



State of New York Mortgage Agency

641 Lexington Avenue, New York, NY 10022
(212) 688-4000 • Fax: (212) 872-0789

JOSEPH STRASBURG
Chairman

STEPHEN J. HUNT
President/CEO

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**RE: Seller's Guide Bulletin #5-2001
All SONYMA Programs: Acceptance of Automated Underwriting Decisions and
Update on Cooperative UCC Requirements**

Dear Participating Lender:

Please be advised of the following updates relative to all State of New York Mortgage Agency ("SONYMA") programs.

Use of Automated Underwriting Systems

SONYMA is pleased to announce that it will begin accepting mortgage loan underwriting decisions made by either Fannie Mae's Desktop Underwriter® or Freddie Mac's Loan Prospector® (collectively, the "automated underwriting systems"). No other automated underwriting system may be used to underwrite SONYMA loans. In formulating our automated underwriting system policy, SONYMA worked closely with several participating lenders and both Fannie Mae and Freddie Mac. We believe that this policy will result in (1) higher loan approval rates, (2) improved loan processing times, and (3) lower lender costs that may ultimately lower costs to SONYMA borrowers.

Lenders are advised that in no event should a loan application be denied solely on the basis of a decision rendered by the automated underwriting system. For example, if the automated underwriting system rates a loan application as Refer, Refer with Caution, Caution, or Out of Scope (depending on which system is used), and the applicant wishes to continue the mortgage process, lender must perform a fully documented, manual underwriting of the loan application in conformance with Sections 3.101 through 3.109 of the SONYMA Seller's Guide.

Except as otherwise stated in this letter and the attached amended pages to the Seller's Guide, lenders using the automated underwriting systems must comply with all requirements of Fannie Mae or Freddie Mac for the use of such systems as set forth in their licensing or user agreements, user manuals, lender announcements/bulletins, and seller's guides. Furthermore, in submitting a loan file underwritten by an automated underwriting system to SONYMA or its pool insurer, lender will make the warranties and representations listed in Section 3.110(a) of the Seller's Guide.

SONYMA's automated underwriting system requirements are described in Section 3.110 of the Seller's Guide and are summarized as follows:

- All loans must be entered into the automated underwriting system as a conventional, fixed-rate Fannie Mae or Freddie Mac loan product. The interest rate entered should, however, be the rate locked with SONYMA. For Construction Incentive Program loans, lenders should enter the initial qualifying rate (currently 3.875%). Submitting loans under one of Fannie Mae's or Freddie Mac's "affordable" or "subprime" products or programs is not acceptable.
- In addition to satisfying all the conditions of the automated underwriting system findings report/feedback certificate, lenders must comply with the following guidelines:
 1. Maximum Underwriting Ratios. For loans with loan-to-value ratios (LTVs) of 95 percent or less, the monthly housing expense-to-income ratio may not exceed 40 percent and the monthly debt payment-to-income ratio may not exceed 45 percent. For loans with LTVs higher than 95 percent, the monthly housing expense-to-income ratio and the debt payment-to-income ratio may not exceed 33 and 38 percent, respectively.
 2. Minimum Equity Requirement. In all cases, lenders must document that the applicant has a minimum of 3 percent (5 percent for 3- and 4-family properties and cooperatives) of their own funds in the transaction. Please see Section 3.101 of the Seller's Guide for more information.
 3. Submission of Recent Paystub. SONYMA will require that a recent paystub be included with all credit applications (except for self-employed applicants).
 4. Project Requirements. If the applicant is purchasing a unit in a condominium, PUD, homeowners association, or cooperative project, lender must verify that the project meets SONYMA's requirements for these property types as described in Sections 3.108 or 3.109 of the Seller's Guide.
 5. Other Requirements. SONYMA has established specific requirements regarding 401(k) and pension loans, unsecured installment loans, student loans, and seller contributions. Please see Section 3.110(b)(v) for more details.
- PMI Coverage Requirements. Since Fannie Mae and Freddie Mac have different PMI coverage requirements than SONYMA, lenders may not use the automated underwriting system to order PMI. Lenders must ensure that each loan meets the coverage requirements set forth in Section 2.221 of the Seller's Guide.
- Loan Submission Process. Lenders processing loan applications on an automated underwriting system must continue to send a loan credit file to Radian Guaranty, Inc. ("Radian") for pool insurance review and a complete loan file to SONYMA for IRS compliance review.

The documents required by Radian are described in Section 3.110(d)(i) of the Seller's Guide. Radian will review the required documentation to ascertain that all conditions of the findings report/feedback certificate generated by the automated underwriting systems and the relevant requirements of Seller's Guide Section 3.110 have been satisfied. In addition, Radian will be responsible for checking the integrity of the data contained on the findings report/feedback certificate. Upon Radian's review and acceptance, a pool insurance certificate and if applicable, PMI certificate will be issued to the lender.

The documents to be submitted to SONYMA are described in Section 3.110(d)(ii) of the Seller's Guide and are substantially similar to the documents currently required. To comply with Federal regulations, SONYMA will continue to require all IRS compliance documents (i.e., 3 years federal income tax returns, Recapture Notification and Mortgagor's Affidavit, Property Seller's Affidavit, etc.). Attached is a camera-ready copy of the revised Application Loan File Checklist (Form 225/10-01) that incorporates the documentation we require for loans utilizing an automated underwriting system.

- **Ineligible Transaction Types and Ineligible Underwriting Decisions.** SONYMA will not accept automated underwriting system decisions for applications with a prior history of bankruptcy (where the bankruptcy was discharged less than 5 years from application) and/or foreclosure, or where a guarantor is being utilized in the transaction. Further, SONYMA will not accept automated underwriting system approval decisions with "loan-level price adjustments". In order to be considered for approval, all such loans must be fully documented and manually underwritten in conformance with Sections 3.101 through 3.109 of the SONYMA Seller's Guide.

Lenders may begin using the automated underwriting systems immediately for all new mortgage applications and for any reserved loan application not yet submitted to Radian for underwriting.

If lender elects not to underwrite SONYMA loans using an automated underwriting system, all loans must be fully documented and manually underwritten in conformance with Sections 3.101 through 3.109 of the SONYMA Seller's Guide and submitted to Radian as set forth in Section 2.706(b) of the Seller's Guide.

Acceptance of Short Form Appraisal Report for Existing Housing Loans

Consistent with SONYMA's acceptance of automated underwriting decisions but for existing housing loans only, SONYMA will accept the short form appraisal (Fannie Mae Form 2055 – Quantitative Analysis Appraisal Report) provided the property appraiser has performed a full interior inspection of the dwelling. At least 3 photographs of the subject property as well as photographs of the comparable sales must be attached to Form 2055. Lenders may only submit Form 2055 in lieu of Fannie Mae Form 1004 (Single Family) and Form 1073 (Condominium).

For all new construction, two- to four-family, and cooperatives properties, SONYMA will not accept Form 2055 and will continue to require the applicable long form appraisal report as described in Section 3.104(a) of the Seller's Guide.

Update on Filing UCCs for Cooperative Share Loans

In our August 14, 2001 letter, SONYMA advised lenders that based on a change in New York State law, it would require, for cooperative share loans, new UCC forms to be completed and filed in the applicable county clerk's office. Since that time, several lenders have contacted us asking for direction on completing the new UCC forms. Details on completing the forms are described in the enclosed Appendix IV (Revised: 10/01) as well as the attached Closed Cooperative Share Loan Document Checklist (Form 224/10-01). Lenders must also carefully follow the directions provided with the UCC forms. The forms will be acceptable to SONYMA subject to the following guidelines:

- If SONYMA is named as the secured party in Box 3a of the National UCC Financing Statement (Form UCC1) (Rev. 7/28/98), lender must complete and file the UCC Financing Statement Addendum (Form UCC1Ad) (Rev. 7/28/98) simultaneously with the UCC1 and check the "ASSIGNOR S/P NAME" box and complete Boxes 12a and 12c.

- If there is more than one borrower in the transaction, lender must file Form UCC1Ad simultaneously with the UCC1 and complete Box 11b.
- The description of the collateral in Box 4 of the UCC1 must, at minimum, include the number of shares, the cooperative corporation name, the complete address of the apartment, and real property tax designation (section/block/lot).
- The UCC1, UCC1Ad (if applicable), and the New York UCC Financing Statement Cooperative Addendum (Form UCC1CAAd) (Rev. 6/14/01) must be filed simultaneously with the appropriate county clerk prior to loan closing and SONYMA must receive the original acknowledgement copy with the pre-purchase closing file as described in Section 2.710(e) of the Seller's Guide.
- If SONYMA is not named as the secured party on Form UCC1, lender must complete the National UCC Financing Statement Amendment (Form UCC3) (Rev. 7/28/98) and file it the appropriate county clerk's office.
- All filed forms must bear markings evidencing acceptance by the county clerk's office.

Seller's Guide Change Pages and Revised Forms

Enclosed are the following amended pages to the Seller's Guide incorporating the above changes:

Index Pages iii and iv

Table of Exhibits Pages v and vi

Pages 1-6, 13, 14, 23, 24, 35-38a, 41-48, 57-62, and 65-69

Exhibits C, N, O, and U

Appendices III and IV

The amended pages are indicated with a **"Revised: 10/01"** footnote at the bottom right-hand corner of the page. Please immediately discard the previously issued Seller's Guide pages and replace them with the attached pages.

Camera-ready copies of the Application Loan File Checklist (Form 225/10-01), Closed Loan Document Checklist (Form 223/10-01), and the Closed Cooperative Share Loan Document Checklist (Form 224/10-01) are also attached. Lenders may use the revised forms immediately and **must use the new forms by December 17, 2001.**

If you have any questions regarding the above, please contact the undersigned at extension 392.

Sincerely,



George M. Leocata
Assistant Vice President

Enclosures

C: Lender Branch Contacts, Shipping and Final Document Contacts