

PFI Notice 2007-4

May 21, 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:

- Reorganized Servicing Guide
- Requests for Release of Liability
- Partial Releases
- Record Retention
- New Forbearance Assistance Plan

Enhancements will affect the following Guide Chapters:

Origination Guide Chapter 27	The Mortgage File
Servicing Guide Chapter 103	General Servicing Requirements
Servicing Guide Chapter 104	Mortgage Loan Files
Servicing Guide Chapter 107	Mortgage Delinquency
Servicing Guide Forms & Exhibits	

Description of Changes:

Servicing Guide Reorganization

We have revised our Servicing Guide (SG) by relocating various policies to make it easier to find the information you need. A conversion chart is included to assist PFIs in managing these revisions. Clarifications in policy are indicated throughout the revised Servicing Guide with double underlining. Additionally, we have renamed Chapters 103 and 107 to reflect their contents.

Requests for Release of Liability (SG Chapter 103.3.2.1)

We are adding guidelines to process release of liability requests in cases of title transfer due to a divorce decree or legal separation. The transfer must be exempt from enforcement of the due on

sale clause of the security instrument as per SG Chapter 103.3.2 and the transferee must have been a signer on the original Note.

A servicer of the mortgaged loan may process such requests and approve or decline based on:

- Whether the transferee is creditworthy in accordance with Underwriting Guide Chapter 4;
- Any applicable PMI or SMI company approves such release;
- The servicer's reasonable determination the security would not be impaired by allowing a release of liability; and
- The servicer's determination that the property value has not declined from the original value described in Underwriting Guide Chapter 2.2.1.

If the release is approved, the servicer is responsible for notifying all applicable insurance companies, tax authorities and other interested parties when it processes such release or transfer. The servicer is also responsible for preparing, executing and retaining the release agreement and any disclosures required per Applicable Standards. No modifications to the terms of the Note are allowable.

Partial Releases (SG Chapter 103.4)

To streamline the processing for partial releases of mortgaged property, we have added guidelines to allow servicers to process certain requests without prior Master Servicer approval. The servicer may approve such requests when:

- The Borrower's monthly mortgage payment is current and has not been over 30 days past due more than once in the last twelve (12) month period;
- The Servicer has received written approval of the applicable Government Agency for Government Loans or any applicable mortgage insurer for Conventional Loans;
- The priority of the MPF mortgage lien will remain in first lien position and not be affected by any claims of subordinate lien holders;
- The reduction in the value of the remaining property is not greater than the amount of cash consideration;
- The portion of the property to be released does not contain any improvements;
- A request to release oil, gas or mineral rights meet the requirements of Origination Guide Chapter 13.8.1;
- For easements, the Servicer must insure that in addition to the requirements above, all special requirements specified in the Security Instrument for granting an easement are satisfactorily met; and
- The remaining LTV after release will not exceed sixty percent (60%).

The servicer may use any allowable appraisal type detailed in Underwriting Guide Chapter 5 for determining remaining property value and value of property to be released. However, the servicer is required to obtain a full interior/exterior inspection appraisal when:

- The current LTV of the Mortgage, based on the original value is greater than sixty percent (60%)
- The value of the released property is estimated to be ten thousand dollars (\$10,000) or greater;

- The borrower receives a consideration greater than five percent (5%) of the original value for the release, or there is no consideration received; or
- The transaction is not at arm's length.

Regardless of appraisal type used for determining values, the servicer represents and warrants it is satisfied with the appraisal. For every partial release, the servicer is required to notify all tax authorities for adjustment of applicable assessments. All cash consideration with respect to the release must be applied to the unpaid principal balance to the extent of the diminution of the value of the mortgaged property when:

- The current LTV exceeds sixty percent (60%)
- The borrower receives a consideration greater than five percent (5%)

Any partial release requests that do not meet Servicing Guide Chapter 103.4 will require approval from the Master Servicer. Notwithstanding the provisions of this chapter, the servicer should furnish any information the Master Servicer may request to process the partial release request.

Record Retention (OG Chapter 27.21 and SG Chapter 104.2.5)

Based on inquiries from PFIs, we are providing a minimum file retention policy that reflects common industry practice. Unless a shorter period is permitted under applicable state law, each Originator and Servicer must retain the Mortgage File for at least 7 years from the date the MPF Program's interest in the Mortgage Loan is satisfied.

Forbearance (SG Chapter 107.2.1, 107.2.2 and 107.2.2.1)

We have added new guidelines, called 'Special Forbearance', so that servicers have additional options to assist cooperative borrowers with a plan to cure delinquent payments. Where the borrower(s) have demonstrated that their ability to pay their mortgage has been involuntarily curtailed and the cause is temporary in nature, the servicer may grant relief by reducing payments for a period not to exceed twelve (12) months. Prior approval from the Master Servicer for granting such requests is required for any relief periods that exceed three (3) months by submitting a Workout Worksheet (form SG354). If the reduced payment period will exceed three (3) months, the servicer must also obtain a Broker's Price Opinion (BPO). Additionally, the special forbearance agreement must be in writing and include a statement notifying the borrower that failure to abide by the terms of the agreement will result in termination of the special forbearance agreement and commencement of foreclosure.

Additionally, we have removed the restriction requiring a borrower be 31 days delinquent before a servicer may grant relief.

Additional Revisions

PFI Notice 2007-4 incorporates changes to the following Guide Chapters:

- **Servicing Guide Chapter 101.7** - Updated information for electronic accessing of the Guides via the AllRegs[®] Website or via a link on the MPF Program's public websites.
- **Servicing Guide Chapter 102.2.1** - When audited by either a Government Sponsored Enterprise or Government Agency, a Servicer was previously required to send a copy of such

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audit to the MPF Provider within 15 days. Instead, the Servicer should now provide such copy along with the Annual Eligibility Certification.

- **Servicing Guide Chapter 105.8** - Some additional servicing forms may now be submitted to the Master Servicer electronically via the Master Servicer's website listed in SG Chapter 111.2.
- **Servicing Guide Chapter 106.3.9.1** - Notwithstanding a situation where a property is either a total loss or the Insurance proceeds equal or exceed the unpaid Principal Balance of the Mortgage, in certain states, the Note or Security Instrument for the Mortgage requires the Insurance Proceeds to be used to repair, restore or reconstruct the improvements on the Mortgaged Property. Unless prohibited by Applicable Law, Servicers must liquidate such Mortgages by purchasing or repurchasing.
- **Servicing Guide Chapter 107.4.5.1** - Added clarification that the Calculation of Realized Loss form (SG 332), must be submitted in the event the servicer chooses not to foreclose on a property due to contamination or other similar condition. Additionally, the MPF Bank reserves the right to defer payment of credit enhancements fees to preserve its rights of recovery for any High Level Concern loans.
- **Servicing Guide Chapter 107.5.6** - We have increased the amount of REO rehabilitation expenses a Servicer may incur without obtaining prior Master Servicer approval.
- **Servicing Guide Chapter 111.2** - The Master Servicer's website address has been added to the directory for electronic reporting.

Origination and Servicing Guide Revisions

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

- Origination Guide
 - Chapter 27 – changed text is highlighted in AllRegs
- Servicing Guide
 - Chapter 101 – changed text is highlighted in AllRegs
 - Chapter 102 – changed text is highlighted in AllRegs
 - Chapter 103 – changed text is highlighted in AllRegs
 - Chapter 104 – changed text is highlighted in AllRegs
 - Chapter 105 – changed text is highlighted in AllRegs
 - Chapter 106 – changed text is highlighted in AllRegs
 - Chapter 107 – changed text is highlighted in AllRegs
 - Chapter 108 – changed text is highlighted in AllRegs
 - Chapter 111 – 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).

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