

PFI Notice 2005-5

September 30, 2005

Effective Date

Immediately, except as noted

Special Attention:

PFI's MPF® Program Management, PFI's Servicing Management and PFI's Quality Assurance (Control) Management

Subject:

Announcing changes to the Origination and Servicing Guides on the following subjects:

- Early Payment Default (EPD) Mortgage Quality Control Reviews
- High Level Concern (HLC) Mortgage Quality Control Reviews
- PFI Annual Eligibility Certification Requirements

Enhancements will affect the following Guide Chapters:

Origination Guide Chapter 5	PFI Institutional Eligibility
Origination Guide Chapter 28	PFI's In-House Quality Control Program
Servicing Guide Chapter 105	Custodial Accounts, Advances and Loan Accounting
Servicing Guide Chapter 107	Mortgage Loan Administration
Origination Guide Forms & Exhibits	Annual Eligibility Certification (Forms OG1, OG1A, OG1B & OG1C)
	High Level Concern (HLC) Mortgage Notification (Form OG8)
Servicing Guide Forms & Exhibits	Calculation of Realized Loss (Form SG332)

Description of Changes:

Origination and Servicing Guide Revisions:

Early Payment Default (EPD) Mortgages (OG Ch. 28, SG Chapters 105 & 107 and Form SG332)

An EPD is defined as a conventional mortgage that becomes delinquent within the first 12 months of the borrower's first payment due date as specified in the Note and subsequently becomes 90 days

past due. Under the MPF Program this definition only includes conventional mortgages that become 90 days past due within the first 14 months from the first payment due date. **Effective January 1, 2006**, PFIs will be required to initiate a quality control review (within 60 calendar days after the date the loan reaches EPD status) of each mortgage that becomes an EPD, even if the mortgage is subsequently brought current. EPD quality control review reports must be submitted annually to the MPF Bank as part of the annual eligibility certification process rather than individually upon completion. EPD quality control review reports must be submitted annually. The PFI's quality control review of EPD loans may be used in the fulfillment of the sample selection for high-risk attributes as required by the Guide.

High Level Concern (HLC) Mortgages (OG Ch. 28, SG Chs. 105 & 107, Forms OG8 & SG332)

An HLC mortgage is defined as a conventional mortgage with an estimated realized loss of \$10,000 or more (or an EPD with an estimated realized loss of \$5,000 or more) as calculated on the Calculation of Realized Loss (Form SG332). **Effective January 1, 2006**, PFIs will be required to submit a completed comprehensive quality control review of all HLC mortgages, including a review appraisal, to the MPF Provider to determine the cause of the potential loss prior to the settlement of any loss claims. The PFI's quality control review of HLC loans may be used in the fulfillment of the sample selection for high-risk attributes as required by the Guide

PFI Annual Eligibility Certification Requirements (OG Ch. 5, Forms OG1, OG1A, OG1B & OG1C)

The Annual Eligibility Certification (Form OG1) has been updated to include expanded questions related to fidelity and errors/omissions insurance coverages and servicing requirements. PFIs will be asked to attach copies of their fidelity and errors/omissions insurance policies (along with an analysis of the sufficiency of the coverage (new Form OG1B)), an in-house quality control questionnaire (new Form OG1A) and any supporting documentation for their in-house quality control program. (An anti-predatory lending questionnaire (Form OG1C) for use with the 2005 PFI Annual Eligibility Certification (Form OG1) will be published prior to the end of this year.)

Additional Revisions

PFI Notice 2005-5 incorporates the following revisions:

Origination and Servicing Guides – All published chapters: The chapters of the Guides published with the Notice contain new phrasing or terminology that reflect current MPF Program usage. We are also adding cross-references to better assist PFIs in finding critical information.

Origination and Servicing Guide Revisions:

The following Origination and Servicing Guide changes can be found on the AllRegs website. In addition, forms and exhibits can be found on the eMPF website. Links to these sites are on fhbmpf.com and fhlb-mpf.com.

- Origination Guide
 - Chapter 5 - changed text is highlighted in AllRegs
 - Chapter 28 - changed text is highlighted in AllRegs
 - Forms OG1, OG1A, OG1B, OG1C (Reserved) and OG8

- Servicing Guide
 - Chapters 105 and 107 – changed text is highlighted in AllRegs
 - Form SG332
- Glossary - changed text is highlighted in AllRegs

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).