



## **Residential 1-4 Family First Mortgage Loans Member Self-Reporting**

### **Frequently Asked Questions (FAQs)**

#### **Q: What is changing?**

**A:** Beginning in 2019, members who pledge residential 1-4 Family 1<sup>st</sup> Mortgage loans as collateral will be required to self-report the dollar amount balances of these loans that meet the definition of nontraditional and/or subprime. Currently, based on a member's last MCV results, a system calculation is made from the member's reporting of type code 1101 that breaks out a defined percentage into type code 1102 (nontraditional) and/or type code 1103 (subprime).

#### **Q: What defines a mortgage as subprime or nontraditional?**

**A:** Subprime loans are defined as having a FICO<sup>®</sup> score of 660 or less. Nontraditional loans include, but are not limited to, one-to-four family residential mortgage loans that allow borrowers to defer principal and/or interest payments for a period of time before the loan begins to amortize. A typical nontraditional loan would be interest only for a period of time before switching to amortizing principal and interest payments. Note – nontraditional loans do not include HELOCs that have been termed out or construction loans which are interest only during the construction phase.

#### **Q: What if a member institution does not collect FICO scores and/or have the ability to extract FICO score data?**

**A:** Subprime loans will be identified using FICO score first (per definition), and secondary indicators only if FICO was unavailable at origination. Loans should be reported as subprime if they were acquired/originated after July 10, 2007 and:

- FICO  $\leq$  660;
- No FICO score is available and the loan exhibits a subprime characteristic<sup>1</sup>; or
- No FICO score is available and there is insufficient evidence of assessment (i.e. no credit report or cash flow analysis is available).

#### **Q: What will change in reporting 1-4 Family First Mortgage Loans on a BBC?**

**A:** The 1-4 Family 1<sup>st</sup> Mortgage BBC form will be modified to include blanks for the member to fill in the following data points:

- Balance of 1-4 Family 1<sup>st</sup> Mortgages (type code 1101)
- Balance of nontraditional 1-4 Family 1<sup>st</sup> Mortgages (type code 1102)
- Balance of subprime 1-4 Family 1<sup>st</sup> Mortgages (type code 1103)

The sum of all three should total the amount of 1-4 Family 1<sup>st</sup> Mortgages that the member wishes to pledge. The balances should be expressed in dollar amounts for each type code, and not as percentages of the overall portfolio.

#### **Q: What will change in reporting 1-4 Family First Mortgage Loans on an expanded file format?**

**A:** At this time, there are no changes to the procedures of members reporting their collateral monthly on an expanded listing file. The new definition of subprime will be used to identify subprime loans from the data points on the file provided by the member.

<sup>1</sup> At origination or most recent modification, evidence of delinquency (two or more 30-day delinquencies in the last 12 months or one or more 60-day delinquencies in the last 24 months); evidence of foreclosures or judgments in the prior 24 months; evidence of bankruptcy in the prior 60 months; or a DTI ratio of 50% or greater.

**Q: What will change in reporting 1-4 Family First Mortgage Loans on a general file format?**

**A:** Rather than using type code 1101 for all 1-4 Family 1<sup>st</sup> Mortgages on the monthly listing file, members pledging residential 1-4 Family 1<sup>st</sup> Mortgage loans will be required to break out nontraditional and/or subprime from loans previously pledged.

- Use type code 1101 for any residential 1-4 Family 1<sup>st</sup> Mortgage loan with neither subprime nor nontraditional characteristics.
- Use type code 1102 for any residential 1-4 Family 1<sup>st</sup> Mortgage loan with nontraditional characteristics.
- Use type code 1103 for any residential 1-4 Family 1<sup>st</sup> Mortgage loan with subprime characteristics.

**Q: What if a specific loan meets the definition of both nontraditional and subprime?**

**A:** The loan should be reported as 1103 subprime.

**Q: Can a FICO score be pulled after origination?**

**A:** The credit score at origination should be used for purposes of reporting. A member may not utilize a FICO score pulled after origination to support reporting, unless the new score is obtained for and used as part of a documented loan modification.

**Q: What if a loan initially allowed for deferment of principal and interest, but no longer allows for it? Would the loan still be considered nontraditional?**

**A:** The loan would continue to be nontraditional since those characteristics existed at origination.

**Q: Are all loans with an interest-only period considered nontraditional?**

**A:** No. For example, construction-to-perm financing is not considered nontraditional, provided that the construction phase has a defined term and the permanent phase provides for amortizing payments without the deferral of principal and/or interest. Once the loan is fully disbursed and the property is complete, such loans may be pledged using type code 1101.

**Q: Since the definition of subprime has been simplified to only apply to loans with a FICO Score of 660 or less, does that mean loans with a FICO higher than 660 but have bankruptcy, foreclosure, and/or judgment history now qualify to be pledged under type code 1101?**

**A:** Yes. For example, today a member would report a loan meeting at least one of these criteria as 1103 Subprime. With this change in reporting, loans with a FICO score greater than 660 would be classified and reported as 1101, despite exhibiting subprime characteristics<sup>1</sup>, thus resulting in a higher value applied to the loan.

**Q: If more than one credit score is used in underwriting a loan (e.g. loans with more than one borrower and/or more than one score is obtained), which score should be used for purposes of FHLBDM collateral self-reporting?**

**A:** The determining credit score is the credit score of the primary borrower. The primary borrower is defined as the borrower whose income contributes most to repayment capacity - the borrower with the largest income. When there are multiple credit scores for the primary borrower:

- If three scores are obtained, the determining score is the middle of the three credit scores. Example: Three scores are 701, 689 and 659; the determining score is 689.
- If there are two scores, the determining score is the lowest credit score. Example: Two scores are 701 and 659; the determining score is 659.

**Q: What if a member inadvertently reports inaccurate totals?**

**A:** The member may resubmit their totals throughout the quarter to correct any mistakes in reporting that might have occurred.

**Q: Does the subprime definition apply to non-individual borrowers (e.g. Corporations, Trust, Partnerships, etc.)?**

**A:** No, because FICO scores do not apply to entities. Members may report loans to non-individual borrowers under type code 1101.