

## PFI Notice 2009-3

July 15, 2009

**Effective Date:** Immediately

**Special Attention:** PFI MPF<sup>®</sup> Program Management and Servicing Management

**Note:** The enhancements announced in this PFI Notice apply to the MPF 100, Original MPF, MPF 125 and MPF Plus mortgage products (not applicable to the MPF Xtra<sup>™</sup> product).

### Subject:

Announcing enhancements to the Servicing Guide:

- Delinquency Management - Temporary Loan Payment Modification Plan

Enhancements will affect the following Servicing Guide Chapters:

Servicing Guide Chapter 107	<b>Mortgage Loan Delinquency</b>
Servicing Guide Chapter 108	<b>Servicer Responsibilities</b>
Servicing Guide Forms & Exhibits	<b>Borrower Financial Information (Forms SG400, 401 and 402)</b>

### Description of Changes:

#### Servicing Guide Revisions

Delinquency Management - Temporary Loan Payment Modification Plan (Servicing Guide Chapters 107.2.5, 107.6, 108.1.2 and Forms SG400, SG401 and SG402)

We are introducing a temporary loan payment modification plan (“Modification Plan”) for certain borrowers who are in default or facing imminent default. Borrowers with conventional loans secured by their primary residence with a closing before January 1, 2009 are eligible for the Modification Plan.

**Loans that were delivered under the MPF Xtra product may be modified under the requirements of the Fannie Mae’s Servicing Guide.**

**This loss mitigation option (Modification Plan) will be available until December 31, 2011 unless further extended by the MPF Program.**

Under certain circumstances, the Modification Plan, by temporarily reducing the monthly housing payments to a sustainable level, may be the appropriate loss mitigation option for borrowers who are in default or facing imminent default.

The servicer must consider all other loss mitigation options available in Servicing Guide Chapter 107.2 prior to the Modification Plan. Only if all other loss mitigation options are found to be ineffective, the servicer should then consider the Modification Plan. If the mortgage and borrower were determined to be eligible under the Modification Plan, the borrower's payments would be reduced for a three-month initial trial forbearance period with the use of a new form, the Loan Workout Plan (Form SG400). If the borrower successfully meets the terms of the three month trial period, a 33-month temporary payment modification period will follow with a Temporary Loan Payment Modification Agreement (Form SG401).

The implementation of a Modification Plan involves the following steps:

1. Determine if the mortgage and borrower are eligible for the Modification Plan as specified in Servicing Guide Chapter 107.6.1;
2. Collect all documentation specified in Servicing Guide Chapter 107.6.2;
3. Using the mortgage and borrower information, work through the steps in the sequence defined in Servicing Guide Chapter 107.6.3 to provide a plan that will temporarily reduce the monthly housing payments to a sustainable level, defined as a housing expense ratio of no more than 38%. Note that the modified terms do not fully amortize the mortgage and will result in a balloon payment at maturity;
4. Submit a file with the borrower's specific Modification Plan to the Master Servicer for review and approval;
5. Implement the Modification Plan according to the steps specified in Servicing Guide Chapter 107.6.4 including any federal consumer compliance disclosure, escrow account statements, Fair Debt Collection Practices Act (FDCPA), any other disclosure requirements under state and/or local law and any tax reporting under IRS or state codes. Although we are providing guidance for disclosure compliance specific to this Modification Plan in Servicing Guide Chapter 107.6.5, servicers must be aware of any additional disclosure requirements for a loan modification outside the scope of this Modification Plan.

Requirements of the Modification Plan include:

1. The servicer must exhaust all available loss mitigation tools, including the Modification Plan, to cure the delinquency. If none of these tools or assistance through the Master Servicer provides an adequate resolution but the servicer feels special consideration is warranted, the servicer may submit a proposed alternative to their MPF Bank, clearly indicating that the proposal is outside the requirements of the Modification Plan and indicate specific terms the servicer proposes.
2. In all cases where the borrower's total expense ratio exceeds 50% with the modified terms, the servicer must provide credit counseling for the borrower through a credit

counseling agency approved by the Department of Housing and Urban Development (HUD).

3. Borrowers will first make payments under a trial period “Loan Workout Plan” for three months. During this period, the stated payment must be made on time in accordance with the provisions of the Loan Workout Plan (Form SG400) in order for the subsequent 33-month temporary payment modification to be implemented. If the borrower fails to meet the requirements of the initial three month Loan Workout Plan the servicer should immediately terminate the Modification Plan and notify the Master Servicer.
4. During this initial three-month period, the reduced modified payments will be held as unapplied payments by the servicer. Following the receipt of the third and final trial period payment, the servicer will apply the three payments, in accordance with the terms of the Temporary Loan Payment Modification Agreement (Form SG401). The servicer should immediately notify the Master Servicer of the borrower’s successful completion of the terms of the Loan Workout Plan and execute the Temporary Loan Payment Modification Agreement (Form SG401).
5. During the 36-month period that the Modification Plan is in effect, the Servicer must electronically report an Action Code of ‘12’ in their Monthly Accounting Reports to the Master Servicer. If the Modification Plan is terminated, the Servicer must notify the Master Servicer within one (1) business day of the termination and continue to service the Mortgage in accordance with the requirements of Servicing Guide Chapter 107 and all Applicable Standards. The Servicer must remove the Action Code of ‘12’ and report an appropriate Action Code or null in their Monthly Accounting Reports to the Master Servicer.
6. The servicer is responsible for any costs it may incur for processing and implementing loan modifications. All late charges due prior to the loan modification must be waived. To help mitigate servicer expenses, any initial borrower cash contribution made to reduce the delinquency must be applied first toward non-interest expenses (excluding late fees) and then towards reducing the delinquency.
7. The servicer is required to monitor the borrower’s performance under the Temporary Loan Payment Modification Agreement (Form SG401) and immediately notify the Master Servicer if the borrower fails to meet the requirements.
8. The servicer must continue to service the mortgage in accordance with the Applicable Standards published in the MPF Guides including all reporting requirements to the MPF Provider, Master Servicer and credit repositories.

### **Additional Revisions**

PFI Notice 2009-3 incorporates the following revisions:

- **Servicing Guide Chapter 111.2 - Directory:** We have updated the Master Servicer’s contact fax number.

### **Servicing Guide Revisions:**

The following Servicing Guide changes can be found on the AllRegs<sup>®</sup> and eMPF<sup>®</sup> websites. Links to these sites are on fhlbmpf.com and fhlb-mpf.com or may be accessed directly at <http://www.allregs.com/fhlbmpf/>.

- Servicing Guide
  - Chapter 107 - changed text is highlighted in AllRegs
  - Chapter 108 - changed text is highlighted in AllRegs
  - Chapter 111 - changed text is highlighted in AllRegs
  - Forms & Exhibits

**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).**