updates through *Informational Bulletin 01-18 (which includes 04-17, 05-17, 06-17, 07-17),* as well as other changes to the *MPP Guide*. [1]

Below is an overview of the substantive *MPP Guide* changes not previously communicated through an *Informational Bulletin*. Changes to the text are indicated in **red**. Please refer to the *MPP Guide* for all applicable requirements.

LIMITATIONS AND RESTRICTIONS (SECTION 6.1)

Added an exception to the permitted escrow holdbacks in in Section 6.1.3.

> Escrow Holdbacks are not permitted (except grade and seed and/or weather related - see Section 6.2 for requirements).

Added language in Section 6.1.3 Other Eligibility Restrictions regarding non-occupying borrowers.

> Non-occupying borrowers are not allowed for all transactions/loans sold into the MPP program.

MAXIMUM AGE OF DOCUMENTATION (SECTION 6.2)

Updated Section 6.2 to Maximum Age of Documentation/Escrow Holdback.

Added Escrow Holdback requirements for New Construction:

> Escrow Holdback requirements for New Construction.
>
> Mortgages may be delivered before postponed items are complete; however, the postponed improvements must be completed within 180 days of the date of the mortgage note. Acceptable postponed items include items that:

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- are part of the sales contract (third-party contracts are not permissible);
- are postponed for inclement weather; and
- do not affect the ability to obtain an occupancy permit.

A certification of completion must be obtained to verify the work was completed and must:

- be completed by the appraiser,
- state that the improvements were completed in accordance with the requirements and conditions in the original appraisal report, and
- be accompanied by photographs of the completed improvements.

The cost of completing improvements must not represent more than 10% of the “as completed” appraised value of the property.

Sellers must establish a completion escrow for the postponed improvements, by withholding from the purchase proceeds funds equal to 120% of the estimated cost for completing the improvements. However, if the contractor or builder offers a guaranteed fixed-price contract for completion of the improvements, the funds in the completion escrow only need to equal the full amount of the contract price.

Lenders and borrowers must execute an escrow agreement that states how the escrow account will be managed and how funds from the escrow account will be disbursed.

The completion escrow may not adversely affect the mortgage insurance or title insurance.

Once a certificate of completion is obtained, the lender must release the final draw from the escrow account, which should include any funds in excess of the amount needed to pay for completion of the postponed items.

Lenders must obtain a final title report, which must not show any outstanding mechanic’s liens, take any exceptions to the postponed improvements, or take any exceptions to the escrow agreement. If the final title report is issued before the completion of the improvements, lenders must obtain an endorsement to the title policy that ensures the priority of first lien.

CASH OUT REFINANCES (SECTION 6.3.9)

Reduced the seasoning requirement to use the appraised value of a cash out refinance from twelve (12) months to six (6) months.

> *If the property has been owned by the borrower for less than six (6) months, the LTV is based on the lesser of the original purchase price plus the documented cost of improvements or the current appraised value.

CASH OUT REFINANCES (SECTION 6.3.9.4)

Updated Section 6.3.9.4.b to include language on the waiting period requirements, and added minimum credit score language as Section 6.3.9.4.c.

In addition to credit score requirements, credit history must include:

a. A Qualifying Indicator Score as defined in Section 6.4.2 of this Guide.
b. No bankruptcy, foreclosure, Short Sale, restructured mortgage loans or Deed-in-Lieu in the last seven years (see 6.7.2 waiting period requirements for derogatory events).
c. Minimum credit score is 720 for all borrowers with LTV > 75% and 680 for all borrowers with LTV <= to 75%.

CONDOMINIUMS (SECTION 6.5.2.1)

Updated Section 6.5.2.1 by removing item d and re-lettering subsequent items.

Established projects should meet the following criteria and are also subject to small project criteria, as applicable:

a. The units, facilities, and common areas must be complete (including those that are part of a master association).
b. The project is not subject to additional phasing or annexation.
c. At least 90% of the total units have been conveyed.
~~d. At least 70% of the total units are occupied as primary residences or second homes.~~
d. No entity owns more than 10% of the total units.
e. The unit owners have been in control of the homeowner's association for at least one year.
f. The units in the project are owned fee simple.
g. The unit owners have the sole ownership and rights to all common elements and facilities.
h. The project is covered by the appropriate kinds of insurance as required for a condominium project (including, but not limited to, earthquake insurance as required in California).

SECOND/VACATION HOMES (SECTION 6.5.7)

Updated the conditions required for Second/Vacation Home to be eligible for Advantage MPP.

If approved for purchase in the MCC, loans for second/vacation homes are eligible for MPP if the borrower meets all of the following conditions:

1. Owns only one unit in a project
2. Must be secured by a 1-unit property owned by an individual who is also the borrower. Must be occupied by the borrower for some portion of the year and the property must be:

    a. In such a location as to function reasonably as a second home (i.e., remote in distance from the borrower's primary residence).
    b. Suitable for year-round occupancy
    c. Intended and available for the borrower's exclusive use and enjoyment
3. Is limited to one unit single family and condo properties only
4. Has at least 5% of personal funds invested in the transaction
5. Each borrower individually and all borrowers collectively must not own and/or be obligated on more than six 1 to 4 unit financed properties, including the subject property.
6. Has a minimum of two (2) months of reserves Principal, Interest, Taxes, Insurance (PITI) for the Mortgaged Premises and reserves equal to two (2) months PITI for each other financed second home and 1 to 4 unit investment property in which the Borrower has an ownership interest or on which the borrower is obligated; and
7. Is a U.S. citizen, permanent resident alien, or non-permanent resident alien.
8. Purchase/Limited cash-out/No cash out refinances max 90% LTV/CLTV/HCLTV (with AUS approval or manual underwrite without AUS approval). Cash out refinances are allowed up to 75% LTV/CLTV/HCLTV with a minimum credit score of 720.
9. ~~Non-occupant co-borrowers are not allowed on second homes.~~

Appendix A (MPP Guide Appendices)

Updated Section 1.2.2 to read:

A Document Custodian that is a subsidiary or affiliate of a financial institution may use its parent's or affiliate's Financial Institution Bond, and Errors and Omissions insurance policies. The Document Custodian must be named as a joint insured under the Financial Institution Bond and the Errors and Omissions policies, and if not a regulated institution, the parent's or affiliate's bond or insurance policies must at a minimum meet any requirements stated in the guides.

The details of the Financial Institution Bond insurance and the Errors and Omissions insurance are described in the following sub-sections.

Financial Institution Bond

Financial Institution Bond (or equivalent insurance) must protect against, at a minimum:

- Losses resulting from dishonest of fraudulent acts of directors, officers, employees, and contractors; and

- Physical damage or destruction to, or loss of, any mortgage notes and assignments while such documents are located on the Document Custodian's premises or in-transit while under the control of the Document Custodian.

The insurance coverage must be in an amount that is commercially reasonable and is commonly found in the mortgage industry, based on the number of mortgage notes and assignments held in custody. The policy's deductible clause may be for any amount up to a maximum of five percent (5%) of the face amount of the bond. The Document Custodian must obtain our permission for a higher deductible amount.

Errors and Omissions

Errors and Omissions Insurance covers liability due to errors or omissions in the performance of services, and claims resulting from the Document Custodian's breach of duty, neglect, misstatement, misleading statement or other wrongful acts committed in the conduct of document custodial services. Coverage limits must be not less than $1 million per claim and $10 million in the aggregate, on a claims-made basis. The Policy's deductible clause may be for any amount up to a maximum of five percent (5%) of the amount of the policy.

FHLBank Indianapolis periodically issues Informational Bulletins to provide program updates and information to approved Advantage MPP sellers, including: *MPP Guide* revisions and changes; operational guidance or clarifications; and notices/reminders of industry issues that may affect sellers.

[1] The Informational Bulletins are coded so that users can easily identify the issue and year of bulletin publication. For example, "Bulletin 04-15" indicates the fourth Informational Bulletin issued in 2015.

Please retain these bulletins in the back of your *MPP Guide* for easy reference. Bulletins can also be found posted at the online Advantage MPP Materials[DLL1] page.