

PFI Notice 2007-2

February 23, 2007

Effective Date

Immediately, except as noted

Special Attention:

PFI MPF[®] Program Management and Servicing Management

Subject:

Announcing enhancements to the MPF Guides on the following subjects:

- Errors and Omissions (E&O) Insurance Coverage
- Annual Eligibility Certification
- High Level Concern Loans

The following Guide Chapters and Exhibits are affected:

Origination Guide Chapter 5	PFI Institutional Eligibility
Origination Guide Forms and Exhibits	Annual Eligibility Certification (Form OG1 and OG1B)
Servicing Guide Chapter 105	Custodial Accounts, Advances and Loan Accounting
Servicing Guide Chapter 107	Mortgage Loan Accounting

Description of Changes:

Origination Guide Revisions

Errors and Omissions (E&O) Insurance Coverage (OG Chapter 5.4)

We have reduced the amount of E&O insurance coverage that a PFI is required to carry under the MPF Program. Effective immediately, mortgagee E&O insurance coverage may be maintained in an amount equal to the greater of \$300,000 or 20% of the fidelity insurance coverage. If the PFI's mortgage portfolio is composed solely of residential 1-4 family properties, the limit of the mortgagee's E&O insurance coverage is capped at \$10 million. Previously, E&O insurance coverage was required to be in the same amount as the fidelity insurance coverage.

Annual Eligibility Certification (OG Ch. 5.5, Form OG1 and Form OG2)

In response to feedback from PFIs, we have simplified the annual eligibility certification process:

- The In-House Quality Control Program Compliance Summary (Form OG1A) and the Anti-Predatory Lending Questionnaire (Form OG1C) have been eliminated with key certifications consolidated into the Annual Eligibility Certification (Form OG1).
- The MPF Fidelity and Errors and Omissions Insurance Worksheet (Form OG1B) has been renamed the “MPF Fidelity and Errors & Omissions Insurance Worksheet (Form OG2)” and is no longer a required addendum to the Form OG1. If submitted, it should be attached to the Form OG1. The Form OG2 has been reformatted into a one page worksheet that can be used to help determine compliance with our fidelity and E&O insurance coverage requirements.
- To help ease the burden of year-end reporting requirements, the annual due date for the return of the completed Form OG1 has been moved to March 31. For the calendar year ended December 31, 2006, the MPF Bank will accept the new Form OG1 dated 02/23/07 or the previous Form OG1 dated 09/30/05 with its applicable addenda.

Servicing Guide Revisions

High Level Concern Loans (SG Chapter 105.7.7 & 107.5.5.1)

To give PFIs greater flexibility under the high level concern loan process, we are modifying the criteria for the determination of a high level concern loan. **Effective for all losses processed on or after March 1, 2007**, a high level concern loan is defined as any conventional loan with an estimated realized loss, including accrued interest, of the greater of \$10,000 or 10% of the original property value. Previously, the sole qualifying threshold was a dollar amount of \$10,000 or more. Note that the early payment default loan threshold remains unchanged at \$5,000 or more of an estimated realized loss, including accrued interest.

Origination and Servicing Guide Revisions

The following Origination and Servicing Guide changes can be found on the AllRegs[®] and eMPF websites. Links to these sites are on the fhbmpf.com website or may be accessed directly at <http://www.allregs.com/fhbmpf/>.

- Origination Guide
 - Chapter 5 – changed text is highlighted in AllRegs
 - Form OG1 (Annual Eligibility Certification)
 - Form OG2 (Fidelity and Errors & Omissions Insurance Worksheet)
- Servicing Guide
 - Chapter 105 – changed text is highlighted in AllRegs
 - Chapter 107 – 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).