



Advantage MPP

INFORMATIONAL BULLETIN



MPP BULLETIN 03-19

August 1, 2019

Reorganization of Chapter 6

FHLBI Underwriting
Guidelines

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, 2019.

The new *MPP Guide* incorporates all outstanding bulletin updates through *Informational Bulletin 02-19 (which includes 06-18,02-19)*, 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.

1.3 Standards and Regulatory Compliance

Section 1.3 has been updated with two new subsections regarding compliance with the USA PATRIOT Act, Anti-Money Laundering and Bank Secrecy Act and Department of Treasury Office of Foreign Assets Control Regulation.

1.3.1 USA PATRIOT Act, Anti-Money Laundering and Bank Secrecy Act

All PFIs and Servicers are required to comply with the USA PATRIOT Act, including, without limitation, the requirement to have a Customer Identification program. All PFIs and Servicers that are subject to Financial Crimes Enforcement Network (FinCEN) anti-money laundering (AML) and Bank Secrecy Act (BSA) regulations must be in compliance with all applicable provisions of those regulations, and must have internal policies, procedures, and controls in place to identify suspicious activity, and otherwise as required under FinCEN, AML and BSA. PFIs and Servicers subject to FinCEN AML and BSA regulations must report to the MPP Provider all instances of the following:

- Suspicious activity related to Mortgage Loans; and
- Non-compliance, compliance failures, or sanctions related to applicable AML and BSA regulations.

Servicers not subject to FinCEN AML and BSA regulations must:

- Develop internal policies, procedures, and controls to identify suspicious activity that may involve money laundering, fraud, terrorist financing, or other financial crimes similar to those required by FinCEN AML and BSA regulations; and
- Report to the MPP Provider all instances of suspicious activity related to Mortgage Loans it services.

Suspicious activity must be reported to the MPP Provider by emailing MPP@fhlibi.com PFIs and Servicers must follow the confidentiality restrictions of FinCEN AML and BSA regulations. The report to the MPP Provider must not include sharing with the MPP Provider any Suspicious Activity Report (SAR) or the existence of a SAR.

1.3.2 Department of Treasury Office of Foreign Assets Control (OFAC) Regulation

PFIs and Servicers must comply with OFAC regulations as may apply during any stage of origination and servicing, through pay off or liquidation, including REO. PFIs and Servicers must have adequate policies and procedures in place to ensure compliance with OFAC and the USA PATRIOT Act, including without limitation documentation obtained to verify the Borrower's identity as required in the Guides and by law. Loans are ineligible for delivery under the MPP Program if the Borrower, key principal, or principal is a "specifically designated national and blocked person" on OFAC's Specially Designated Nationals (SDN) list. Prior to delivering a loan under the MPP Program, the PFI must verify that the Borrowers, key principal, and principal are not on the current OFAC SDN List. PFIs and Servicers must comply with the foreign assets control regulations, 31 C.F.R. Chapter V, as amended, and any authorizing legislation or executive order relating thereto, as administered by the Office of Foreign Assets Control (OFAC) within the United States Department of the Treasury (collectively "OFAC Regulations"). Servicers must periodically check Mortgage Loans against the current OFAC SDN List and immediately notify FHLB Indianapolis if a match is discovered. The notice must include the Borrower's name, the MPP loan number, and the Servicer's contact information.

6. FHLB Indianapolis Underwriting Guidelines

Section 6 has been updated to include the following:

Link to Fannie Mae and Freddie Mac

<https://www.fanniemae.com/content/guide/selling/index.html>

<https://guide.freddie.mac.com/app/guide/>

Quick Reference Matrices

6.2.1.1 Occupancy Type - Second/Vacation Homes

Updated Section 6.2.1.1 to add a new condition (d.) to second/vacation homes.

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
 - d. **Must not be rental property or a timeshare arrangement**

6.2.1.3 Loan Purpose - Rate-and-Term/Limited Cash Out/Special Purpose Cash-Out Refinance Mortgages

Two additional conditions have been added to the section.

3. Cash back to the mortgagor(s) or any other payee may not exceed the lesser of either
 - a. DU – 2% of the new refinance mortgage or \$2000
 - b. **LPA – up to the greater of 1% of the new refinance mortgage or \$2000**
 - c. **Manual Underwrite - 2% of the new refinance Mortgage or \$2,000**

6.2.3.3 Number of Financed Properties

| Subject Property | AUS DU/LPA | Manual Underwrite |
|-------------------|---------------|-------------------|
| Primary Residence | 10 | 6 |
| Second Home | 10 | 6 |

6.4 Underwriting Property

Removed definitions for each section of the appraisal

6.5.2 Construction Permanent

Added two sections regarding definitions of Single-Closing Construction-to-Permanent Mortgages and Two-Closing Construction-to-Permanent Mortgages.

6.5.2.1 Single-Closing Construction-to-Permanent Mortgage

A single-closing construction-to-permanent mortgage loan may be closed as:

- a purchase transaction, or
- a limited cash-out refinance transaction.

When a purchase transaction is used, the borrower is not the owner of the lot at the time of the first advance of interim construction financing, and the borrower is using the proceeds from the interim construction financing to purchase the lot and finance the construction of the property.

When a limited cash-out refinance transaction is used, the borrower must have held legal title to the lot before he or she receives the first advance of interim construction financing. The borrower is using the proceeds from the construction financing to pay off any existing liens on the lot and finance the construction of the property.

6.5.2.2 Two-Closing Construction-to-Permanent Mortgage

Two-closing transactions utilize two separate loan closings with two separate sets of legal documents. The first closing is to obtain the interim construction financing (and may include the purchase of the lot), and the second closing is to obtain the permanent financing upon completion of the improvements.

- Allows a borrower to choose an interim construction lender and a different lender for the permanent financing.
- Good option for when the borrower is seeking different terms than what is available at the time the construction loan is made.

6.6.2.2 PMI Cancellations

Removed a requirement regarding properties not subject to a subordinate lien.

Borrower Requested-Original Property Value

A borrower may initiate cancellation of PMI coverage by submitting a written request to the Servicer. The borrower must have an acceptable mortgage payment record which is current when termination is requested, no payment which is 30 or more days past due in the last 12 months, and no payment which is 60 or more days past due in the last 24 months.

Servicer actions are required when any of the following applies:

The principal balance of the loan:

- a. Is first scheduled to reach 80% of the original value (regardless of the outstanding balance), based on:
 1. The initial amortization schedule (in the case of a fixed-rate loan).
 1. Reaches 80% of the original value based on actual payments.
1. The borrower has good payment history.
2. The borrower satisfies any requirement of the mortgage holder for:
 - a. Evidence of a type established in advance that the value of the property has not declined below the original value and
 - ~~b. Certification that the borrower's equity in the property is not subject to a subordinate lien.~~

6.7.1 Power of Attorney (POA) - POA Closing Documents

Removed a requirement regarding borrowers being present at closing or conducting face-to-face interviews through power of attorney.

May be executed via a POA provided the following conditions are met:

1. The POA can be used for closing documents only and is not acceptable for application or credit verification documents.
- ~~2. At least one borrower must be present at Closing, unless a face-to-face interview has been conducted with all applicants.~~
3. A separate, executed POA must exist for each borrower not present at Closing.
4. The Attorney-in-Fact must execute all closing documents at Settlement.
5. The title company must ensure the lender is the first lien position without exception to the POA.
6. The title company must ensure the POA has been recorded or will be recorded along with but immediately prior to the closing documents through the closing instructions.

7.2.1 QA Plan Requirements

Added a requirement that sellers must provide copies of their policies regarding compliance with Bank Secrecy Act, Anti-Money Laundering and Office of Foreign Assets Control.

The QA Plan must have documented standards and procedures that satisfy each of the following areas of QA compliance:

1. The QA Plan must assure that the Seller's operating procedures are revised in a timely manner to accurately reflect changes in FHLBI, institutional, insurer, and secondary market requirements. Personnel must be notified of changes and the Seller is accountable for performance failures or errors.
2. The QA Plan may be drafted to meet the following requirements set forth in this section (Section 7) or may comply with the QA

Guidelines of any one of the following agencies: Fannie Mae, Freddie Mac, or FHA.

3. The QA Plan should be kept current with the Seller's operating procedures and is subject to review by FHLBI at any time during the Seller's participation in MPP at FHLBI's request.
4. Sellers need to have the execution of IRS Form 4506-T with the IRS in their written QA Plan.
 - a. For all loans reviewed through the sellers own QA selection process, the review must include 24-month transcripts (executed 4506-T) from the IRS.
 - b. For all loans that require tax returns (i.e., self - employed), Sellers must obtain 24-month transcripts (executed 4506-T) for the same tax years as documented by the borrower's tax returns in the underwriting file.
 - c. Transcripts must be obtained for all income types used in the underwriting process (personal and business, if applicable). If tax returns were required in the underwriting of the loan, the lender must obtain transcripts for the same tax years as documented by the borrower's tax returns.

5. Sellers to provide copies of their Bank Secrecy Act, Anti-Money Laundering and Office of Foreign Assets Control policy

10.2 Mortgage Servicing and Administration - Servicing Responsibilities:

Added a requirement for servicers to verify mortgage loans do not appear on the OFAC SDN list.

- n. Servicers must periodically check Mortgage Loans against the current OFAC SDN List and immediately notify the FHLB Indianapolis if a match is discovered. The notice must include the Borrower's name, the MPP loan number, and the Servicer's contact information.

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

The Informational Bulletins are coded so that users can easily identify the issue and year of bulletin publication. For example, "Bulletin 03-19" indicates the third Informational Bulletin issued in 2019.

Please retain these bulletins in the back of your MPP Guide for easy reference. Bulletins can also be found posted on the MPP Materials page online.