

## PFI Notice 2009-6

November 10, 2009

**Effective Date:** See the Description of Changes for the effective dates

**Special Attention:** PFI MPF<sup>®</sup> Program Management, Origination 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).

### Subjects:

Announcing enhancements to the Origination, Underwriting and Servicing Guides:

- Minimum FICO (Credit) Score - Revised Eligibility Criteria
- Revised Disclosure Instructions under the MPF 100 Product
- Revised Temporary Loan Payment Modification Plan Forms
- Replacement of Mortgage Insurance Coverage
- Replacement of Property Hazard Insurance Coverage

Enhancements will affect the following Origination, Underwriting and Servicing Guide Chapters:

Origination Guide Chapter 12	<b>Conventional Mortgage Insurance, Late Charges and Prepayment Charges</b>
Origination Guide Forms & Exhibits	<b>Instructions for Completing the HUD-1 Settlement Statement &amp; Good Faith Estimate (Form OG5-2)</b>
Underwriting Guide Chapter 2	<b>Mortgage Eligibility</b>
Underwriting Guide Chapter 4	<b>Borrower Eligibility</b>
Servicing Guide Chapter 105	<b>Custodial Accounts, Advances and Loan Accounting</b>
Servicing Guide Chapter 106	<b>Insurance</b>
Servicing Guide Chapter 107	<b>Mortgage Loan Delinquency</b>
Servicing Guide Forms & Exhibits	<b>Loan Workout Plan (Form SG400); and Temporary Loan Payment Modification Agreement (Form SG 401)</b>

## **Description of Changes:**

### **Origination Guide Revisions:**

#### Minimum FICO (Credit) Score - Revised Eligibility Criteria (Underwriting Guide Chapter 4.5.1)

**Effective for all loans delivered on or after February 1, 2010, under the Conventional MPF portfolio products (MPF Original, MPF 100, MPF 125 and MPF Plus), the lowest primary FICO score for a loan must be greater than or equal to 620.** PFIs are reminded that if the loan meets this minimum FICO score requirement, each borrower's credit history must also meet the requirements of Underwriting Guide Chapter 4.5.

The only exception to the minimum primary FICO score requirement is in the case of an unobtainable or unusable FICO score as defined in Underwriting Guide Chapter 4.5.1.

The minimum primary FICO score requirement of 620 is also applicable to loans that are underwritten utilizing an Automated Underwriting System (AUS) in accordance with Underwriting Guide Chapter 2.17.

#### Revised Disclosure Instructions under the MPF 100 Product (Origination Guide Form OG5-2)

HUD has issued new RESPA rules for all mortgages subject to RESPA, which include all mortgages delivered under the MPF Program. **Effective with loan applications dated on or after January 1, 2010,** PFIs must begin using the new Good Faith Estimate (GFE) and HUD-1 / HUD-1A forms issued by HUD in accordance with RESPA rules.

PFIs that deliver under the **MPF 100** product must also be aware of additional requirements with respect to the disclosure of compensation paid by the MPF Bank. To assist PFIs with these new requirements, we have revised the Instructions for Completing the HUD-1 Settlement Statement (Form OG5-2) and added additional instructions for completion of the GFE with respect to the treatment of Agent Fees. Although we are providing these instructions for the benefit of PFIs, a PFI that delivers a loan under the MPF 100 product must represent and warrant that the loan complies with the new RESPA rules and Applicable Laws. Therefore, PFIs may wish to seek their own legal advice to ensure full compliance with RESPA.

### **Servicing Guide Revisions:**

#### Revised Temporary Loan Payment Modification Plan Forms (Servicing Guide Forms SG400 and SG401):

We have revised the two Temporary Loan Payment Modification Plan Forms (Servicing Guide Forms SG400 and SG401) to include certain borrower and lender covenants. These added covenants are meant to provide additional details and information to help borrowers understand and comply with the Temporary Loan Payment Modification Plan. No new program requirements are being added.

- SG400 changes include the following:
  - Section 1 now includes a statement that the borrower's first payment during the trial period must be received by the PFI on time and, if not, the Modification Plan will be terminated;
  - Section 1A now emphasizes that the borrower must make all payments on or before the due dates;
  - Section 1E clarifies that when the PFI accepts a payment during the trial period of the plan, the payment is held in suspense and not applied until the trial period is successfully completed;
  - Section 1G includes a statement that if a PFI is required to obtain a title endorsement or a subordination agreement necessary to maintain its first lien position and the enforceability of the modification documents and the PFI has not received such title endorsement or subordination agreement, it is not obligated to execute the modification agreement;
  - Section 4C includes a statement that in cases where the original loan documents did not establish an escrow account, one shall be established in accordance with Applicable Law; and
  - Section 4E, 4F and 4G are new sections that require the borrower to agree to execute documents to further consummate the terms and conditions of the modification plan, disclose to the borrower the collection and use of the borrower's personal information and an explanation regarding transfer or assumption under the plan.
  
- SG401 changes include the following:
  - Section 3 now emphasizes that the borrower's payments during the trial period must be received by the PFI on time or the Modification Plan will be terminated;
  - Section 3B further clarifies that any unpaid amounts (capitalized interest) added to the modified principal balance shall accrue interest based on the interest in effect under the modification agreement;
  - Section 3E has been revised to clarify that if a default interest rate is permitted under the original loan documents and the borrower defaults under the loan modification plan, the interest rate shall be adjusted to the default interest rate;
  - Section 4A clarifies who may sign the modification agreements where the original borrower(s) have transferred ownership;
  - Section 4I is a new section that nullifies any pre-payment penalty provision if one existed in the original Note;
  - Section 4J is a new section for the borrower's agreement to cooperate with the PFI in obtaining any title endorsement(s), title insurance or subordination agreement as applicable;
  - Section 4K is a new section for the borrower's agreement to execute documents to further consummate the terms and conditions of the modification plan or correct the terms and conditions of the plan if an error is detected;

- Section 4L is a new section providing an explanation in the event Mortgage Electronic Registration Systems, Inc. (MERS) is the mortgagee of record for a mortgage;
- Section 4M is a new section disclosing to the borrower the collection and use of the borrower's personal information; and
- Section 4N is a new section for the borrower's agreement to comply with a PFI's request to re-execute any documents related to the loan documents which may have been lost, misplaced, misstated or inaccurately reflects the terms and conditions of the loan as modified.

We have also upgraded the format of the two forms to make their completion by PFIs more efficient. The forms are now in a "writable fields" format that allows PFIs to complete the forms on-line. This is done by opening the form in the AllRegs<sup>®</sup> website, typing in the applicable fields and printing it for borrower and PFI signatures. Although you may save an electronic version of the forms on your computer for later completion, we recommend that you use the form in AllRegs to ensure that you are using the most up-to-date version of the forms at all times.

Replacement of Mortgage Insurance (MI) Coverage (Origination Guide Chapter 12.1 and Servicing Guide Chapter 106.2.3)

We are revising the requirements for the replacement of primary mortgage insurance (MI) providers due downgrades of their rating related to their claims paying ability. PFIs will no longer need to monitor these ratings in order to know when they must begin the process of replacing primary MI. These efforts will only need to be undertaken when a mortgage insurer is removed from the MPF approved mortgage insurers list in Origination Guide Chapter 12.1.1. All other requirements for the replacement of MI remain the same.

Replacement of Property Insurance Coverage (Servicing Guide Chapter 106.1.4)

We are adding clarification to the Guides regarding any subsequent downgrading for the rating of a property insurer that provides coverage for hazard, flood, homeowner association or any other applicable property insurance. If any such property insurer's rating decreases below the minimum ratings required under Origination Guide Chapter 15.1.3 after a policy is issued or is subsequently renewed, the PFI is responsible for replacement of the insurance policy in accordance with Applicable Standards. The replacement policy must be from another eligible insurer that meets the MPF Program requirements, unless the PFI maintains mortgage impairment or mortgagee interest insurance in accordance with Servicing Guide Chapter 106.1.6.

## **Additional Revisions**

PFI Notice 2009-6 incorporates the following revisions:

- **Servicing Guide Chapter 105.7.5.3 - Reamortization and Note Modification:** Where a borrower requests a reamortization and note modification after a curtailment, we have removed the condition that there can have been no other note modifications within the prior 12 months.
- **Servicing Guide Chapter 107.6.4 - Establishment of Escrow under the Temporary Loan Modification Plan:** We are clarifying that the Servicer **must** collect escrow funds if the borrower does not already have an escrow account, in accordance with Servicing Guide Chapter 105.4.1, 105.4.3 and 105.4.5. Until Applicable Law prohibits collection of escrow funds, the Servicer shall continue to collect escrow funds for the remaining life of the loan.

## **Origination, Underwriting and 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 fhbmpf.com and fhlb-mpf.com or may be accessed directly at <http://www.allregs.com/fhbmpf/>.

- Origination Guide
  - Chapter 12
  - Form OG5-2
- Underwriting Guide
  - Chapter 2 - Changed text is highlighted in AllRegs
  - Chapter 4 - Changed text is highlighted in AllRegs
- Servicing Guide
  - Chapter 105
  - Chapter 106 - Changed text is highlighted in AllRegs
  - Chapter 107 - Changed text is highlighted in AllRegs
  - Form SG400 and SG401

**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).**