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MPF® Traditional Product

Loss Mitigation Options Overview

June 2021

FHLBANKS
A NATION OF LOCAL LENDERS

About this Material

The following material is based upon current information in the MPF® Traditional Product Servicing Guide and recent announcements related to borrowers who have been impacted by COVID-19. These materials should not be used in place of the MPF Traditional Product Servicing Guide and the associated MPF announcements. The official versions of all MPF Guides and recent announcements are available through www.fhlbmpf.com and AllRegs®.

Please note that PFIs and Servicers are expected to abide by any/all federal or state laws or proclamations that may affect borrowers or loans affected by COVID-19.

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About this Material

This presentation covers relief options available for conventional MPF® Traditional products.

- **MPF Traditional Government** loans must follow relief policies and guidance issued by the applicable Government Agencies.
- PFIs/Servicers are always required to abide by any state or local laws that may apply, including those related to COVID-19.

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Borrower Assistance

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Working with Borrowers

Borrower communication is the key to determining the best option to fit a borrower's circumstances.

If a borrower hasn't already reached out to you, follow the guidelines for reaching out to them.

Delinquent borrowers must be contacted to determine the circumstances causing the delinquency.

Attempts to contact the borrower should begin no later than 36 days after a missed payment (or as soon as required per any applicable state or local laws).

Working with Borrowers

The goal when reaching out to borrowers is to establish *Quality Right Party Contact* (QRPC).

QRPC can be established by various outreach methods:

- The purpose of QRPC is to determine the cause of the delinquency, its estimated duration (short-term or long-term), property status and identify potential workout options for the borrower.

- Servicers should consider waiving late fees for borrowers impacted by COVID-19.

Working with Borrowers

On or before the 45th day of delinquency, a single point of contact (SPOC) should be assigned and made available to the borrower.*

- Written notice must also include:
  - ✓ Servicer's telephone number
  - ✓ Servicer's address
  - ✓ Loss mitigation options that may be available
  - ✓ Loss mitigation application instructions and how to obtain more information.
  - ✓ The CFPB's or HUD's website to access a list of homeownership counselors or organizations including HUD's toll-free number to access homeownership counselors or counseling organizations.

Action	Timeframe
Provide written notice about available loss mitigation options, encourage the borrower to contact the Servicer if contact has not yet been initiated.	Send by the **45th day** of delinquency

*Per the CARES Act, Servicers do not need to maintain a "single point of contact" for each borrower but they must maintain policies and procedures reasonably designed to assign personnel to a delinquent borrower that can assist the borrower with loss mitigation options.

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Property Inspections

If there have been no satisfactory arrangements made to cure the delinquency, the Servicer is required to inspect the property*

Action	Timeframe
Inspect the property to determine occupancy and condition. Secure the property, if necessary	On or before the **60th** day of delinquency, continuing **monthly** until the delinquency is cured or the mortgage loan is liquidated
Complete the Property Inspection Report (**Form SG 331**)	• Retain in servicing file • Send via eMAQCSplus if requested

***There has been a temporary suspension of inspections due to COVID-19 (unless the property is unoccupied).**

Temporary Hardship Options

Temporary Hardships

What is considered a temporary hardship?

- Temporary hardships are generally caused by an unexpected event that impacts a borrower's ability to make monthly payments.
- If a borrower feels that their hardship can be resolved over time, options to work through the hardship period should be presented.
- Hardships may start out as temporary but may evolve into something permanent.

Temporary Hardships

What is the first type of relief should be offered when a borrower has a temporary hardship?

FOREBEARANCE PLAN

Forbearance Plans

To assist borrowers experiencing a temporary hardship, Servicers should offer borrowers a forbearance plan

- Servicers may grant a forbearance plan of up to a total of **12 months***.
  - ✓ Plans of three months or more require documentation and review by the MPF Default Team.
- If a forbearance plan is established for three months or less, approval from your MPF Bank or the MPF Provider is not required.
- Servicers may grant extensions of a COVID-19 forbearance plan term in increments of up to 3 months, not to exceed a accumulative total forbearance period of **18 months** to borrowers with unresolved hardships who are nearing the accumulative forbearance plan term of 12 months.
- Servicers are required to ensure the granting of the forbearance is acceptable to any applicable MI company.

*Up to 18 months for borrowers with COVID-19 related hardships.

Forbearance Plans

A forbearance plan may be structured according to the borrower's needs

- Borrower payments may be reduced or suspended.
  - ✓ Borrowers may opt to reinstate at anytime during the forbearance period.
  - ✓ Forbearance plans may set up for an initial period followed by an extended period, if needed.

- For plans of three months or less:
  - ✓ The terms of the plan must be provided to the borrower in writing.
  - ✓ Borrower signatures are not required.
  - ✓ The terms of the plan must state that the payments are not forgiven and must be made-up with an appropriate post-forbearance plan.
  - ✓ The servicer must also inform the borrower that they may at anytime shorten the forbearance plan term to reduce the number of suspended or reduced payments.

Forbearance Plans Greater than Three Months

The MPF Provider's prior approval is required by completing:

- **Workout Worksheet** (Form SG354) and all required supporting documentation as indicated on the Workout Worksheet instructions.
- A copy of the proposed forbearance plan.
- **Borrower Hardship Certification** (Form SG402)
- Ensure that the granting of the extended forbearance to the borrower is acceptable to any applicable MI company.
  - ✓ Many MI companies have issued blanket communications (COVID-19) outlining permissions.
  - ✓ Proof must be retained in the mortgage file.
- Forms and supporting documentation are submitted via eMAQCSplus.

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Workout Worksheet (SG354)

Workout Worksheet (Form SG354)

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Product Information

This form is for the MPF Traditional product only.

PFI/Servicer Information

PFI Number: _____ Servicer Name: _____

SECTION 1 – COVID-19 related forbearance, repayment and deferment plans ONLY

MPF Loan Number: _____ Borrower Name: _____

Property Address: _____

Workout Option Requested (select one):

- ☐ Extension of Forbearance Plan (provide Borrower Hardship Certification (Form SG402) and copy of the unsigned/proposed agreement or plan)
- ☐ Repayment Plan of more than 3 months (provide Borrower Hardship Certification (Form SG402) and copy of the unsigned/proposed agreement or plan)
- ☐ COVID-19 Payment Deferral Plan (provide Borrower Hardship Certification (Form SG402), COVID-19 Payment Deferral Worksheet (Appendix B), 1 year Borrower payment history and copy of the unsigned/proposed agreement or plan)

Servicer has confirmed:

- ☐ Workout is acceptable to MI Company; or
- ☐ No MI on loan

[Go to Section 3]

SECTION 2 – ALL other workout plans (including ALL loan modifications, short sales, deed in lieu, and non-COVID-19 related forbearance and repayment plans)

For COVID-19 related forbearance plans, only specific sections of the Workout Worksheet are required and documentation is streamlined.

Non-COVID-19 related plans exceeding three months do not allow for streamlined documentation.

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Forbearance Plans Greater than Three Months

Plans must be a written agreement, executed by both the Servicer and borrower

- No specific form is required but the following verbiage must be included:

"Failure to abide by the terms of the agreement will result in the termination of the Forbearance Plan and all missed payments being due immediately."

- Servicers must ensure that the lien priority of the mortgage remains in effect and that it is not adversely affected.
- All agreements must meet applicable laws.
- Prior to the expiration of a forbearance extension, the Servicer must complete an assessment of the borrower's circumstances to determine what workout actions should follow.

Servicer Requirements During the Plan

- Servicers are required for the duration of the plan to make any and all advances necessary (including taxes, insurance, MI payments), to preserve the lien position and the property condition.
  - ✓ This is regardless of loan or escrow account status at time of granting the forbearance.

- If the remittance type is Scheduled/Scheduled, the Servicer must remit all monthly principal and interest payments as agreed.

- No late fees or administrative fees may be applied to any of the payments that are part of a COVID-19 related forbearance plan.

Resolved or Unresolved?

At least 30 days prior to the expiration of any forbearance plan, Servicers must contact borrowers to determine the appropriate next steps

- Borrowers must be contacted to determine if their hardship has been resolved or if it is likely to continue.
- If unresolved, the borrower may enter into another forbearance plan as long as the cumulative total of all forbearance periods does not exceed 12 months.

Post-Forbearance Options for Resolved Hardships

If a temporary hardship appears to be resolved, there is a "waterfall" of options that should be considered.

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Post-Forbearance Options

Servicers should evaluate borrowers by working through the following waterfall options:

Reinstatement

The borrower has assets available and is willing to re-pay the payments missed during the forbearance plan in one lump sum.

If reinstatement is not possible, the next option is a

Repayment Plan

Repayment Plans

Repayment Plans

If the borrower's hardship is resolved, the borrower may enter into a repayment plan to make up the missed payments over a period of time

- The repayment plan period may last up to 12 months.
- Repayment plan payments are made in addition to the borrower's regular monthly payments.
- The repayment amount includes the full amount of arrears, including principal, interest, taxes, insurance, MI payment and any other advances permitted by applicable law.

Repayment Plans

Repayment plans set up for a period of three months or less do not require a review or approval.

Ensure that the granting of the forbearance is acceptable to the MI company (when applicable).

Repayment Plans

Repayment plans for periods greater than three months

- Up to 12 months is permitted.
- Approval from the MPF Provider may be obtained by submitting:
  - ✓ **Workout Worksheet** (Form SG354) and all required supplemental documentation.
  - ✓ **Borrower Hardship Certification** (Form SG402)
  - ✓ **A copy of the plan**
- The plan must be a written agreement, signed by both the borrower and Servicer
  - ✓ The plan must comply with all applicable laws.
- Approval from the MI company is required (if applicable).
- If a repayment period of more than 12 months is required, prior approval from the MPF Provider is required.

Repayment Plan Reporting

How to report post-forbearance payments for borrowers beginning a repayment plan

Basic Scenario

- Your borrower had a 90-day forbearance plan which allowed them to suspend their payment of **$1200** per month from May-July.
- To repay the **$3600**, they set up a repayment plan over **12 months**. An additional **$300** per month will be added to their payment.
- On August 1st they resume their regular payments plus the additional amount owed under the repayment plan which equals a temporary payment of **$1500** per month.
- The regular payment will be applied to the oldest outstanding payment and the additional **$300** will be placed in an unapplied/suspense account until enough for a full payment is collected.

Post-Forbearance Options

What if it's determined that a borrower cannot afford a repayment plan?

Borrowers impacted by COVID-19 may consider a:

COVID-19 Payment Deferral Plan

Borrowers with hardships that were not a result of COVID-19 should consider:

Temporary Loan Modification

MPF Traditional Product
COVID-19 Payment Deferral Plan

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MPF Traditional COVID-19 Payment Deferral Plan

How does the MPF Traditional COVID-19 Payment Deferral Plan Work?

- The Servicer defers the following amounts as a **non-interest bearing** balance:
  - ✓ Any principal and interest the borrower has not paid during the forbearance period.
  - ✓ Out of pocket escrow advances paid to third parties
  - ✓ Servicing advances paid to third parties as a result of the delinquency.

- What **cannot** be included in the deferred amount?
  - ✓ No late fees, administrative fees or other such fees should be applied to any of the payments that were part of a COVID-19 related forbearance plan.
  - ✓ If an escrow analysis is performed, any shortage that is identified cannot be added to the deferred amount.

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MPF Traditional COVID-19 Payment Deferral Plan

The deferred lump sum amount becomes due and payable when any of the following occurs:

- When the loan reaches maturity.
- When the property is sold or transferred.
- When/if the loan is refinanced.
- When the loan is paid off or liquidated for any other reason.

MPF Traditional COVID-19 Payment Deferral Plan

- On March 1, 2020, the mortgage must have been current or less than 31 days delinquent.
- As of the date of the deferral evaluation, the loan should be 31or more days (one month) delinquent but less than or equal to 18 months delinquent
  - ✓ Evaluations should be made no later than 30 days before the end of the forbearance period.
- If a loan was delinquent prior to March 1, 2020 due to reasons related to COVID-19, and the borrower can resume and continue to make full payments, Servicers should send a deferral request to the MPF Provider.
  - ✓ The request must be reviewed and approved by the MPF Bank.

MPF Traditional COVID-19 Payment Deferral Plan

- The borrower must be on a COVID-19 related forbearance plan or experienced a hardship related to COVID-19 that impacted their ability to make their full monthly payment.
- Loans must be conventional, first lien mortgages.
- The property must be a primary or second home.
- The property cannot be vacant or condemned.

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Ineligible Characteristics

- The mortgage loan must not have previously received a COVID-19 payment deferral.
- The mortgage loan must not be subject to:
  - ✓ A recourse or indemnification arrangement under which the MPF Bank purchased or that was imposed by the MPF Bank after the mortgage loan was purchased.
  - ✓ An approved liquidation workout option.
  - ✓ An active and performing repayment plan or other non-COVID-19 related forbearance plan.
  - ✓ A current offer for another retention workout option, or an active and performing mortgage loan modification trial period plan.

Processing a COVID-19 Payment Deferral

- Evaluations for a deferral must begin at least **30 days prior** to the end of the forbearance plan.
- Servicers may use an additional month to process the deferral.
  - ✓ If a borrower has been in a forbearance plan (or plans) that totaled 18 months, they must make their full, regular payment in the processing month when due (otherwise they will be over 18 months delinquent).
- Servicers must apply the processing month consistently to all borrowers, as evidenced by a written policy.

Processing a COVID-19 Payment Deferral

- The executed agreement must be obtained from the borrower prior to completing the deferral.
- If required by law or needed to maintain lien priority, the agreement must be recorded.
- If the agreement is recorded, a title endorsement (or similar) to the existing lender's policy must be requested.
  - ✓ Retain the endorsement with the title policy in the loan file.
- Electronic signatures are permitted as long as e-signing does not affect the enforceability of the document under applicable law, or the ability to record the document when recording is required by law or needed to maintain lien priority.

COVID-19 Payment Deferral Documentation

What Documentation is Required to Process a Deferral?

1. **Completion of the *Workout Worksheet* (*Form SG354*)**
   - Complete only Sections 1 and 3
2. **Completion of *Appendix B*, the *COVID-19 Payment Deferral Plan Worksheet***
3. **Completion of a Deferral Agreement**
   - The MPF Provider is supplying ***Appendix A****, which is an optional template.
   - ***Appendix A*** supplies only the minimum level of information to satisfy the MPF Program requirements.
   - If using ***Appendix A***, be sure that your final agreement meets any specific laws that may apply.
4. **If there is mortgage insurance on the loan, evidence that the MI company has either approved or issued guidance stating plans of this type are acceptable.**
   - Maintain evidence in the loan file.

***Appendix A and B** are is provided on the COVID-19 Resource page

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COVID-19 Payment Deferral Fees and Expenses

- Servicers must pay any actual out-of-pocket expenses in accordance with the MPF Traditional Servicing Guide associated with the execution of a COVID-19 payment deferral, including, but not limited to:
  - ✓ Required notary fees
  - ✓ Recording costs
  - ✓ Title costs
  - ✓ Any other allowable and documented expense

- Servicers must not charge the borrower administrative fees.

- Servicers are encouraged to waive all late charges, penalties, stop payment fees, or similar charges upon completing a COVID-19 payment deferral.

Custody Requirements

Was the Deferral Agreement Recorded?	
YES	• Within 25 calendar days of the effective date, deliver a certified copy of the agreement to the MPF Custodian, Wells Fargo. • Within five calendar days of receipt, deliver the original, recorded agreement to the MPF Program Custodian, Wells Fargo.
NO	• Within 25 calendar days of the effective date, deliver the original agreement to the MPF Program Custodian, Wells Fargo.

Temporary Loan Modifications

Temporary Loan Modifications

Temporary Loan Modifications are intended to eliminate the arrearage and provide the borrower with a monthly loan obligation that is affordable and sustainable.

- The “temporary” relief is for three years, after which the original P &I payments will resume.
- A Temporary Loan Modification Plan may be appropriate only after all other loss mitigation options have been exhausted or determined to be ineffective given the borrower’s circumstances.
- Approval from the applicable primary and/or supplemental mortgage insurer is required.

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Temporary Loan Modifications

- Primary residences only.
- Conventional loans only (no MPF Government loans).
- The property cannot be condemned.
- Borrower must be the same borrower(s) that signed the Note. If not, they must have acquired the property as a result of an eligible transfer (i.e. inheritance).
- All taxes and assessments (HOA fees) must be current.
- Was not previously modified due to a hardship.

Temporary Loan Modifications

Underwriting a Modification Plan

Analyze the request to determine if a modification will permit the borrower to cure or avoid delinquency.

- The goal of the modification is to provide a housing expense ratio that does not exceed **31%** of the borrower's gross monthly income.
- This the housing ratio should include any subordinate financing payments.

Temporary Loan Modifications

Temporary modification basics

- The modification consists of a three-month trial period followed by 33 reduced payments.
- If the hardship is still in place after 36 months, the borrower may be re-evaluated for another temporary modification.
- The full principal balance of the mortgage including capitalized interest is due on the original loan maturity date or when paid off.
- This will result in a balloon payment being due at loan maturity or when otherwise paid off.

See Chapter 9.2.7 in the Servicing Guide for more information on the capitalization of delinquent interest.

Initial Trial Period

Borrowers are given a trial period of three months during which new payments must be made on time

- Servicer must hold the payments in suspense in as “unapplied funds” in the T&I Custodial Account until all three payments are made as agreed.
- When all three payments are made as agreed, the Servicer should bring the due date current, adjust the loan parameters (interest rate, P&I, etc.) then apply the payments to the loan.
  - ✓ If the borrower fails to make any of the trial period payments, the Modification Plan will be terminated.

Temporary Plan Period

After successful completion of the trial period, the loan payments may be modified for the additional 33 months

- To do this, the Servicer must sign both originals of **Form SG401** and send an executed original to the borrower.
  - ✓ Retain the other original in the mortgage loan file.
- Apply the three trial period payments.
- If the borrower fails to make any of the required payments due during the 33-month period, they are not eligible for another Modification Plan.

Unresolved Hardship Options Short Sales and Deed-in-Lieu of Foreclosure

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Short Sales

Short sales occur when the sale of a mortgaged property prior to foreclosure typically results in insufficient funds to pay the amount owed

- Short sales should be considered if the sale would reduce the loss that would otherwise be incurred from a foreclosure.
- If a mortgage loan is covered by primary and/or supplemental mortgage insurance, the Servicer may not agree to a short sale without the mortgage insurer's written approval.
- If the proceeds of the short sale are greater than the amount owed to the MPF Bank, the servicer may negotiate the short sale without seeking the MPF Default Team's approval.

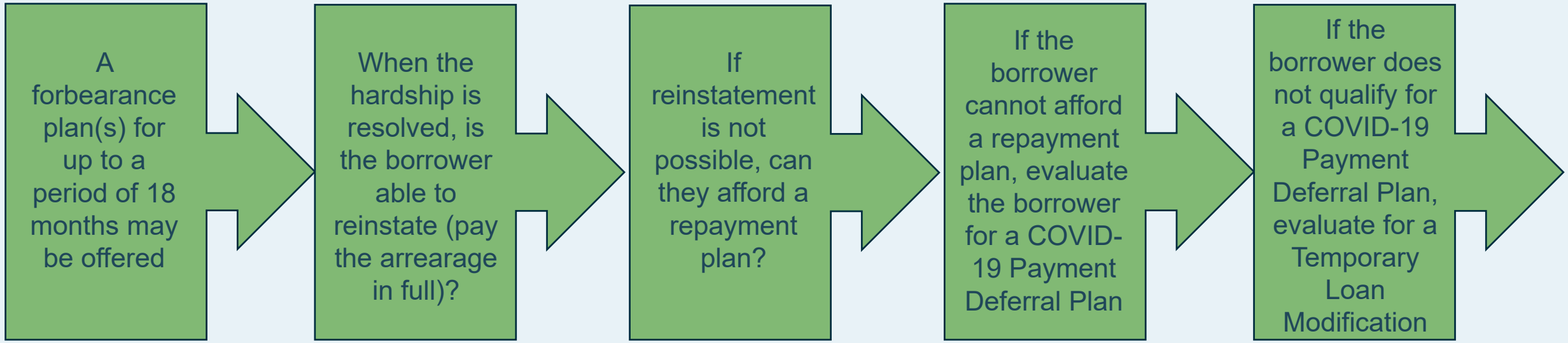
Deed-in-Lieu of Foreclosure

A Deed-in-Lieu of Foreclosure is when the borrower conveys their interest to the property back to the lender

- A Deed-in-Lieu of Foreclosure is acceptable with approval from the MPF Default Team and primary and/or supplemental MI company, if applicable.

The Servicer may accept a Deed-in-Lieu of Foreclosure if:
• There are legal impediments to pursuing a routine foreclosure • It complies with the requirement of any applicable mortgage insurer and will not result in any loss of benefits or reduction in coverage • Borrower can convey clear, marketable and insurable title • Borrower receives no cash consideration • The mortgaged property is in good condition • The mortgaged property is not subject to liens, judgments, resale restrictions or any other items affecting marketability

The Loss Waterfall at a Glance
COVID-19 Related Hardships



If unable to resolve through a Temporary Loan Modification, or if a hardship continues, other options like deed-in-lieu, short sale may need to be considered.

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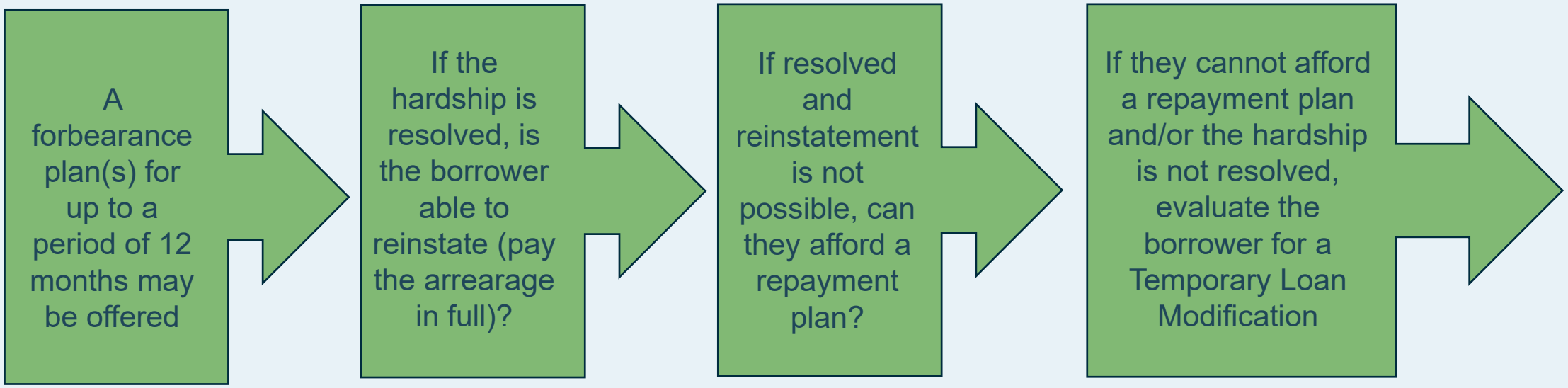
The Loss Waterfall at a Glance
Non-COVID-19 Related Hardships



If unable to resolve through a Temporary Loan Modification, or if a hardship appears to be permanent, other options like deed-in-lieu, short sale may need to be considered.

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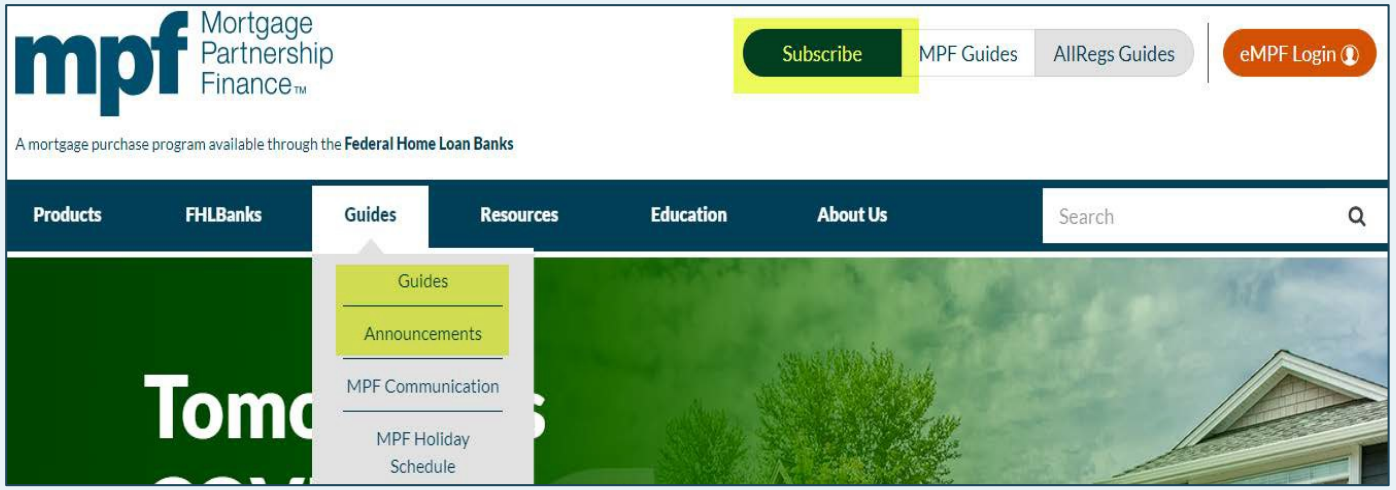
MPF Website Resources

MPF Guides and Announcements

www.fhlbmpf.com



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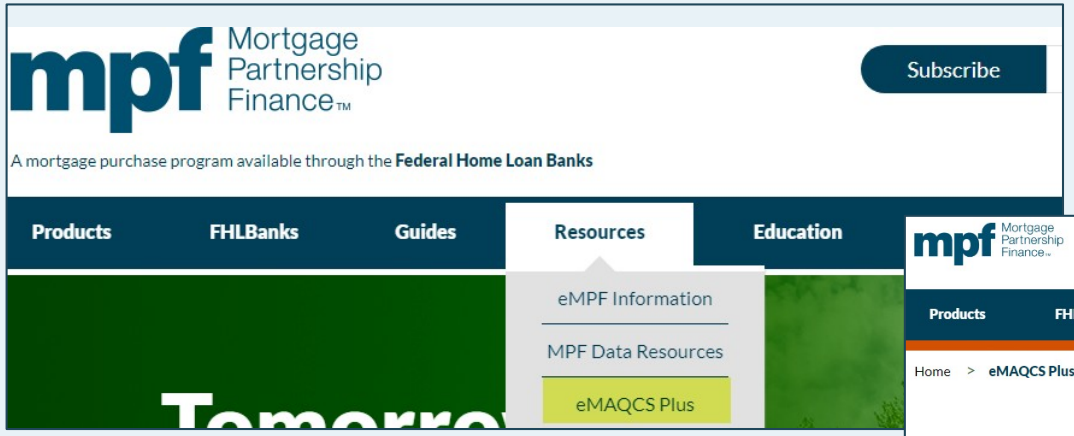
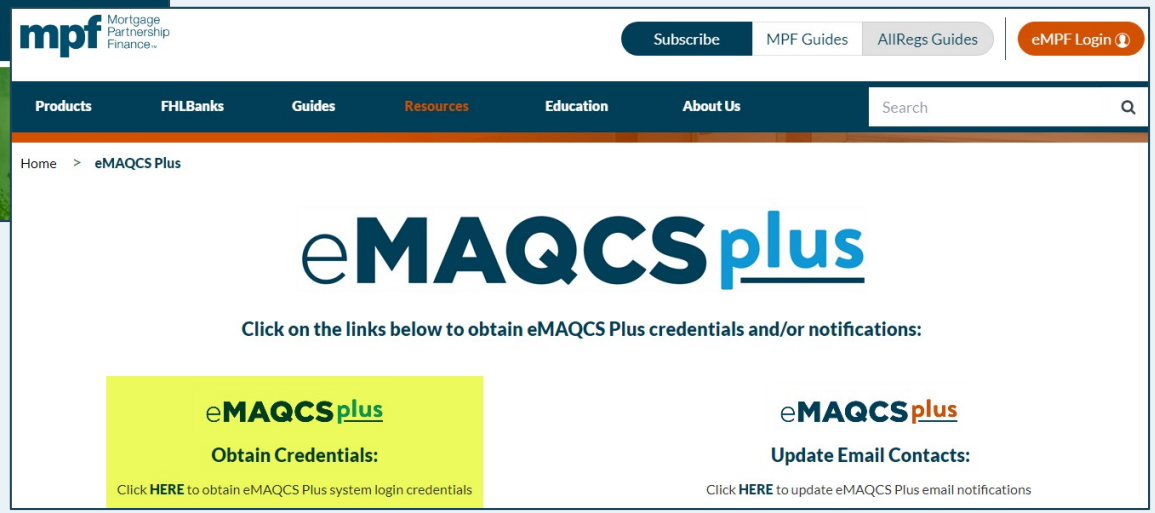
Access to eMAQCSplus





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MPF Program Information

MPF Service Center

- Phone: 877-345-2673
- Email: MPF-Help@FHLBC.com
- Hours: 8:30 am to 4:30 pm CST

MPF Default Team

mpfdefaultservicing@fhlbc.com

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