

PFI Notice 2005-2

March 11, 2005

Effective Date

Immediately, except as noted

Special Attention:

PFI's MPF[®] Program Management, PFI's Servicing Management and PFI's Custody Management

Subject:

Announcing changes to the Servicing Guide and Custody Manual on the following subjects:

- Documentation to be sent to the MPF Provider for note modifications
- Funds remittance for liquidated mortgages secured by REO
- Electronic reporting and file layout, including new reference exhibits
- Disposition of insurance proceeds when a property is a total loss
- Mortgages subject to the Servicemembers Civil Relief Act
- Approval of the pre-foreclosure sale of a property securing a defaulted mortgage.
- Approval of borrower assistance programs
- Foreclosure bidding instructions approval
- Master Servicer approval of certain REO marketing plans
- Custodian quality control programs

Enhancements will affect the following Guide Chapters:

Servicing Guide Chapter 105	Custodial Accounts, Advances and Loan Accounting
Servicing Guide Chapter 106	Insurance
Servicing Guide Chapter 107	Mortgage Loan Administration
Servicing Guide Chapter 111	Directory and Notices
Custody Manual	Chapters 1-8 and Exhibits
Servicing Guide	Forms and Exhibits

Description of Changes:

The following revisions have been made to the Servicing Guide and Custody Manual

Servicing Guide Revisions:

Documentation for Note Modifications (SG Chapter 105.7.5.3)

When reamortization and Note modification due to curtailment are permitted by the MPF Guide, the PFI must fax a copy of the signed modification to the MPF Provider's Loan Accounting department. The FNMA Form 3179 or its equivalent should continue to be used; however, we will no longer accept FNMA Form 181 for modifications.

Remittances for Liquidated Mortgages secured by REO (SG Chapter 105.7.6)

The proceeds from the disposition of an REO must be deposited into the P&I custodial account within two business days of receipt and be available in the applicable DDA or A/A Account by the Monthly Remittance drafting date. The PFI may not hold the proceeds until the completion of a supplemental mortgage insurance claim, if applicable.

MPF Electronic Reporting Standards (Servicing Guide Chapter 105.8.2 and Exhibits B, C and D)

Each month PFIs provide to the Master Servicer accounting reports on the status of the loans which they service. **Effective with the June 2005 accounting reports, due by July 8, 2005**, PFIs will be required to send these monthly accounting reports to the Master Servicer electronically, eliminating the option to send in the reports in a hard copy format when servicing 100 loans or less. Electronic reports in an acceptable format can be transmitted to the Master Servicer via e-mail or uploaded directly to its website. To aid PFIs in the set-up of the electronic reports, we are adding exhibits to the Guide showing the formats for Delinquency Reporting (Exhibit B), ASCII Text File Layout (Exhibit C) and Excel Data File Layout (Exhibit D).

Disposition of Hazard Insurance Proceeds for a Total Loss (SG Chapter 106.3.9)

From time to time, a property may be entirely destroyed by an earthquake, flood, fire tornado or other perils. When a mortgaged property has been completely destroyed and the insurance proceeds equal or exceed the unpaid principal balance of the mortgage, the mortgage must be liquidated, as allowed by law. Repair, restoration or reconstruction of the property is not permitted.

Servicemembers Civil Relief Act Requirements (SG Chapter 107.1.7)

Mortgages held by military servicemembers should be serviced in accordance with the Servicemembers Civil Relief Act. This act updated and replaced the Soldiers' and Sailors' Civil Relief Act of 1940. As a result, we have updated our instructions on how mortgages serviced under each remittance option (Scheduled/Scheduled and both types of Actual/Actual) should be reported and remitted under the MPF Program.

Pre-Foreclosure Sales (SG Chapter 107.4.3)

Prior to proceeding with a pre-foreclosure sale, a Servicer must obtain the master servicer's approval if the sale and mortgage insurance settlement proceeds will be less than the total indebtedness. In addition, the Servicer must not withhold the proceeds from the disposition of an REO until the completion of a supplemental mortgage insurance claim, if applicable.

Borrower Assistance Programs (SG Chapter 107.4.4)

A Borrower Assistance Program (BAP) is intended to provide qualified, deserving borrowers with financial assistance in making their mortgage payments, and ultimately curing the delinquency. A borrower whose loan is not covered by mortgage insurance is not eligible for a BAP. Under a BAP, a maximum of six delinquent monthly payments may be advanced. A BAP must be approved by the Master Servicer prior to its implementation.

Foreclosure Bidding Instructions (SG Chapter 107.5.5)

We are updating our foreclosure guidelines by adding the requirement that the foreclosure bidding instructions be approved under certain circumstances. Detailed information on the handling of FHA/VA, Conventional uninsured and Conventional insured mortgages is included in this Guide section, along with the necessary information to be submitted for the approval of bidding instructions.

Approval of REO Marketing Plans (SG Chapter 107.6.5)

The Servicer must ensure that any action taken with respect to the sale of an REO does not jeopardize the maximum benefits available under any applicable primary and/or supplemental mortgage insurance policy. If an REO is covered by a primary and/or supplemental mortgage insurance policy that will not cover 100% of losses, the REO marketing plans must be approved by the Master Servicer.

Custody Manual Revisions:

Custodian Quality Control Program (Custody Manual Chapters 2.2, 3.6.3 and Exhibit 1)

A quality control program is a useful monitoring tool to evaluate the accuracy of a process and provide feedback to an organization on ways to modify or improve its process. With this in mind, the MPF Program now requires a third party custodian or PFI acting as its own custodian to have a quality control program covering periodic reviews of its own operations and procedures. The manual includes the MPF Program's requirements for a custodian's quality control program.

Additional Revisions

PFI Notice 2005-2 incorporates the following revisions:

- **Servicing Guide Chapter 105.8.1 – Monthly Accounting Reports:** The chapter contains the current list of required accounting reports and cross-references to information that will aid in the remittance of the accounting reports.

- **Servicing Guide Chapter 106.3.1 – Hazard insurance Coverage:** Specific hazard insurance coverage requirements are being replaced with a cross-reference to Origination Guide Chapter 15.2 (Minimum Property Insurance Types and Amounts) which contains the same information.
- **Servicing Guide Chapter 107.4.6 – Repurchase of FHA and VA Loans:** Funds for repurchased FHA and VA Mortgages must be remitted by the 18th calendar day of the month or on the preceding Business Day if the 18th is not a Business Day. The language was clarified in the event that the 18th is not a business day.
- **Servicing Guide Chapter 107.6.1 – REO Action Plan:** The instructions for remittances on mortgages secured by REO are being expanded to include actual/actual remittance Mortgages. The instructions for Conventional and FHA/VA Mortgage are now separated for ease of reference.
- **Servicing Guide Chapter 111 – Directory and Notices:** The telephone and fax numbers for each MPF Bank are now listed and each MPF Bank’s contact information was updated.
- **Servicing Guide and Custody Manual – All published chapters and forms:** The chapters and forms of the Servicing Guide and Manual being published with the Notice contain new terminology that reflects current MPF Program usage. We are also adding cross-references to better assist the Servicers in finding critical information.

Servicing Guide and Custody Manual Revisions:

The following Servicing Guide and Custody Manual changes can be found on the AllRegs and eMPF[®] websites. Links to these sites are on fhlbmpf.com and fhlb-mpf.com.

- Servicing Guide
 - Chapters 105, 106, 107 and 111 – changed text is highlighted in AllRegs
 - Forms SG305A and SG321A
 - Exhibits B, C, and D
- Custody Manual
 - Chapters 1 through 8 – changed text is highlighted in AllRegs
 - Exhibit 1

If you have any questions about these changes, please contact your MPF Bank Representative or call the MPF Customer Support Desk at 877-INFO-MPF (877-463-6673).