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CHAPTER 1. INTRODUCTION

This MPF® Traditional Servicing Guide ("Servicing Guide"), the MPF Program Guide, the MPF Traditional Selling Guide product-specific manuals, forms, exhibits, (together referred to herein as the “Guides”), and the Applicable Agreements apply to all Servicers Servicing Mortgage Loans sold under MPF Traditional Products and the MPF Government product. This Servicing Guide outlines the requirements and/or processes for Servicers servicing MPF Traditional Mortgage Loans under the MPF Program. Servicers must abide by the procedures, terms, and conditions set forth in this Servicing Guide, as it may be amended from time to time. Failure of a Servicer to perform its obligations under either the Applicable Agreements or the Guides constitutes an Event of Default entitling the MPF Bank to exercise all available remedies as provided in the Guides and Applicable Agreements, including but not limited to termination of its Servicing Rights.

1.1.1 Conventional Loans

For all Conventional Loans, the Servicer must comply with the requirements of this Servicing Guide.

1.1.2 Government Loans

Where servicing requirements of the Servicing Guide and the servicing requirements of the applicable Government Agency conflict, the more restrictive requirements will apply. Where the servicing requirements differ but are equally restrictive, the Government Agency’s requirements will apply.

1.2 The MPF Provider

This section addresses the role of the MPF Provider. Servicers are required to ensure they provide certain notices to MPF Provider and obtain Investor approval by submitting requests to the MPF Provider in the manner provided for in the Guides. When submitting requests to the MPF Provider, Servicers should assume the MPF Provider needs a minimum of 5 business days to respond unless otherwise noted in the Guides. Servicers must ensure all required or relevant forms, information and documentation is submitted with requests to avoid delays.

1.2.1 Notifying the MPF Provider

Servicers are required to maintain accurate records and provide the MPF Provider certain notices, in the manner provided for in the Guides. Some notices are required to be made immediately, including but not limited to discovering any of the following:

- Deterioration of waste, or lack of repair to, any Mortgaged Property, including the presence of hazardous materials or conditions;
- Sale or transfer of any Mortgaged Property that was not in compliance with the Guides;
- Material litigation involving any Mortgaged Property;
• Vacancy or abandonment of any Mortgaged Property;

• Occupancy of the Mortgaged Property by a tenant, if the related Mortgage Loan documents indicate such property is to be owner-occupied;

• A material default under the terms of any Security Instrument, Note, condominium project or PUD constituent document or similar obligations of the Borrower (except in the case of a monetary default of the Borrower already addressed under the requirements for Delinquency management set forth in the Guides); or

• Any other situation that may materially and adversely affect any Mortgage Loan or Mortgaged Property.

1.3 The Master Servicer

This section addresses the role of the Master Servicer. Servicers are required to ensure they provide certain notices to and obtain certain approvals from the Master Servicer, in the manner provided for in the Guides. When submitting requests to the Master Servicer, Servicers should assume the Master Servicer needs a minimum of 5 business days to respond unless otherwise noted in the Guides. Servicers must ensure all required or relevant forms, information and documentation is submitted with requests to avoid delays.

1.3.1 MPF Program Master Servicer (1/30/17)

The terms and conditions of this Servicing Guide will be administered by the MPF Bank, the MPF Provider acting on behalf of the MPF Bank, or the Master Servicer acting on behalf of the MPF Provider. The Master Servicer is authorized to require the Servicer to perform its obligations hereunder and under the Applicable Agreement. Wells Fargo Bank, N.A. will serve as the Master Servicer. The MPF Bank or the MPF Provider may, at any time, without the Servicer’s consent, direct in writing that all or part of the functions of the Master Servicer be performed by another entity designated for such functions and time periods as the MPF Bank or the MPF Provider deems appropriate. The Servicer must comply with the instructions of such entity as if it were the Master Servicer.

Correspondence relating to the servicing and administration of the Mortgage Loans should be directed to the Master Servicer.

1.3.2 Master Servicer Prior Approvals

The Master Servicer may waive some requirements for prior approval in this Servicing Guide so long as the Servicer:

1 MPF Announcement 2017-03 (1/30/17)
• Maintains Delinquency rates for Mortgage Loans at or below industry standards for mortgages of similar types in similar locations;

• Achieves Foreclosure time intervals at or below industry standards for the states in which the Mortgaged Properties are located; and

• Maintains Foreclosure losses at or below industry standards for mortgages of similar types in similar locations.

This waiver must be in writing and may be withdrawn at any time at the sole discretion of the MPF Bank, MPF Provider, or the Master Servicer.

1.4 Servicer's Relationship with the MPF Program

This section describes the relationship between the Servicer and the MPF Program.

1.4.1 Servicer as Independent Contractor

The Servicer is an independent contractor of the MPF Bank for the purpose of collecting Mortgage Loan payments, processing and collecting insurance claims, foreclosing, and otherwise enforcing the terms of the Mortgage Loan documents after default.

The Servicer shall act on behalf of the MPF Bank for the purpose of disposing of real estate owned ("REO") properties.

All services, duties and responsibilities of the Servicer under the Applicable Agreement and the Guides shall be performed and carried out by the Servicer as an independent contractor, and none of the provisions in the Guides (except where expressly provided) shall be deemed to make, authorize or appoint the Servicer as agent, partner, or representative of the MPF Bank, MPF Provider, or Master Servicer or any of their affiliates. Nothing in the Guides or in the Applicable Agreements shall be deemed or construed to create a partnership or joint venture between the parties hereto.

The Servicer's authority as an independent contractor is strictly limited to those acts necessary to carry out its Servicing Responsibilities in accordance with the Guides and the Applicable Agreements. Except where express permission was received from Master Servicer, or MPF Provider in writing, the Servicer is not authorized to waive any right or remedy of the Mortgage Loan documents.

1.4.2 Servicer Performance (1/30/17)²

Upon breach of any requirement, including, without limitation, the occurrence of any Event of Default, or of any of the Servicer's representations, warranties or covenants contained in the Guides or in the Applicable Agreements, the Servicer must:

² MPF Announcement 2017-03 (1/30/17)
• Promptly notify the MPF Bank and MPF Provider in writing of the nature of the breach, the date on which the breach occurred or began, and the Servicer’s plans, if any, for curing the breach; and
• Effect a cure of the breach, if deemed curable by the MPF Bank, within thirty (30) days after the occurrence or onset of the breach.

If the breach is not deemed curable or if no complete cure has been effected, the MPF Bank may, in its sole discretion, require the Servicer to purchase or repurchase any Mortgage Loan which has been impaired or has suffered a material impairment of value or require indemnification for any loss incurred by the MPF Bank as a result of the breach.

1.4.3 Servicer Authority – Legal Representation

The Servicer has the full authority to do or cause to be done all things as may be necessary and appropriate to perform the Servicing responsibilities in its own name and right as if the Mortgage Loans were owned by it for its own account. In employing attorneys, filing claims in bankruptcy, probate, and other courts, or when appearance in any court is to be made, any such employment, filing, or appearance shall be done in the Servicer’s name unless the Applicable Law, the Guides, Master Servicer, MPF Bank or MPF Provider authorize or direct the Servicer to take such action in the MPF Bank’s name.

1.5 Repurchases

The Servicer may not repurchase a Mortgage Loan without the written consent of the MPF Bank. Servicers are responsible for making appropriate changes in MERS to reflect the repurchase.

1.6 Indemnification (1/30/17)

The Servicer shall indemnify and hold harmless: (a) the MPF Bank; (b) the MPF Provider; (c) the Master Servicer; and (d) the officers, directors, employees, agents and affiliates of the MPF Bank, MPF Provider and Master Servicer from and against any and all claims, losses, damages, judgments, penalties and any other costs, fees, and expenses (including reasonable attorneys’ fees and court costs) arising out of, based upon, or relating to: (i) a breach by the Servicer, its officers, directors, employees or agents of any representation, warranty or covenant contained in the Applicable Agreement and the Guides, or any failure to disclose any matter that makes any representation or warranty misleading or inaccurate, or any inaccuracy in material information furnished by the Servicer; (ii) a breach of any representation, warranty or covenant, failure to disclose, or inaccuracy in information furnished by the Servicer regarding itself; or (iii) a violation of Applicable Law or MPF Program requirements.

3 MPF Announcement 2017-03 (1/30/17)
In addition, the Servicer shall provide legal representation on behalf of the indemnified parties in connection with any legal proceeding involving a Mortgage Loan. Neither an indemnified party nor the holder of a related security shall be liable for any attorneys' fees, court costs or other expenses incurred in connection with such litigation, except to the extent that the attorneys' fees, court costs or other expenses result from the negligence or wrongful misconduct of the party entitled to indemnification. Any judgment against the MPF Bank, MPF Provider or Master Servicer, or their officers, directors, employees, agents and affiliates shall be satisfied by the Servicer, as a recoverable advance, except to the extent that the judgment results from the negligence or wrongful misconduct of the party entitled to indemnification.

1.7 **Servicing Standards (4/30/20)**

This section describes the general servicing standards the Servicer must follow when Servicing Mortgage Loans.

The Servicer is required to service Mortgage Loans in accordance with the requirements of this Guide, which includes payment of escrow items, safeguarding the Mortgaged Property, and adhering to reporting and remitting requirements through Liquidation or disposition of the Mortgaged Property. The Servicer is responsible for servicing each Mortgage Loan until it receives express notice from the MPF Provider relieving the Servicer of its responsibilities in writing.

The Servicer must provide any information or documentation as requested by the MPF Bank, MPF Provider, and/or Master Servicer in a timely manner.

1.7.1 **Applicable Standards (XX/XX/XX)**

Notwithstanding the presence or absence of language in certain sections of the Servicing Guide or the Applicable Agreement that expressly requires compliance with Applicable Standards, the Servicer must service the Mortgage Loans and fulfill all other obligations under this Servicing Guide and the Applicable Agreement in strict conformance with the Applicable Standards, which are any requirements contained in:

- The Guides;
- The Applicable Agreements;
- Any requirements of any applicable Government Agency;
- Any other contractual obligation of the Servicer;

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4 MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-03 (1/30/17)
5 MPF Announcement 2020-XX (XX/XX/XX)
MPF Announcement 2017-03 (1/30/17)
• The reasonable and customary practices of prudent mortgage lending institutions that service mortgage loans of the same type as the Mortgage Loans in the jurisdiction in which the relevant Mortgaged Properties are located;

• The terms of the Mortgage Loan documents; and

• All Applicable Laws. (See also MPF Program Guide Chapter 7).

1.7.2 Allowable Servicing Fees (12/11/18) 6

The Servicer may only charge Borrowers fees that are not prohibited by Applicable Law, the Mortgage Loan Documents, the MPF Guides and the Mortgage Insurer/Guarantor. Any fees charged to the Borrower must be customary for the service provided.

1.7.3 Servicing Files (4/30/20) 7

The Servicer must maintain an individual Mortgage Loan File for each Mortgage Loan by either storage of:

• The physical documents; or

• Images of the documents on:
  o Optical disks;
  o Microfilm;
  o Micro-fiche; or
  o Other electronic storage medium.

The storage medium must be marked in a way that clearly identifies the MPF loan numbers contained therein.

Any electronic storage of the documents must be in accordance with the Applicable Standards and must meet the following requirements:

• The process must accurately reproduce originals onto a durable medium;

• The MPF loan number and the Servicer loan number must be clearly marked;

• The contents of the media must be easily transferable to legible hard copies;

• The Servicer must retain the original recorded Mortgage, the original of any Assignments; the original Conventional mortgage insurance certificate, the Government Loan insurance certificate.

6 MPF Announcement 2018-60 (12/11/18)
7 MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-03 (1/30/17)
or guaranty certificate; and originals of any documents that change the mortgage terms, unless such documents are held by the Custodian; and

- The Servicer must make backup copies of the electronic files and retain the backup copies off-site to protect against fire and other hazard losses.

If the copies, optical storage or magnetic media become damaged or lost for any reason, the Servicer must bear the entire cost of restoring each Mortgage Loan File and any other related documents.

Mortgage Loan Files must be made available for review by the MPF Bank, the MPF Provider, the Master Servicer, the applicable investor or Government Agency, their representatives, agents, or examiners. If the requestor requires legible hard copies, the Servicer bears the cost for reproducing and delivering the hard copies.

Each Mortgage Loan File, at a minimum, must contain the following information/documents:

- Borrower correspondence letters and responses;
- Loan transaction/payment histories;
- Consolidated conversation notes and telephone contact attempts;
- Any assumption, modification, or other documents;
- Legal notices;
- Documentation of any modifications to the Mortgage Loan or releases of any collateral for the Mortgage Loan;
- A copy of the tax service contract;
- Routine form letters, all customer service/collection/bankruptcy/foreclosure/claims information, and full loan accounting history;
- Any documents required to be maintained in the Mortgage Loan File in accordance with the MPF Traditional Selling Guide;
- Any approval required to have been obtained from the MPF Provider, MPF Bank, or applicable Government Agency, pursuant to the Guides, as to any of the items listed above; and
- All other documents customarily maintained in a Mortgage Loan File in accordance with Applicable Standards.

### 1.7.4 Mortgage Records

The Servicer must maintain records to show the payment history for each Mortgage Loan, including the date of each transaction, funds credited to the account, and disbursements made from the account.
1.7.5 Record Retention (4/30/20)

For more convenient storage, the Servicer may scan (or otherwise condense, including the use of computer imaging) most of the papers required to document and service the Mortgage Loan. However, the Servicer shall retain the original recorded Security Instrument, the original of any Assignments (except for any original Assignment that the Custodian may be holding), the original PMI certificate or applicable Government Agency mortgage insurance certificate or loan guaranty, and originals of any documents that modify the loan terms (unless required that they be sent to the MPF Bank or MPF Provider). When the Servicer uses any form of reduced (condensed) documents, it shall be able to promptly reproduce legible, exact duplications of the original documents if they are needed for any reason.

The Servicer is responsible for promptly delivering to the Custodian any documents that come into its possession which are required to be maintained in the Collateral File.

After a Security Instrument is re-conveyed or assigned, or a Mortgaged Property disposed of, the Servicer must keep the individual Mortgage Loan File for at least seven (7) years (from the date of payoff or the date of disposition).

1.7.6 Release of Documents (10/27/17)

The Note and the Assignment must remain in the Custodian's possession, except as needed by the Servicer from time to time as appropriate for Servicing of a Mortgage Loan. When items from the Collateral File are needed, the Servicer must submit a Request for Release of Documents (Form SG340) to the Custodian.

The Custodian will release the requested Collateral File upon receipt of a properly executed Request for Release of Documents form. The Servicer will be responsible for the Collateral File while it is in the Servicer’s possession and will be deemed to hold such Collateral File in trust for the MPF Bank. The Servicer must safeguard the Collateral File until it is returned to the Custodian, which includes protecting it from external elements (such as fire), identifying it as an MPF Bank asset, and keeping it separate from other unrelated documents.

If the Mortgage Loan has not been paid in full or otherwise liquidated, the Servicer shall promptly return the Collateral File when it is no longer required by the Servicer.

1.7.7 Release of Lien (10/27/17)
At payoff or as otherwise necessary, the Servicer is responsible for releasing the lien of the Security Instrument, including executing the appropriate satisfaction, release, or reconveyance on behalf of the MPF Bank, and for complying with all Applicable Laws requiring timely release or reconveyance.

The Servicer must complete the appropriate Request for Release of Documents (Form SG340) and submit it to the Custodian within five (5) calendar days following payoff. Any specific instructions pertaining to endorsement and/or disposition of the original Mortgage Loan documents must accompany the Request for Release of Documents form.

The Custodian shall return the original Note once the Mortgage Loan is paid in full or otherwise liquidated. The Servicer is responsible for complying with Applicable Law with respect to the Note being altered to indicate the Mortgage Loan has been paid in full.

The Mortgage Loan must also be deactivated on MERS if the Mortgage Loan is registered with MERS.

1.7.8 Disclosure of Servicer Information (1/30/17)

The Servicer must furnish to the MPF Bank or any other investor upon request, and to keep up to date, a description of the Servicer and its activities, suitable, in the MPF Bank's or other investor's discretion, for disclosure purposes related to securitization. The Servicer consents to the inclusion of such description in any prospectus, private placement memorandum, or offering circular. The Servicer recognizes that they MPF Bank will rely upon the truthfulness and accuracy of such description, including when using Mortgage Loans as collateral for mortgage-backed securities or similar transactions.

1.7.9 Lien Priority

The Servicer must take all such actions as are reasonably necessary to preserve the lien and its priority upon the Mortgaged Property securing each Mortgage Loan at all times.

1.7.10 Delinquency Ratio Exceeding MPF Program's Standard

The Servicer shall maintain monthly total portfolio Delinquency ratios at or below the maximum allowable total delinquent ratio as determined by its MPF Bank.

A Servicer may be disqualified or suspended if the Servicer’s 30-, 60-, or 90-day Delinquency rate or REO property rate for Mortgage Loans is more than 50% higher than the average 30-, 60-, or 90-day Delinquency rate or REO property rate for all Mortgage Loans owned by MPF Banks or delivered under the MPF Program nationally or for loans which are secured by Mortgaged Properties located in the same geographic area (which may include Standard Metropolitan Statistical Area, county, or

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11 MPF Announcement 2017-03 (1/30/17)
state) as the loans being serviced by the Servicer and with similar mortgage and borrower characteristics (for example, origination year, loan to value ratio, documentation type, etc.)

1.7.11 Customer Contact (4/30/20)

Servicers must promptly respond to all inquiries received from Borrowers and successors in interest (upon confirming successors in interest status in accordance with Applicable Law) about the terms of their Mortgage Loans, the status of their accounts, loss mitigation, or any actions the Servicer took (or did not take) in servicing their Mortgage Loans.

The Servicer’s staff must be able to communicate with Borrowers and successors in interest in a manner reasonably expected to be understandable to the Borrower and successors in interest.

The Servicer shall not refer Borrowers or successors in interest to the Master Servicer, MPF Bank or MPF Provider for resolution of issues that are the Servicer’s responsibility.

If Servicer requires information from Master Servicer, MPF Provider or MPF Bank to respond to such Borrower inquiry, Servicer must allow at least 5 Business Days for the request to be processed, and, to avoid delays, should ensure the request include at minimum the following information:

- MPF loan number;
- Borrower name(s);
- Who inquiry was received from and relationship to Borrower (Note that any request received related to inquiry from alleged successors in interests will be assumed to have been confirmed as a Successor in Interest by Servicer pursuant to its policies and procedures);
- Deadline for response to inquiry, and whether the deadline is regulatory;
- Copy of the original inquiry (if received in writing); and
- Any other relevant loan or borrower information that may be needed to provide response to Servicer’s request.

1.7.12 Rescission Notices

The Servicer must immediately notify the MPF Provider and the Investor of the Mortgage Loan when a rescission notice is received from or on behalf of a Borrower. To avoid delays, the notification to the MPF Provider must include at minimum the following information:

- MPF loan number;

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12 MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2018-60 (12/11/18)
• Borrower name(s);
• Loan product, name of Investor(s) and any applicable Government Agency insuring or guaranteeing the Mortgage Loan;
• Who inquiry was received from and relationship to Borrower (Note that any request received related to inquiry from alleged successors in interests will be assumed to have been confirmed as a Successor in Interest by Servicer pursuant to its policies and procedures);
• Date and method notice of rescission was received by Servicer;
• Copy of the Notice of Rescission;
• Copy of any other communication received from Borrower or Borrower’s representative related to the rescission;
• Status of loan (If loan is in foreclosure or bankruptcy: name and contact information of attorney representing Servicer and attorney representing Borrower); and
• Any other relevant loan or borrower information that may be needed to address the rescission demand.

1.7.13 Other Loan Inquiries (4/30/20)

Servicers must promptly respond appropriately pursuant to Applicable Laws to all inquiries received regarding Mortgage Loans they service, including inquiries from non-authorized individuals, regulators, government representatives etc...

The Servicer shall not refer such individuals to the Master Servicer, MPF Bank or MPF Provider for resolution of issues that are the Servicer’s responsibility.

If Servicer requires information from MPF Provider to respond to such inquiry, Servicer must allow at least 5 Business Days for the request to be processed, and, to avoid delays, should ensure the request include at minimum the following information:

• MPF loan number;
• Borrower name(s);
• Who inquiry was received from and relationship to Borrower (Note that any request received related to inquiry from alleged successors in interests will be assumed to have been confirmed as a Successor in Interest by Servicer pursuant to its policies and procedures);
• Deadline for response to inquiry, and whether the deadline is regulatory;
• Copy of the original inquiry (if received in writing); and
• Any other relevant loan or borrower information that may be needed to provide response to Servicer’s request.

1.7.14 Occupancy Status (4/30/20)

The Servicer shall maintain accurate records of the occupancy status of Mortgaged Properties, including any changes in occupancy they have been made aware of. In addition, Servicers must immediately advise notify the MPF Provider upon discovering that the Mortgaged Property is no longer owner-occupied, including when it is vacant, abandoned or occupied by a tenant, if the related Mortgage Loan documents indicate such property is to be owner-occupied, and provide recommendations with applicable supporting documentation, as to any actions that are to be taken as a result of the change in occupancy status.

1.7.15 MERS Registered Mortgage Loans (1/30/17)

If the Servicer uses MERS or if the use of MERS is required under a particular servicing option, in addition to complying with the requirements of the MERS Membership Agreement, Servicers of MERS registered Mortgage Loans must check for electronic messages from MERS. If an unidentified notice related to a Mortgage Loan is received, the Servicer must take any appropriate and timely action based on the notice, and advise MERS that it is the Servicer of the Mortgage Loan.

1.7.16 Execution by MPF Bank (4/30/20)

If the MPF Bank’s signature is required on any document (e.g. for payment in full, Assumption, or Foreclosure), the Servicer must provide a written notice to the MPF Provider requesting the MPF Bank’s execution and certifying the reason that the execution is required. Servicer must allow at least 5 Business Days for the request to be processed, and, to avoid delays, should ensure the request include at minimum the following information:

• MPF loan number
• Borrower name(s)
• Explanation as to why request is being made, including any deadlines related to legal processes
• Any other supporting documentation or relevant loan or borrower information that may be needed to respond to Servicer’s request

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13 MPF Announcement 2020-25 (4/30/20)
14 MPF Announcement 2017-03 (1/30/17)
15 MPF Announcement 2020-25 (4/30/20)
16 MPF Announcement 2017-03 (1/30/17)
Upon receipt of the executed documents, the Servicer must promptly record, file, or deliver the documents as applicable.

1.7.17 Late Charges (1/30/17)\textsuperscript{16}

The Servicer must collect late charges pursuant to the terms of the Note and in accordance with the Applicable Standards. However, the Servicer cannot collect a late charge that is more than five percent (5%) of the late Principal and Interest Payment and/or collect a late charge on a monthly payment received on or prior to the 15th calendar day of the month.

The Servicer should use discretion when considering a request for waiver of late charges, taking into consideration delinquency history, etc.

The Servicer must accept a late full monthly payment without the late charge included, unless Applicable Law states otherwise or acceptance of the payment would pose a risk to the Servicer during legal proceedings.

1.7.18 Property Address Change (10/27/17)\textsuperscript{17}

When the Servicer has determined that the property address has changed, the Servicer must email the MPF Provider at MPFServicing@fhlbc.com with the following information:

- MPF loan number;
- Borrower name;
- Old property address;
- New property address; and
- Documentation reflecting the property address change.

1.8 Military Indulgence

This section addresses compliance with the Servicemember’s Civil Relief Act.

1.8.1 Servicemember’s Civil Relief Act (4/30/20)\textsuperscript{18}

The Servicemember’s Civil Relief Act of 2003 (“SCRA”) was enacted to support members of the military and certain other service personnel and their families during active duty. The SCRA applies to a Borrower who was a civilian when he or she became obligated under the Mortgage Loan documents and who is subsequently placed on active military status either voluntarily or involuntarily, and

\textsuperscript{16} MPF Announcement 2017-03 (1/30/17)
\textsuperscript{17} MPF Announcement 2017-62 (10/27/17)
\textsuperscript{18} MPF Announcement 2020-25 (4/30/20)
provides that the Borrower may have the loan interest rate reduced to six percent (6%) during the term of military service and for twelve (12) months thereafter, in the case of a mortgage, trust deed, or similar Security Instrument. A Servicer must attempt to ascertain the military status of the Borrower before initiating Foreclosure proceedings and must comply with specific state and local laws that address the effect of the SCRA upon the Foreclosure process, or that impose additional restrictions or limitations on foreclosing upon servicemembers. The Servicer is required to stay any Foreclosure proceedings started prior to his or her entry into active duty. The Servicer must also postpone the initiation of Foreclosure proceedings against an eligible servicemember while he or she is in active duty. The Servicer must also provide an extended stay of the Foreclosure and other legal proceedings for twelve (12) months from the end date of the servicemember’s active duty. The reduced interest rate provisions of the SCRA apply unless a court finds that the servicemember’s active service does not materially affect the servicemember’s ability to pay interest on the debt at the higher contract rate. The Servicer is responsible for complying with the SCRA.

The request for SCRA relief and providing relief cannot be conditioned upon the servicemember’s completion of a particular form, nor can a Servicer require that the written notice make an explicit request for benefits. Servicers should accept copies of the servicemembers’ military order as written notice of eligibility, as well as the servicemember’s written request for military deferment or forbearance as written notice. Servicemembers should be able to submit their requests by email, facsimile, mail, or overnight delivery. Servicemembers are eligible for protections if they provide the Servicer notice of their active military status 180 days or less after the date of the servicemember’s termination or release from active military service. Upon receipt of the notice, the Servicer is required to retroactively reduce the interest rate on the servicemember’s debt to the date on which the servicemember received his or her orders. This rate reduction can be granted to any eligible servicemember whose Mortgage Loan is secured by a single-family residence regardless of his or her occupancy status or percentage of ownership interest in the Mortgaged Property. The Servicer does not need to determine whether the servicemember’s entry into active duty materially affects his or her ability to pay interest at the Note rate. If the servicemember needs additional relief, the Servicer will need to obtain more information about his or her financial capabilities.

If the Mortgage Loan has a delinquent status when the servicemember is told to report for duty, the past due payments will bear interest at the rate applicable on the date they became due, with any payments coming due after the servicemember’s entry into active duty bearing interest at no more than six percent (6%). Certain eligible servicemembers are entitled to interest rate relief from the moment they receive their active duty orders. Servicers must carefully review the servicemember’s status and eligibility to ensure full compliance with the SCRA. The Servicer should note that interest in excess of six percent (6%) a year is forgiven and not deferred. Late charges should also be waived during this period.
The effective start date of the reduced six percent (6%) interest rate is the date on which the servicemember reports for active duty service or receipt of active duty orders, depending on the branch of the military in which the servicemember serves. Rather than change the mortgage interest rate during the current month, the Servicer should make the new interest rate effective with the first payment due after the servicemember’s eligibility for interest rate relief begins. Since interest is paid in arrears, a servicemember will receive benefit of the lower interest rate for the entire month, including any part of the month that precedes the date of eligibility for interest rate relief. The Servicer should report the acceptance date of reduction of the interest rate under the SCRA by sending a copy of the military orders or other acceptable documentation to the attention of the MPF Provider.

For actual/actual and actual/actual single remittance Conventional Loans, the Servicer must report and remit based on the interest rate adjustment to six percent (6%) and no request for reimbursement needs to be submitted.

For scheduled/scheduled remittance Conventional Loans, the Servicer must continue to report and remit at the original Note terms but may submit a request for reimbursement for the interest difference to the MPF Provider by submitting a copy of the Borrower’s applicable orders or other acceptable documentation and reporting monthly or quarterly.

For Government Loans, the MPF Bank, at its option, may grant interest shortfall assistance to the Servicer. Servicer may request such assistance by submitting a copy of the Borrower’s applicable orders or other acceptable documentation and reporting monthly or quarterly. If interest shortfall assistance is granted, the Servicer will follow the requirements identified above based on the remittance type.

Any interest shortfalls resulting from SCRA related interest rate adjustments will be deemed a Realized Loss subject to the terms of the related Master Commitment and the SCRA. Those expenses may be recoverable by the MPF Bank as a Realized Loss by retaining performance CE fees.

The interest rate subsidy continues through active duty completion and then through the next twelve (12) months. Since interest is paid in arrears, a servicemember will receive the benefit of the six percent (6%) interest rate for the entire month he or she was released from active duty, plus an additional twelve (12) months under the SCRA.

**Example:** If active duty service ends November 15, the next twelve (12) scheduled payments due for the following year are made at the reduced rate. On January 1 of the next year, the interest rate is changed to reflect the higher rate, so that the payment due on February 1 incorporates the restored interest rate prior to active duty.
The Servicer should notify the MPF Provider of the change of interest rate back to the full interest rate, and the MPF Provider will then reflect the change in interest rate on its records.

1.8.2 State or Jurisdictional Requirements

In addition to federal SCRA requirements, the Servicer must comply with any state or jurisdictional-specific SCRA requirements which expand protections or alter the Foreclosure requirements related to active duty servicemembers and other associated parties entitled to relief.

1.9 Delegation of Duties (1/30/17)

This section covers the services the Servicer is permitted to delegate to another party.

The Servicer shall assure that each delegee retained to provide any permitted delegation of duties is fully licensed and holds all required federal, state, and local governmental franchises, certificates and permits, and that such person is reputable, knowledgeable, skilled, and experienced and has the necessary personnel, facilities, and equipment required to provide such services.

Any delegee shall be retained solely for the Servicer’s account and at the Servicer’s sole expense and shall not be deemed to be an agent or representative of the MPF Bank or MPF Provider, the Master Servicer or its successors or assigns.

The Servicer shall remain liable to the MPF Bank and its successors and assigns for the performance of the Servicer’s duties and obligations hereunder, regardless of the delegation of any Servicing function.

In addition, the Servicer will indemnify and hold harmless the MPF Bank and the MPF Provider, its successors and assigns from and against any and all claims, damages, losses liabilities, costs or expenses arising either directly or indirectly out of any acts or omissions of any person retained to provide the foregoing services, including but not limited to attorney’s fees and court costs.

1.9.1 Subservicing (1/30/17)

The Servicer must obtain written consent from the MPF Bank to delegate all of its servicing responsibilities to a subservicer. If servicing is performed by a subservicer, all financial transactions regarding this servicing must take place through the Servicer’s DDA with the MPF Bank.

1.9.2 Delegations Not Requiring Consent (1/30/17)

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19 MPF Announcement 2017-03 (1/30/17)
20 MPF Announcement 2017-03 (1/30/17)
21 MPF Announcement 2017-03 (1/30/17)
The Servicer may elect to delegate by agency, subcontract, or otherwise the following Servicing duties without the written consent of the MPF Bank or MPF Provider:

- Professional collection agencies to perform those duties and functions for the collection of delinquent amounts due on any Mortgage Loan that are customarily performed by such agencies in the locality where the related Mortgaged Property is located;

- Title insurance companies, escrow companies and trust companies to issue or provide reports reflecting the condition of title to any Mortgaged Property and services incidental to the Foreclosure or acquisition in lieu of Foreclosure of any Mortgaged Property, or the sale or disposition of any Mortgaged Property acquired by the Servicer;

- Attorneys licensed to practice in the state in which the Mortgaged Property is located to perform customary legal services in connection with the Foreclosure or acquisition of such Mortgaged Property or the sale or disposition of such Mortgaged Property acquired by the Servicer at or in lieu of Foreclosure, or for the collection of delinquent sums owed on any Mortgage Loan;

- Professional property inspection companies and appraisers to conduct routine inspections of Mortgaged Property and to provide written inspection reports, as required hereunder;

- Title companies, escrow companies and real estate tax service companies to provide periodic reports of the amount of real estate taxes due on any Mortgaged Property and the due dates of each required installment, and the payment of taxes;

- Credit bureaus or credit reporting companies to provide credit reports on Borrowers or persons who have applied to assume Mortgage Loans;

- Construction companies, contractors and laborers to provide labor, materials and supplies necessary to protect, preserve and repair Mortgaged Property, as required hereunder;

- Lock box providers or payment processing administrators to provide payment processing services; and

- Property insurance servicing companies to provide periodic reports as to the amount of property insurance premiums due on any Mortgaged Property and the due date of each required premium payment.
CHAPTER 2. ACCOUNTING AND FISCAL RESPONSIBILITIES

2.1 Maintenance of Loan Accounting Records

This section covers the requirements for maintaining accurate and detailed records for each Mortgage Loan.

2.1.1 General (1/30/17)

Permanent accounting records shall be maintained for each Mortgage Loan. The records shall indicate MPF Bank ownership of each Mortgage Loan, the MPF loan number, and the Servicer loan number. The Servicer shall maintain the accounting records in accordance with generally accepted accounting principles and Applicable Standards.

The Servicer’s records system must be capable of producing for each Mortgage Loan an account transcript itemizing the following:

- Current unpaid Principal Balance;
- Scheduled Principal Balance;
- Interest paid to date;
- Principal and interest payment;
- Interest collected for each monthly payment;
- Principal collected for each monthly payment;
- Escrow Funds collected for each monthly payment;
- The date, amount, and distribution of each payment received;
- Curtailments;
- Current outstanding balances of principal and interest deposits, advances, taxes and insurance deposits, and unapplied payments;
- Due date of next payment;
- Amount and nature of each disbursement;
- Other transactions affecting the amounts due from or payable to the Borrower; and
- Any servicing reports or loan histories.

The system shall also provide for immediate disclosure of any overdraft and insufficiency in escrow balances.

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22 MPF Announcement 2017-03 (1/30/17)
2.1.2 Maintaining Outstanding Balances
The Servicer shall maintain accurate outstanding balances for each Mortgage Loan. Each scheduled payment, whether collected singly or together with all monthly payments on the same Mortgage Loan, shall be applied first to interest and then to principal according to an amortization schedule. Payments and/or delinquencies shall not be capitalized into the loan balance.

2.1.3 MPF Loan Number
All reports and correspondence submitted to the MPF Bank, MPF Provider, or Master Servicer regarding a particular Mortgage Loan shall reference the corresponding MPF loan number.

2.1.4 Release or Destruction of Records
The Servicer must retain canceled checks, bank statements, and all records and accounts in the Mortgage Loan File for the time period required by the applicable Government Agency or Applicable Law, but in no instance, for less than seven (7) years from the date the Mortgage Loan is paid in full, sold, foreclosed, or otherwise liquidated. Electronic copies are acceptable in lieu of hard copies.

2.2 Payment Collection and Accounting (1/30/17)
The Servicer is responsible for the collection and accounting of the following amounts for each Mortgage Loan as further described in this Servicing Guide:

- Monthly principal and interest payments;
- Escrow amounts for taxes, assessments, hazard insurance, flood insurance, mortgage insurance premiums, and any other required escrowed amounts;
- Curtailments;
- Prepayments;
- Payments made pursuant to a modification agreement or bankruptcy plan; and
- Payments from a buydown account (if applicable).

The accounting cycle cut-off date is the last Business Day of the month prior to the month for which a remittance is being calculated.

2.3 Establishing Custodial Accounts (1/30/17)

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21 MPF Announcement 2017-03 (1/30/17)
24 MPF Announcement 2017-03 (1/30/17)
This section covers the guidelines for establishing Custodial Accounts. The establishment and maintenance of the Custodial Accounts are at the Servicer’s expense.

### 2.3.1 Custodial Accounts (1/30/17)\(^{25}\)

Any amounts held by the Servicer received in connection with or pertaining to the Mortgage Loans must be held in Custodial Accounts established with one of the following:

- A Federal Home Loan Bank;
- A Federal Reserve Bank;
- An FDIC-Insured Depository; or
- An NCUA-Insured Depository.

If the Servicer is insured by the FDIC or NCUA, the Custodial Accounts may be established with the Servicer.

The MPF Bank reserves the right to require a Servicer to transfer funds out of a depository institution if the MPF Bank determines that it is in its best interest to do so.

### 2.3.2 Interest-Bearing Accounts

Custodial Accounts must be demand deposit accounts (DDAs). They may be interest-bearing accounts, provided that the accounts comply with the Applicable Standards and interest is paid separately to the Servicer and not deposited or co-mingled with funds in the Custodial Account. Any interest paid with respect to the Custodial Account will not be the property of the MPF Bank.

### 2.3.3 Clearing Accounts (1/30/17)\(^{26}\)

The Servicer may utilize clearing accounts, subject to the following requirements:

- The clearing accounts must be established with an institution that meets the requirements for Custodial Accounts (see MPF Traditional Servicing Guide Chapter 2.3.1);
- The titles of such accounts must reflect that they are custodial in nature;
- A single clearing account must not be utilized both as a collection and disbursement clearing account;
- A check drawn on funds transferred from a P&I Custodial Account or T&I Custodial Account must be deposited to a disbursement clearing account before or at the same time as any checks on the clearing account are issued;

\(^{25}\) MPF Announcement 2017-03 (1/30/17)  
\(^{26}\) MPF Announcement 2017-03 (1/30/17)
The Servicer must maintain adequate records and audit trails to support all debits and credits of each Borrower's payment records and accounts; and

Collections deposited to a clearing account must be credited to the appropriate Custodial Account no later than two (2) Business Days following receipt by the Servicer.

### 2.4 Custodial Account Maintenance (1/30/17)

The Servicer is required to maintain separate Custodial Accounts for each remittance type under which a Servicer (or Subservicer) reports, for Principal and Interest Payments, Escrow Funds, and, if applicable, Buydown Funds as outlined in this chapter. In addition, separate Custodial Accounts are required for each MPF Mortgage Product that is not an MPF Traditional Product. Funds held in the Custodial Accounts for the Mortgage Loans may not be commingled with funds related to mortgage loans owned by another party. Any cash received related to a Mortgage Loan must be deposited into the appropriate Custodial Account within two (2) Business Days of receipt by the Servicer.

#### 2.4.1 Custodial Account Location (1/30/17)

For MPF Traditional Products (for Conventional Loans and/or Government Loans), required Custodial Accounts are as follows:

<table>
<thead>
<tr>
<th>Type of Account</th>
<th>Account Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>P&amp;I Custodial Account (Separate accounts for S/S and A/A)</td>
<td>Servicer or other acceptable depository institution as stated in Servicing Guide section 2.3.1</td>
</tr>
<tr>
<td>T&amp;I Custodial Account</td>
<td>Servicer or other acceptable depository institution as stated in Servicing Guide section 2.3.1</td>
</tr>
<tr>
<td>Interest DDA</td>
<td>MPF Bank that owns the Mortgage Loan</td>
</tr>
<tr>
<td>Non Interest DDA (A/A only)</td>
<td>MPF Bank that owns the Mortgage Loan</td>
</tr>
</tbody>
</table>

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27 MPF Announcement 2017-03 (1/30/17)
28 MPF Announcement 2017-03 (1/30/17)
The Servicer must immediately notify the MPF Provider in writing of any change in the account number of a Custodial Account, the title of the account, or those individuals who are authorized signers on the account.

2.4.2 Principal & Interest Custodial Accounts (1/30/17)

Custodial Accounts established for the deposit of principal and interest (“P&I”) received in connection with the Mortgage Loans shall be titled as follows:

- P&I Custodial Account: “[Servicer’s name], as trustee for the benefit of the Federal Home Loan Bank of [city name of MPF Bank], its successors and assigns”

**Required Deposits**

The following funds must be deposited into the P&I Custodial Account:

- Principal collections from the Mortgage Loans, including payoffs and Curtailments, together with month-end Curtailment Interest, if applicable;
- Interest collections from Mortgage Loans (net of Servicing Fees);
- Liquidation and Insurance Proceeds (excluding funds held in the T&I Custodial Account or Escrow Account for the repair/restoration of the Mortgaged Property or for offsetting a deficit in the Escrow Account);
- Short sale proceeds; and
- REO disposition proceeds.

P&I advances for Mortgage Loans with a scheduled/scheduled remittance option must be deposited into the appropriate P&I Custodial Account by the remittance date.

**Optional Deposits**

The following funds may, but are not required to, be deposited into the P&I Custodial Account:

- Late charges;
- Penalty interest;
- Assumption fees;
- Unapplied (suspense) funds, if the Borrower is not required to maintain an escrow account; and
- Servicing Fees (may be deposited but must be withdrawn by month-end).

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29 MPF Announcement 2017-03 (1/30/17)
The Servicer shall maintain separate accounting for each type of funds deposited into the P&I Custodial Account. The P&I Custodial Account may not be used as a collection clearing account.

**Permissible Withdrawals**

The Servicer may make withdrawals from a P&I Custodial Account solely for the following:

- Remittances to the Servicer’s applicable DDA or A/A Account with the MPF Bank to fund monthly P&I drafts by the MPF Bank;
- Reimbursement to itself for advances permitted to be reimbursed from subsequent collections under the terms of the Guides;
- Removal of amounts deposited in error;
- Removal of Servicing Fees and optional deposits; or
- Termination of the Custodial Account.

2.4.3 **Tax & Insurance Custodial Account (1/30/17)**

Custodial Accounts established for the deposit of taxes and insurance (“T&I”) received in connection with Mortgage Loans shall be titled as follows:

- “[Servicer's name], as trustee for the benefit of the Federal Home Loan Bank of [city name of MPF Bank], its successors and assigns and/or various Mortgagors

The following funds must be deposited into the T&I Custodial Account:

- Escrow Funds;
- T&I advances;
- Remaining balance of property insurance loss drafts;
- Buydown Funds (if not held in a separate Buydown Custodial Account);
- Unapplied (suspense) funds;
- Insurance Proceeds held for the repair/restoration of the Mortgaged Property; and
- Liquidation Proceeds that offset a deficit in the Escrow Account.

The Servicer must maintain records for identifying the Escrow Funds deposited into the T&I Custodial Account for each Mortgage Loan.

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30 MPF Announcement 2017-03 (1/30/17)
Permissible Withdrawals

The Servicer may make withdrawals from the T&I Custodial Account for the following reasons, provided the T&I funds for an individual Mortgage Loan never become overdrawn:

- Timely payment of the Borrower's escrow items;
- Refunds to the Borrower for excess Escrow Funds;
- Recovery of advances made by the Servicer for escrow items on Borrower’s behalf;
- Payment of interest, if required, to the Borrower on his Escrow Funds;
- Removal of deposits made in error; or
- Termination of the Custodial Account.

2.4.4 Buydown Funds

T&I funds and Buydown Funds may be commingled in one account, or Buydown Funds may be held in a separate account.

If a separate account is established, the account must be titled as follows:

- “[Name of Servicer], as trustee for the benefit of the [name of MPF Bank], its successors and assigns and/or various Mortgagors.”

The Servicer is required to keep records identifying each Borrower's Buydown Funds deposited into the Buydown Custodial Account in accordance with the terms of the applicable buydown agreement.

2.4.5 Principal & Interest Advances (1/30/17)³¹

The Servicer must make P&I advances for Scheduled/Scheduled remittances unless a P&I advance is determined to be eventually nonrecoverable from any Insurance Proceeds, Liquidation Proceeds, or the Borrower. P&I advances are not required for Actual/Actual remittances.

The Servicer must, from its own funds, advance and deposit to the P&I Custodial Account on or before each remittance date an amount equal to the difference between the total principal and interest due, and the total amount on deposit in the Servicer's P&I Custodial Account. P&I advances will be recoverable only from:

- Subsequent monthly payments;
- Insurance Proceeds; or
- Liquidation Proceeds.

³¹ MPF Announcement 2017-03 (1/30/17)
The Servicer must continue to make monthly P&I advances during litigation, bankruptcy proceedings, Foreclosure proceedings pertaining to the Mortgage Loan, and through the REO property process, unless otherwise required in the Guides. Advances will terminate upon completion of the liquidation of a property from REO or Foreclosure sale to a third party.

### 2.4.6 Nonrecoverable Advances

If the Servicer determines an advance to be nonrecoverable from Insurance Proceeds, Liquidation Proceeds, or other payments with respect to a Mortgage Loan, the Servicer shall obtain written confirmation from the MPF Provider to stop the advances, [by email to mpfservicing@fhlbc.com] and including the following information:

- MPF loan number
- Borrower name(s)
- Explanation as to why advances are nonrecoverable and any supporting documentation.

### 2.4.7 Failure to Advance

The failure of the Servicer to advance the required funds is an Event of Default and cause for termination of the Servicer. If the Servicer fails to advance the required funds, the MPF Bank may debit such amount from the Servicer’s DDA in accordance with the terms of the Applicable Agreement for the payment of claims made against the Servicer.

### 2.5 Custodial Account Reconciliation (1/30/17)

The Servicer and depository institution shall execute a custodial account agreement for each Custodial Account and submit the original to the MPF Bank.

Custodial bank accounts must be reconciled monthly using the following forms:

- P&I Custodial Account Reconciliation (SG320 or SG320A);
- T&I Custodial Account Reconciliation (SG321 or SG321A); and
- Custodial Buydown Detail Report (SG322), if applicable.

Reconciliations must include copies of the Custodial Account bank statement, proof of cash, and documentation supporting the reconciled items. Upon request, the Servicer must forward copies of all reconciliations to MPF Loan Administration at MPFInvestorAccounting@fhlbc.com.

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32 MPF Announcement 2017-03 (1/30/17)
2.6 Use of Amortization Method of Accounting (1/30/17)

The amortization method of individual loan accounting, with interest calculated in arrears, shall be used. In this method, allocation of an individual payment of principal and interest is determined by first calculating the interest portion and applying the balance of the payment as a principal reduction. The interest at the Note Rate is calculated by using the Principal Balance after application of the preceding payment. The interest computed applies to the thirty (30) day period preceding the due date of the installment being applied. The interest must be calculated and adjusted for any Curtailments, payoffs, and Liquidations.

The calculated interest portion is subtracted from the monthly payment to obtain the principal portion to be applied to the unpaid Principal Balance of the Mortgage Loan.

Where computations involve multiple installments (such as for delinquent installments), each installment is calculated in succession using a Principal Balance resulting after the prior thirty (30) day calculation and principal application. Similarly, a method which strictly applies payments in accordance with an amortization schedule is also acceptable. All monthly calculations shall be made using a thirty (30) day month, and a three hundred and sixty (360) day year. The dollar amount of any interest payment shall be carried out to ten (10) decimal places.

The amortization of each Mortgage Loan must reduce the Principal Balance of such Mortgage Loan to zero at maturity pursuant to the terms of the Note. Capitalization of interest is not permitted.

The Servicer must amortize a Mortgage Loan for which Buydown Funds are applied at the Note Rate, not at the buydown rate, in order to ensure that payments are collected to properly amortize the Mortgage Loan.

2.7 Application of Mortgage Loan Payments (1/30/17)

The Servicer will collect all monthly payments due under the terms of the Mortgage Loan. The monthly payments include payments toward interest, principal, and escrow items (if an escrow account is established for the Mortgage Loan). The Servicer shall apply as of the day of receipt all payments under each Mortgage Loan to respective interest, principal, escrow, and any late charges and other outstanding fees, in that order, unless otherwise provided for in the Mortgage Loan documents.

2.8 Partial Payments (1/16/18)

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33 MPF Announcement 2017-03 (1/30/17)
34 MPF Announcement 2017-03 (1/30/17)
35 MPF Announcement 2018-4 (1/16/18)
MPF Announcement 2017-03 (1/30/17)
The Servicer must hold partial payments as “unapplied funds” in the T&I Custodial Account, if permitted by Applicable Law and if holding such funds would not jeopardize any Foreclosure proceedings. Once sufficient “unapplied funds” have been received to equal the amount of a full principal, interest, taxes, and insurance (“PITI”) payment, the Servicer must apply the funds as a payment against the Mortgage Loan.

The Servicer must only deposit full payments to the Servicer’s DDA or A/A Account.

2.9 Escrow Payments

This section covers the guidelines for maintaining an Escrow Account and handling Escrow Funds.

2.9.1 Escrow Account Maintenance (1/30/17)36

Each Mortgage Loan must have an Escrow Account if required under the Mortgage Loan terms, unless the Servicer waives the escrow requirement, or unless Applicable Law prohibits the collection of Escrow Funds. Escrow items may include all regular, special assessments, or supplemental real estate taxes and assessments, mortgage insurance premium, property insurance premiums, and/or any other insurance premiums required when the loan was closed (e.g. earthquake, flood, etc.). The Servicer must conduct an analysis of the Escrow Account at least annually to determine the required monthly Escrow Payment based upon reasonable projects of the expenses to be paid from the Escrow Account. An annual Escrow Account statement must be provided to the Borrower in accordance with Applicable Law. Any Escrow Account surplus or deficiency resulting from the analysis must be handled in accordance with Applicable Law.

Subject to the Applicable Standards, the Escrow Account balance must be sufficient to effect the payment of all projected escrow items when due. The Servicer must pay interest to the Borrower on escrow deposits at, or above, the rate required by law.

In the event of late payment of any escrow items, any late interest, charges, or penalties caused by the Servicer will be paid from the Servicer’s funds and not charged to the Borrower.

2.9.2 Escrow Waiver (9/19/19)37

Subject to the Applicable Standards, the Servicer may waive the requirement for an Escrow Account only if a Borrower has a savings history, credit history, and/or income to pay for the escrow items when due. Servicers are required to follow the applicable Government Agency guidelines and MI

36 MPF Announcement 2017-03 (1/30/17)
37 MPF Announcement 2019-49 (9/19/19)
company regarding waiving and reinstating Escrow. The Servicer may not waive the requirement to escrow MI premiums.

In order to be eligible for an escrow waiver, the Borrower must meet the following requirements:

- Applicable law allows or does not prohibit the Servicer to discontinue collecting escrow.
- The principal balance for the Mortgage Loan must be less than 80% of the original appraised value of the Mortgage Property.
- Not have made any payments that were thirty (30) days or more past due in the twelve (12) months prior to the escrow waiver request date.
- Not have made any payments that were sixty (60) days or more past due within the twenty four (24) months prior to the escrow waiver request date.
- The Borrower has not received a prior Mortgage Loan modification.
- The Borrower has not previously been approved for an escrow waiver and failed to make all payments timely, as required.

The Servicer must monitor and require proof of payment of all taxes, ground rents, assessments, insurance premiums, and other items that could be considered escrow to ensure that the Borrower pays the items on time. If the Borrower fails to pay any item on time, the Servicer must advance its own funds to pay amounts due that would typically be considered escrow items.

The Servicer must retain the right to re-impose an Escrow Account for any Mortgage Loan if the Borrower fails to pay on a timely basis any items that were previously escrowed.

2.9.3 Deposit of Funds

All Escrow Funds collected by the Servicer shall be held in the T&I Custodial Account.

2.9.4 Escrow Account Records

The Servicer must maintain records to show the balance of the escrow account, funds credited to the account, disbursements made from the account, and the interest due on the account to the Borrower.

2.9.5 Advances by Servicer (1/30/17)\(^\text{38}\)

The Servicer shall pay promptly to the proper entities premiums when due for property insurance and/or mortgage insurance, flood insurance, tax installments, and special assessments. The Servicer may not release such premiums to the Borrower or any other individual or party.

\(^{38}\) MPF Announcement 2017-03 (1/30/17)
If the funds held in the Borrower’s escrow account are insufficient to pay escrow items when due, the Servicer shall advance its own funds in an amount sufficient to make the full payment due. The Servicer may collect the deficiency from the Borrower as permitted under Applicable Law.

The advances may never be recovered from the Scheduled Principal or Scheduled Interest collections or from another Borrower’s Escrow Funds. During litigation, bankruptcy proceedings, Foreclosure proceedings pertaining to a Mortgage Loan, or during the REO property process, the Servicer must continue to make required T&I advances until the Mortgage Loan or REO property is liquidated. Advances with respect to an REO property must be made as if the Security Instrument and Note remained in effect.

2.10 Prepayments

This section covers the guidelines for accepting prepayments.

2.10.1 General

A Borrower who is current on his or her payments may make any of the following two types of prepayments:

- Borrower may make a full monthly payment (or payment in multiples thereof) in advance of the due date to create a “cushion” against the possibility of missing future payments; and

- Borrower may make a payment to reduce the outstanding Principal Balance of the loan. In this alternative, the prepayment is applied to the Mortgage loan balance to reduce the term of the Mortgage Loan. Interest is then calculated on the basis of the new remaining unpaid Principal Balance.

The Servicer should contact the Borrower if there is a question as to how the Borrower wishes a prepayment to be applied.

2.10.2 Prepayment Penalties

Prepayment penalties are not permitted for any Mortgage Loans sold under the MPF Program.

2.10.3 Curtailments (1/30/17)\(^{39}\)

The Servicer may accept Curtailments, which must be deposited into the P&I Custodial Account and must be available on the remittance date. If a Mortgage Loan is delinquent, funds received must first be applied to bring the Mortgage Loan current, and any excess funds may be applied as a Curtailment.

\(^{39}\) MPF Announcement 2017-03 (1/30/17)
Except as provided in the Guides or unless for the purpose of correcting a prior error on the part of the Servicer, the Servicer may not reapply prior Curtailments for payment of subsequent installments. Payments made by the Borrower to satisfy future installments must be accounted for as prepaid installments of principal and interest.

A Curtailment may not be used to postpone the due date of any payment or reduce the monthly payment or the Note Rate for any Mortgage Loan, unless it meets the conditions in the Guides for re-amortization.

2.10.4 Re-amortization and Note Modification (1/30/17)

Re-amortization and Note modification of a curtailed Mortgage Loan may be completed only when all of the following conditions are met:

• The minimum Curtailment payment applied to the principal balance of the Mortgage Loan is the greater of $5,000 or 10% of the current Principal Balance, and the qualified Curtailment was applied to the Mortgage Loan within sixty (60) calendar days prior to the Note modification date. However, re-amortization cannot commence in the same month that the Curtailment is applied;

• The Note modification does not extend the term or change the Note Rate of the Mortgage Loan;

• The re-amortization and Note modification are in compliance with the applicable mortgage insurance company or Government Agency requirements;

• The Note modification provides for full amortization of the Mortgage Loan by the maturity date through regular, equal payments of principal and interest; and

• FNMA Form 3179, or its equivalent, must be executed fully by all parties to the original Note.

Within two (2) days of the Borrower's signing the FNMA Form 3179, or its equivalent, the Servicer must notify MPF Loan Accounting by providing a copy of the executed modification agreement to MPFLoanAccounting@fhlbc.com.

The original signed modification agreement must be retained in the Mortgage Loan File.

2.10.5 Scheduled/Scheduled Mortgage Loans

For Mortgage Loans with a scheduled/scheduled remittance option, the Servicer must pay the MPF Bank Curtailment Interest for the month in which a Curtailment is applied in an amount equal to thirty (30) days' interest calculated on the amount of the Curtailment at the related Note Rate (Curtailment Interest). This requirement only applies when the Curtailment is received after the

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40 MPF Announcement 2017-03 (1/30/17)
beginning of the first Scheduled Interest period. The payment of Curtailment Interest by the Servicer shall not be considered an advance and shall not be recoverable from the Liquidation Proceeds.

Curtailments received for Mortgage Loans with a scheduled/scheduled remittance option prior to the beginning of the first Scheduled Interest period may be:

- Reported to the Master Servicer with that month's normal month-end report on Curtailments, and remitted in the next scheduled remittance without Curtailment Interest; or
- Reported and remitted with the first scheduled payment and with Curtailment Interest.

### 2.10.6 Actual/Actual Remittance Mortgage Loans

Curtailments received on Mortgage Loans with an actual/actual remittance option must be reported and remitted in the accounting cycle when received. No Curtailment Interest is due for these remittance types.

### 2.10.7 Mortgage Loan Payoffs and Liquidation Proceeds (1/30/17)

A Mortgage Loan may be paid in full at any time. The Servicer may not collect any prepayment penalties on any Mortgage Loan. The Servicer is responsible for calculating the amount required to pay off the Mortgage Loan, and all payoffs shall be calculated to the date the payoff is made. A partial month’s interest and Servicing Fee will be pro-rated on a three hundred and sixty-five (365) day year per diem to the date of the payoff. A full month’s payment will be based on a three hundred and sixty (360) day year calculation.

The Servicer must deposit all payoff funds or Liquidation Proceeds, including the funds from a short sale and the disposition of an REO property (sale and primary mortgage insurance proceeds), into the P&I Custodial Account within two (2) Business Days after receipt, regardless of whether or not the Servicer has received proceeds from an SMI claim.

The Servicer is also required to notify the appropriate mortgage insurance carrier of the payoff within the time frame required by the insurer. The Servicer will be responsible for including any unpaid mortgage insurance premiums in the Monthly Remittance.

### 2.11 Buy-down Account Payments

If the interest rate of the Mortgage Loan has been “bought down” by the establishment of a buydown account, the Servicer shall collect the amount specified in the buydown agreement from the buydown account and apply it to the Borrower’s monthly installment as directed in the buydown agreement. If the Borrower fails to make his or her portion of the monthly installment, Servicer should leave the

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41 MPF Announcement 2017-03 (1/30/17)
buydown amount in the account to be applied when Borrower does make a payment or as otherwise directed in the buydown agreement.

2.12 Remittances

This section covers the requirements for remitting funds to the MPF Bank.

2.12.1 General

The Servicer must deposit all required funds to the Servicer’s DDA Account by the remittance date.

2.12.2 Remittances for Actual/Actual Multi Mortgage Loans (1/30/17)\[42\]

In addition to making the required funds available in the A/A Account for the Monthly Remittance, Servicers of Mortgage Loans with an actual/actual multi remittance option are required to transfer funds from the P&I Custodial Account to the A/A Account on any Business Day where the balance of the P&I Custodial Account (excluding Servicing Fees and any other amounts not required to be deposited into the P&I Custodial Account) exceeds two thousand five hundred dollars ($2,500). On the first Business Day of the following month, the Servicer must transfer all remaining funds from the P&I Custodial Account to the A/A Account, regardless of whether the amount exceeds two thousand five hundred dollars ($2,500).

If the Servicer does not transfer the funds to the A/A Account by the applicable dates, the MPF Bank may (in addition to exercising all other available remedies) charge the following compensatory fees:

- For the first instance of a late funds transfer: a fee that is determined by multiplying the calculated late transfer amount by the number of days the transfer is late divided by three hundred sixty (360) and then multiplying that product by the sum of the prime interest rate published in The Wall Street Journal’s prime rate index and three percent (3%). However, in no instance would the compensatory fee for late transfers for any given month be less than two hundred fifty dollars ($250).

- For the second instance of a late funds transfer (if it occurs within one (1) year of the first instance): a fee that is determined by multiplying the calculated late transfer amount by the number of days the transfer is late divided by three hundred sixty (360) and then multiplying that product by the sum of the prime interest rate published in The Wall Street Journal’s prime rate index and three percent (3%). However, in no instance would the compensatory fee for late transfers for any given month be less than five hundred dollars ($500).

- For subsequent instances of late funds transfers (if they occur within one (1) year of the most recent instance): a fee that is determined by multiplying the calculated late transfer amount by

\[42\] MPF Announcement 2017-03 (1/30/17)
the number of days the transfer is late divided by three hundred sixty (360) and then multiplying that product by the sum of the prime interest rate published in The Wall Street Journal’s prime rate index and three percent (3%). However, in no instance would the compensatory fee for late transfers for any given month be less than one thousand dollars ($1,000).

2.12.3 Remittances for Scheduled/Scheduled and Actual/Actual Single Remittance (1/30/17)

The Servicer is required to make the following funds available for the MPF Bank to initiate a withdrawal (Monthly Remittance) from the Servicer’s DDA (or A/A Account for Actual/Actual Single remittances) by the eighteenth (18th) calendar day of each month, or on the preceding Business Day if the eighteenth (18th) is not a Business Day:

- All payments of principal (including prepayments of principal) and interest;
- All net Liquidation Proceeds and Insurance Proceeds, other than any portion of Insurance Proceeds to be applied to the restoration or repair of the Mortgaged Property or to be released to the Borrower in accordance with Applicable Standards;
- All Mortgage Loans with a scheduled/scheduled remittance option, P&I advances made by the Servicer and Curtailment Interest;
- Funds the Servicer must pay to repurchase a Mortgage Loan; and
- All other required funds.

2.12.4 Payoff and Liquidation Remittances

The Servicer must deposit all payoff and Liquidation Proceeds into the P&I Custodial Account within two (2) Business Day of receipt. All payoff and Liquidation Proceeds, including the funds from a short sale and the disposition of an REO, must be deposited in the Servicer’s DDA or A/A Account by the remittance date.

The Liquidation interest payable to the MPF Bank must be calculated as follows:

- For Mortgage Loans serviced under a scheduled / scheduled remittance option: Scheduled Interest due on the Mortgage Loan through the end of the month of Liquidation (30 / 360 day basis).
- For Mortgage Loans serviced under an actual / actual or actual / actual single remittance option: monthly interest due from the Borrower (30 / 360 day basis) and partial month interest due up to, but not including, the date of payoff (actual days / 365 day basis).

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43 MPF Announcement 2017-03 (1/30/17)
• For Mortgage Loans (regardless of remittance option) required to be repurchased under various provisions in the MPF Guides: one of the following methods, to be determined by the MPF Bank, at its discretion:

1. The market value of the Mortgage Loan as determined by the MPF Bank plus interest at the “Pass-through Rate” (i.e. the Note Rate minus the Servicing Fee percentage) through the remittance date; or

2. The book value of the Mortgage Loan plus interest at the “Pass-through Rate” (i.e. the Note Rate minus the Servicing Fee percentage) through the remittance date.

• For repurchased Government Loans:

  o Scheduled Interest due on the Mortgage Loan through the end of the month of Liquidation (30/360 day basis) for Mortgage Loans with a scheduled/scheduled remittance option; or

  o Monthly interest due from the Borrower (30/360 day basis) and partial month interest due up to, but not including, the date of payoff (actual days/365 day basis).

Any remaining Escrow Funds must be refunded to the Borrower within thirty (30) days of the payoff date.

2.12.5 Modification Agreement Remittances

Remittance of modification agreement payments shall be made per the regular remittance schedule.

2.12.6 Government Loan Losses (12/5/17)44

When there is a remaining Principal Balance after repurchase, liquidation, or REO property sale, the Servicer must remit its own funds to reduce the remaining Principal Balance of the Mortgage Loan to zero within the following time frames:

• Pay down the Mortgage Loan balance to zero upon completion of the Foreclosure sale within the accounting period in which the sale was completed;

• Pay down the Mortgage Loan balance to zero upon receipt of the initial claim payment within the accounting period in which the initial payment was received; or

• Pass through the initial claim payment as a Curtailment and pay down the Mortgage Loan balance to zero upon receipt of the final claim payment within the accounting period in which the final claim payment was received.

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44 MPF Announcement 2017-72 (12/5/17)
2.13 Short Payoffs (Pre-Foreclosure/Short Sale)

This section covers the requirements for accepting a short payoff.

2.13.1 Government Insured Loans (4/30/20)\(^{45}\)

For Government Loans, the Servicer shall make the MPF Bank whole, paying all principal and interest through the payoff date. No deduction for mortgage insurance premiums, or any other debits or charges may be excluded from the one hundred percent (100%) payoff amount due the MPF Bank.

The Servicer will not be required to obtain the MPF Bank’s approval to proceed with a short sale even though it may result in a short payoff as the short sale will not reduce the payoff amount due the MPF Bank.

If the Servicer determines the Borrower is eligible for a short sale under criteria established by the respective Government Agency and the Borrower elects to pursue this option, the Servicer must report the status change on the monthly Delinquent Mortgage & Bankruptcy Status Report (Servicing Guide Exhibit B). The Servicer is also required to notify the MPF Provider of the sale within two (2) Business Days of the settlement date by emailing a copy of the buyer and seller’s Settlement Statements, closing statements or escrow instructions, and an estimate of total advances made to date.

The Servicer must ensure that the steps required by the Government Agency are followed prior to filing a claim, including assignments and notifications. The Servicer shall then file a mortgage insurance claim with the applicable Government Agency ensuring all proper parties are identified pursuant to the applicable Government Agency’s guidelines. If the remaining Principal Balance of a Mortgage Loan has not been recovered by the MPF Bank at the time of the short sale, then the Servicer must remit from its own funds an amount which will reduce the remaining balance of the Mortgage Loan to zero within the appropriate time frames, regardless of Servicer’s receipt of the mortgage insurance claim payment.

The Servicer shall absorb any expenses it incurs which are not reimbursed by the insurer (called Unreimbursed Servicing Expenses in the Applicable Agreements). Unreimbursed Servicing Expenses are all advances made by the Servicer pursuant to the Guides or advances the Servicer is required to make to obtain the benefit of the applicable Government Agency’s insurance or guaranty. Such expenses may include property maintenance and rehabilitation expenses, legal fees, reconveyance expenses and losses, “no-bids”, certain interest advances, and losses with respect to repurchased Government Mortgage Loans.

\(^{45}\) MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-03 (1/30/17)
2.13.2 Conventional Insured Loans

The Servicer shall not agree to a short sale on an insured Conventional Loan unless the Servicer has obtained the respective mortgage insurer’s written approval.

The Servicer may negotiate and complete the short sale without seeking approval if the sale proceeds and mortgage insurance claim proceeds are greater than or equal to the total indebtedness.

If the short sale and mortgage insurance settlement proceeds combined, will be less than the total indebtedness, then the Servicer shall not accept the offer or proceed until it has obtained express permission from the MPF Provider. The Servicer shall indemnify the MPF Bank against any loss of principal and interest, or other deduction in the mortgage insurance claim payment arising from the Servicer’s breach of the mortgage insurance policy or the Applicable Standards.

The Servicer must report the status change on the Delinquent Mortgage & Bankruptcy Status Report (MPF Servicing Guide Exhibit B). The Servicer is also required to notify the MPF Provider within two (2) Business Days of the close of the sale by submitting copies of the buyer and seller’s Settlement Statements, closing statements or escrow instructions, an estimate of total advances made to date, and a copy of the proceeds check.

The Servicer is required to deposit all short sale proceeds to the P&I Custodial Account within one (1) Business Day of receipt.

The Servicer shall then file a mortgage insurance claim in the Servicer’s name so as to cause claim proceeds to be paid directly to the Servicer. The Servicer shall simultaneously provide the MPF Provider with a copy of claim filed.

2.13.3 Short Payoff Reporting (IRS Form 1099)

The Servicer must comply with all applicable Internal Revenue Service reporting requirements, including IRS 1099 reporting requirements, on all short sales. The Servicer filing must show the Servicer’s loan number and the MPF Bank loan number for identification purposes.

The Servicer should carefully review and follow IRS instructions for completing and filing the applicable forms. Servicers who fail to timely file the correct IRS form(s) must pay any penalties the IRS may assess.

2.14 Reporting Requirements

This section covers the investor reporting requirements.

2.14.1 Monthly Accounting Reports (1/30/17)\(^\text{46}\)

\(^\text{46}\) MPF Announcement 2017-03 (1/30/17)
The Monthly Accounting Reports for MPF Traditional Products cover the period including the first Business Day of the month through the last Business Day of the Month.

All Monthly Accounting Reports must be completed and forwarded to the Master Servicer no later than 5:00pm Eastern Time on the fifth (5th) Business Day of the month following the reporting month (See Investor Reporting Calendar – Exhibit A).

Servicers must submit the Monthly Accounting Reports by uploading them to https://www.servicerconnect.com. Servicers should contact the Master Servicer for assistance with preparing and/or submitting the reports.

The Servicer must complete and forward to the Master Servicer all forms and reports provided for in this Servicing Guide, and such additional forms or reports reasonably requested by the Master Servicer.

The Monthly Accounting Report forms include, but are not limited to, the following:

- Monthly Summary Report and Certification (Form SG300 or SG300A);
- Monthly Remittance Report (Form SG301 or SG301A); and
- Any other report that impacts the Monthly Remittance.

2.14.2 Electronic Format (1/30/17)  
The format for electronic reporting of monthly data must be in one of the following single, complete, usable and loadable loan level data file formats which are acceptable to the Master Servicer:

- ASCII File Format (Exhibit C); or
- Excel File Format (Exhibit D).

Electronic reports can be uploaded directly to the Master Servicer's website (https://www.servicerconnect.com). Servicers should contact the Master Servicer for assistance with the preparation of electronic reports.

2.14.3 Late Reporting Fee

A Monthly Accounting Report and Delinquent Mortgage & Bankruptcy Status Report filed incomplete or not filed by the applicable Investor Reporting Calendar due date (see Servicing Guide Exhibit A-X) are considered late. Each occurrence of a late or incomplete Monthly Accounting Report or a late or incomplete Delinquent Mortgage & Bankruptcy Status Report will be subject to a late reporting fee.

A written notice of noncompliance will be sent to the Servicer for all instances of a late Monthly Accounting or Delinquent Mortgage & Bankruptcy Status Report. In addition to the monetary late

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47 MPF Announcement 2017-03 (1/30/17)
fees, beginning with the third late and/or incomplete report or transmission, as applicable, the MPF Provider reserves the right to invoke additional remedies, which may include declaring an Event of Default as grounds for termination of the Servicer.

Late fees for Monthly Accounting Reports are assessed using an escalating scale that is based on the number of late and/or incomplete reports or transmissions in the most recent consecutive twelve (12) month period:

- One-hundred dollars ($100) for the first occurrence of a late and/or incomplete report or transmission;
- Two-hundred-fifty dollars ($250) for the second occurrence of a late and/or incomplete report or transmission;
- Five-hundred dollars ($500) for the third and all subsequent occurrences of a late and/or incomplete report or transmission during the remainder of the consecutive twelve (12) month period beginning with the first occurrence.

A late fee of one hundred dollars ($100) is assessed for each occurrence of a late or incomplete Delinquent Mortgage & Bankruptcy Status Report.

The MPF Bank and MPF Provider reserve the right to change the late reporting fees at any time and at their sole discretion.

### 2.14.4 Other Reports (10/27/17)\(^{48}\)

When applicable, the Servicer must also complete the following forms and either retain the forms in the Mortgage Loan File or submit them in accordance with the specific instructions on each form:

- Property Inspection Report (Form SG331);
- Notice of Acquired Property (SG334);
- Request for Release of Documents (Form SG340);
- Property Insurance Loss Draft Notification (Form SG342);
- MI Cancellation Notice (Form SG343); and
- Workout Worksheet (Form SG354).

### 2.15 IRS Reporting Requirements (1/30/17)\(^{49}\)

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\(^{48}\) MPF Announcement 2017-62 (10/27/17)

\(^{49}\) MPF Announcement 2017-03 (1/30/17)
The Servicer shall comply with all applicable Internal Revenue Service (IRS) reporting requirements, including as applicable, a Statement for Recipients of Miscellaneous Income (IRS Form 1099-MISC), Mortgage Interest Statement (IRS Form 1098), and reports related to foreclosure and abandonment (Section 6050J of the Internal Revenue Code).

2.16 Reporting to Credit Bureaus (1/30/17)\textsuperscript{50}

The Servicer must provide a “full-file” credit status report to the four major credit bureaus each month (Innovis Data Solutions, Equifax, Experian, and TransUnion), indicating the exact status of each Mortgage Loan.

2.17 Annual Statements to Borrowers

This section covers annual statements that must be provided to the Borrower.

2.17.1 Escrow Account and Interest Payment Summary

The Servicer will provide Borrowers, without charge, an annual statement in summary form of the Borrower’s escrow account, which must include:

- Beginning and ending balances;
- Deposits made on the account; and
- Disbursements made on the account.

In addition, the Servicer will provide Borrowers, without charge, a statement at calendar year end as to the total amount of interest and real estate taxes paid by the Borrower during the year.

2.17.2 Detailed Ledger Analysis

In addition, at least annually, the Servicer will provide Borrowers, without charge, a detailed ledger analysis to determine the adequacy of monthly escrow contributions. Following the review of such ledger, the Servicer should make any necessary adjustments in the monthly contribution to assure the accumulation of sufficient funds to meet anticipated expenses.

2.17.3 Borrower Disclosures

Servicers are required to provide Borrowers with any and all disclosures required by Applicable Law, including, but not limited to, disclosures required by the Homeowners Protection Act of 1998 and CFPB regulations.

\textsuperscript{50} MPF Announcement 2017-03 (1/30/17)
CHAPTER 3. SERVICING COMPENSATION

3.1 Servicing Fees

This section covers the Servicing Fees the Servicer is entitled to collect.

3.1.1 Amount of Compensation (12/5/17)\textsuperscript{51}

In consideration for the Servicing of the Mortgage Loans in accordance with this Servicing Guide and the Applicable Agreement, absent an Event of default by the Servicer, the Servicer shall be entitled to retain the Servicing Fee for each Mortgage Loan as specified in the MPF Program Guide from the interest actually collected with respect to such Mortgage Loan.

The Servicing Fee for each Mortgage Loan shall be payable solely from the interest portion of the related monthly payment paid by the Borrower or the interest portion, if any, of:

- The proceeds from Foreclosure or any judgment, writ of attachment or levy against the Borrower or the Borrower's assets;
- Funds paid in connection with any payoff;
- Insurance Proceeds; or
- Liquidation Proceeds.

The Servicer shall have the right to withhold and retain the applicable Servicing Fee from the funds received by the Servicer on account of Borrower payments or other recoveries (including net REO proceeds) prior to the remittance of such payments to the MPF Bank. The Servicing Fee is determined each month by multiplying one-twelfth the applicable Servicing Fee rate by the scheduled Principal Balance of the Mortgage on the last day of the preceding month.

Absent an Event of default by the Servicer, subject to the Applicable Standards, the Servicer shall also be entitled to retain as additional compensation any late charges, penalty interest, assumption fees paid by the Borrower, or any other similar amounts not required pursuant to the Guides to be deposited into the Custodial P&I Account.

The Servicer shall pay all expenses incurred by it in connection with its servicing activities and shall not be entitled to reimbursement except as specifically provided for in the Guides or Applicable Agreements.

\textsuperscript{51} MPF Announcement 2017-72 (12/5/17)
MPF Announcement 2017-03 (1/30/17)
3.2 Reimbursement of Servicing Expenses (4/30/20)

Servicers are responsible for advancing their own funds to cover all expenses incurred as a result of Servicing Mortgage Loans. Once the Mortgaged Property is disposed of, the Servicer may seek reimbursement from the MPF Bank for certain servicing related expenses by submitting a Form SG332 to the MPF Provider as more fully detailed in this Guide and in the instructions for Form SG332.
CHAPTER 4. INSURANCE REQUIREMENTS

4.1 Property Insurance

This section covers the property insurance requirements for each Mortgage Loan.

4.1.1 General (12/11/18)

Servicers must ensure that insurance requirements established by the applicable Government Agency are met for Government Mortgage Loans. Servicers must have procedures in place to confirm that the required property insurance coverage is in place at all times on the Mortgaged Property.

The Servicer shall monitor the insurance coverage which the Borrower is required to maintain for each Conventional Mortgage Loan and each Government Mortgage Loan. If the Servicer discovers that a Borrower does not have adequate insurance coverage, the Servicer must obtain and maintain at its own expense the required insurance coverage on the related Mortgaged Property. To the extent permitted by Applicable Standards, the Servicer may initiate forced placed coverage with respect to such Mortgaged Property and thereafter attempt to recover such expenses from the related Borrower.

The Servicer must ensure that the Mortgaged Property is adequately covered when vacant and obtain a vacancy permit endorsement, where available. If the Servicer determines that the Mortgaged Property is abandoned, the Servicer must take all necessary actions to protect the property from waste, damage, and vandalism.

For all Government Mortgage Loans and Conventional Mortgage Loans, the Servicer shall during the period any Mortgaged Property is Real Estate Owned or REO (property is vested in the Servicer’s name on behalf of the MPF Bank), keep in force fire and extended coverage insurance, of the type that provides for claims to be settled on a replacement cost basis, upon the Mortgaged Property regardless of whether the Mortgaged Property is vacant or occupied. Property insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, or any other perils that are normally included under an extended coverage endorsement are not acceptable.

4.1.2 Insurer Qualifications (1/30/17)

All insurers (and reinsurers, if applicable) must be licensed or authorized to do business in the jurisdiction where the Mortgaged Property is located and must meet one of the following requirements:

53 MPF Announcement 2017-03 (1/30/17)
MPF Announcement 2018-60 (12/11/18)
54 MPF Announcement 2017-03 (1/30/17)
1. The insurer meets any of the following ratings:
   - A.M. Best
     - Financial Performance Index of 6 or higher per Insurance Reports—Property/Casualty or Key Rating Guide—Property/Casualty;
     - Rating of B/III or higher per Insurance Reports—Property/Casualty or Key Rating Guide—Property/Casualty; or
     - Rating of A/VIII or higher per Insurance Reports—International
   - Demotech, Inc.
     - Rating of a minimum of "A" per First Rate/P&C Financial Stability Ratings
   - S&P Global Ratings
     - Rating of BBBq per Insurer Solvency Review—Property/Casualty Edition;
     - Rating of BBB or higher per Insurer Solvency Review—Property/Casualty Edition; or
     - Rating of AAisi or higher per International Confidential Rating Service or International Solvency Report Service.

2. The insurer's coverage is guaranteed by another company (“reinsurer”) that meets all of the following requirements:
   - The reinsurer has a minimum rating of:
     - A. M. Best — B/III or (for non–U.S. insurers) A/VIII; or
     - S&P Global Ratings — BBB or AAisi.
   - Both the insurer and the reinsurer execute an Assumption of Liability endorsement or equivalent endorsement that provides for:
     - One hundred percent (100%) reinsurance of the primary insurer's liability for any covered loss payable but unpaid by the insurer for reasons of insolvency;
     - The reinsurer to give ninety (90) days written notice to the policyholder and the Originator before canceling or terminating the guarantee; and
     - The above endorsements are attached to each property insurance policy accepted by the Originator on account of the endorsements.

3. The insurer is Lloyd’s of London;

4. A non-admitted insurance company whose current rating is at least one of the following:
   - A. M. Best — A; or
• S&P Global Ratings – AA-.

5. A carrier whose coverage is guaranteed under the National Flood Insurance Program (NFIP).

Insurance underwritten by any of the following is acceptable, provided it is the only insurance coverage available for the Mortgaged Property:

• A state’s Fair Access to Insurance Requirements (FAIR) plan; or
• State insurance plans covering specific geographic areas.

If any insurer’s rating decreases below the minimum requirement after a policy is issued or is subsequently renewed, the Servicer must ensure that an acceptable replacement policy from an eligible insurer is obtained, unless the Servicer maintains mortgage impairment or mortgagee interest insurance.

4.1.3 Property Insurance Coverage Requirements (1/30/17) 55

An All Risk Coverage property insurance policy is required for any properties maintaining an individually held insurance policy. If any hazards normally covered under the All Risk Coverage policy are limited or excluded, then a supplemental insurance policy for the limited/excluded hazard is required.

The property insurance policy must meet the minimum amount required, which is the lower of:

• One hundred percent (100%) of the replacement cost of the insurable improvements; or
• The unpaid Principal Balance of the Mortgage Loan, provided that it is at least equal to 80% of the insurable value of the improvements.

The amount of coverage must be sufficient to prevent the application of any co-insurance contribution or prevent any loss.

4.1.4 Deductibles (1/30/17) 56

The maximum permitted deductible is five percent (5%) of the applicable amount of coverage of the insurance policy. The deductible clause may apply to either fire, extended coverage, or both. This limit also applies to each blanket or master policy maintained by a PUD or condominium homeowners association (HOA), each supplemental policy maintained, and deductibles for damage to the insured improvements (“building”).

4.1.5 Mortgagee Clause (1/30/17) 57
All insurance policies obtained must include the insurance industry's standard mortgagee clause and must name the Servicer as the Mortgagee. Neither the MPF Bank, MPF Provider, nor the Master Servicer should appear as the Mortgagee unless the policy coverage would be impaired. The mortgagee clause must contain an endorsement to fully protect the named Mortgagee’s interest and the interest of the Servicer where applicable.

The mortgagee clause must include the Servicer’s name, the Servicer’s street address or box number, and the Servicer’s city, state, and zip code. The Servicer’s name should be followed by the phrase "its successors and/or assigns." The mortgagee clause must provide that the insurer will notify the named Mortgagee at least ten (10) days prior to any reduction in coverage or cancellation of the policy.

In deed-of-trust jurisdictions, the Mortgagee should be designated as "(Name of Servicer), its successors and/or assigns, beneficiary."

When a mortgagee clause is not appropriate (e.g., in a separate comprehensive general liability policy), the insurer must provide a certificate of insurance to the Servicer. This certificate must contain the information required for certificates or other evidence of insurance.

The Servicer must arrange for all insurance drafts, notices, policies, invoices, or other correspondence to be delivered directly to the Servicer. The Servicer should have procedures in place to ensure the most updated contact information is provided to the insurer and/or HOA.

### 4.1.6 Evidence of Insurance (1/30/17)

Evidence of all required property insurance coverage must be maintained in the Mortgage Loan File. Evidence of insurance coverage must be in one of the following forms:

- An original or copy of the property insurance policy and any related endorsements (including the PUD or condominium HOA’s master or blanket policy), except if a mortgage impairment or mortgagee interest insurance policy is maintained in lieu of maintaining individual loan insurance; or

- A certificate of insurance or evidence or declarations of insurance that contains the following information:
  - Named insured and Mortgagee (for PUD or condominium units, the named insured association, unit owner, and unit owner Mortgagee);
  - Address of the Mortgaged Property;
  - Type of coverage;
  - Amount of coverage;

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58 MPF Announcement 2017-03 (1/30/17)
Effective dates of coverage;
Deductible amount and coverage to which each deductible applies;
Any endorsement or optional coverage obtained and made part of the original policy;
Insurer's agreement to provide written notice to the Mortgagee and Borrower (or applicable unit owner Mortgagee if for a PUD or condominium unit) at least ten (10) days prior to any reduction in coverage or cancellation of the policy; and
Signature of an authorized representative of the insurer, if required by Applicable Law.

4.1.7 Data Files
In lieu of an original insurance policy, the insurer may provide a data file. Data files are acceptable, provided they meet the following requirements:

- The data file contains sufficient information about the insurance policy, the Mortgaged Property, and the Borrower to allow the Servicer to monitor and maintain property insurance in accordance with MPF Program requirements;
- The Servicer’s errors and omissions insurance policy must provide coverage for electronic data transfers and provide full protection for the Servicer and the MPF Bank against losses incurred as the result of erroneous data files or transfers;
- The insurance carrier must provide the Servicer written confirmation that the data file is equivalent to a printed policy;
- The Servicer must have adequate procedures in place to mitigate risk exposure associated with not having an original hard copy of the policy. These procedures may include requiring the insurer to certify to the accuracy of the information; and
- The Servicer must be able to produce legible hard copies of the actual insurance policies and proof of premium payments if requested by the MPF Bank or the MPF Provider.

4.1.8 Mortgage Impairment or Mortgagee Interest Insurance
If the Servicer elects not to maintain the required property or flood insurance documentation, it must carry mortgage impairment or mortgagee interest insurance that meets the following requirements:

- The policy is underwritten by an insurer currently rated B / IV or better in Best's Insurance Reports. Policies issued by Lloyd's of London are also acceptable. The insurer is licensed or otherwise authorized by law to do business in the jurisdiction where the Mortgaged Property is located;
- The policy provides coverage for the MPF Bank and / or the Servicer;
• The policy provides coverage in scope and amounts no less than those required by the MPF Program for fidelity and E&O insurance;

• The policy provides for written notice to the MPF Provider and/or the Servicer, no less than one hundred and eighty (180) days prior to canceling or terminating the coverage; and

• The policy is approved by any regulatory authority to which the Servicer is subject, if such approval is required.

In addition to all other remedies of the MPF Bank provided for in the Applicable Agreement, the Servicer will indemnify the MPF Bank for any loss the MPF Bank incurs due to the Servicer's failure to substantiate that the required insurance is in force on the Mortgaged Property. This indemnification obligation of the Servicer shall not be limited to the amount of coverage in force under a mortgage impairment or mortgagee interest policy.

4.2 Additional Insurance Requirements for Condos and PUDs (1/30/17)

In addition to the insurance requirements for single family residences, units in condominiums or PUDs must maintain additional property insurance as described in this section.

Premiums for any insurance policies required to be maintained by the HOA must be paid by the HOA as a common expense. The HOA must have funds in its reserves specifically designated for each deductible.

The HOA for all condominium and PUD projects must maintain a blanket or master policy that provides for All Risk Coverage to protect the buildings, common elements, fixtures, equipment, and common personal property owned by the HOA. Self-insurance for the subject condominium project or an insurance policy covering unaffiliated condominium associations or projects is not permitted.

Unless acceptable mortgage impairment or mortgagee interest insurance is provided, the Servicer must verify that the Mortgaged Property is covered at all times by a blanket fire insurance policy that provides coverage for the individual units in the condominium or PUD project. The blanket fire policy must have extended coverage insuring against hazard losses.

The blanket or master policy maintained by the condo or PUD HOA must provide coverage at least equal to the lesser of:

• The aggregate of the unpaid Principal Balances of all mortgages secured by units in the condominium or PUD project; or

59 MPF Announcement 2017-03 (1/30/17)
One hundred percent (100%) of the insurable value of the project improvements, including all individual units.

The HOA must be the named insured on the blanket or master policy. An exception is made for condominium projects where the legal documents allow the policy to designate an authorized representative of the HOA, including the insurance trustee, as the named insured. The named insured for each policy maintained by the HOA must be similar in form and substance to the following:

- “Association of Owners of the [Name of Condominium Project or PUD] for use and benefit of the individual Condominium or PUD Unit owners” (designated by name, if required).

Each insurance policy must contain the standard mortgagee clause endorsed to provide that any disbursements will be paid to the HOA for the use and benefit of Mortgagees as their interests may appear, or otherwise endorsed to fully protect the interest of the MPF Bank.

The blanket or master policy must require that the insurer provide written notice to the HOA and each Mortgagee at least ten (10) days prior to cancelling or reducing the insurance coverage.

The following special endorsements are also required for the condominium project:

- An Inflation Guard Endorsement, when it can be obtained;
- Building Ordinance or Law Endorsement;
- Steam Boiler and Machinery Coverage Endorsement, if the project has central heating or cooling. (This endorsement should provide for the insurer’s minimum liability per accident to at least equal the lesser of two million dollars ($2,000,000) or the insurable value of the boiler or machinery and building(s) housing the boiler or machinery); and
- Special Condominium Endorsement, which must provide that any Insurance Trust Agreement will be recognized, the right of subrogation against unit owners will be waived, the insurance will not be prejudiced by any acts or omissions of individual unit owners that are not under the control of the owners’ association, and the policy will be primary, even if a unit owner has other insurance that covers the same loss.

If there is a construction code provision that would require changes to undamaged portions of the building in which a Mortgaged Property is located even when only part of a building is destroyed by an insured hazard, the Servicer must ensure that each insurance policy contains the necessary construction code endorsements.

If the PUD project’s blanket or master policy does not provide coverage for each unit, then the Borrower must maintain an individual property insurance policy.
If the condominium blanket or master policy does not cover the individual condominium units (including interior improvements), then the Borrower must maintain an HO-6 policy with sufficient coverage to fully restore the condo to its prior condition in the event of a hazard loss.

4.3 Other Insurance

This section covers the guidelines for flood and other special property insurance.

4.3.1 General

Servicers must have procedures in place to confirm that the required property insurance coverage is in place at all times on the Mortgaged Property. Where the Servicer is aware that a Mortgaged Property is exposed to any recognizable hazard against which All Risk Coverage or fire and extended coverage insurance does not afford protection, the Servicer must obtain appropriate additional coverage. The Master Servicer may require at its discretion that the Servicer obtain appropriate additional coverage.

4.3.2 Flood Insurance (8/5/19)\(^{60}\)

Flood insurance is required for any Mortgaged Property where any part of the principal structure is located in a Special Flood Hazard Area ("SFHA"), as delineated on flood maps issued by the Federal Emergency Management Agency ("FEMA"). In addition, flood insurance is required for any residential detached structure that is located in an SFHA and serves as part of the security for the Mortgage Loan. If detached non-residential buildings—such as standalone garages, sheds, or greenhouses—are located in an SFHA, but the principal structure is not in an SFHA, then flood insurance is not required.

The Servicer must comply with all provisions of the National Flood Insurance Program, as authorized by the National Flood Insurance Act of 1968, the Flood Disaster Protection Act of 1973 and the 1994 National Flood Insurance Reform Act. During the term of the Mortgage Loan, the Servicer must ensure that flood insurance is maintained, or added if the Servicer becomes aware that the Mortgaged Property subsequently becomes part of a SFHA. The Servicer must have procedures to actively, but no less than annually, monitor all flood maps and community status changes for all Mortgaged Properties and take appropriate actions as changes occur. If the Servicer determines that the Mortgaged Property’s status has changes, and that it is now located in a SFHA, the Servicer must notify the Borrower of the flood insurance requirements in accordance with the provisions of the Guides. If the Servicer does not receive proof of flood insurance after forty-five (45) days from the original notification to the Borrower, the Servicer must force-place the flood insurance coverage.

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\(^{60}\) MPF Announcement 2019-41 (8/5/19)  
MPF Announcement 2017-03 (1/30/17)
the Servicer determines that the Mortgaged Property’s status has changed, and that it is no longer in a SFHA, the Servicer must not require flood insurance.

Flood insurance should be in the form of the standard policy issued under the National Flood Insurance Program (NFIP). A Policy Declaration page is acceptable evidence of flood insurance coverage.

The Servicer must maintain in the Mortgage Loan File all flood insurance documents necessary to comply with Applicable Law.

**4.3.3 Flood Insurance for One- to Four-Unit Properties (1/30/17)**

The minimum amount of flood insurance required for one- to four-unit properties is the lowest of:

- 100% of the replacement cost of the insurable improvements;
- The maximum insurance available under the National Flood Insurance Program; or
- The unpaid Principal Balance of the Mortgage Loan.

The minimum coverage requirements for one- to four-unit properties also apply to individual PUDs and detached condominium units.

Refer to the National Flood Insurance Program for current limits. The deductible for coverage on a single family property must not exceed the maximum deductible amount permitted under the NFIP.

**4.3.4 Flood Insurance for Condos (1/30/17)**

Separate flood insurance policies are not required for the individual units in a condominium project. The HOA is required to obtain appropriate flood insurance for each building that is located in a SFHA. The flood insurance policy maintained by the HOA association must be at least equal to the lowest of:

- One hundred percent (100%) of the full replacement cost of the insurable improvements;
- The maximum insurance available from the NFIP; or
- The aggregate of the unpaid Principal Balances of all Mortgage Loans secured by units within the condominium project.

If the unpaid Principal Balance is the lowest of the three options, the flood insurance policy must equal at least eighty percent (80%) of the replacement costs of the insurable improvements.

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61 MPF Announcement 2017-03 (1/30/17)
62 MPF Announcement 2017-03 (1/30/17)
If the minimum coverage requirements for the master policy are met, but the master policy does not meet the minimum coverage requirements for one- to four-unit residences, then the unit owner may obtain a flood insurance policy to cover the difference.

The HOA must maintain contents coverage for the building, which must equal 100% of the insurable value of the contents that HOA members own in common.

Unless a higher maximum deductible amount is required by state law, the deductible amount for policies covering condominium common areas and condominium common elements must not exceed the maximum deductible amount permitted under the NFIP. Funds to cover this deductible amount should be included in the HOA’s operating reserve account.

### 4.3.5 Flood Insurance for PUDs

The policy for a PUD project should cover any common element buildings and any other common property located in an SFHA. Flood insurance for individual PUD units (attached and detached) must meet the flood insurance coverage requirements for one- to four-unit properties (as described above).

Unless a higher maximum deductible amount is required by state law, the deductible amount for policies covering PUD common areas must not exceed the maximum deductible amount permitted under the NFIP. Funds to cover this deductible amount should be included in the HOA’s operating reserve account.

### 4.3.6 Coastal Barrier Resources System or Otherwise Protected Area

Properties located in the Coastal Barrier Resources System or an Otherwise Protected Area must maintain flood insurance. If the community does not participate in the Coastal Barrier Resources System or Otherwise Protected Area, flood insurance coverage in accordance with MPF Program Guidelines must be maintained for the Mortgaged Property. The flood insurance coverage may be a private policy or an NFIP policy.

### 4.4 Liability Insurance (1/30/17)

The HOA association for a PUD or condominium project must maintain a comprehensive general liability insurance policy covering the entire project including all common areas, public ways, commercial space that is owned by the HOA, even if they are leased to others, and any other areas that are under the supervision or control of the HOA. The commercial general liability insurance policy should provide coverage for bodily injury and property damage that result from the operation, maintenance, or use of the project’s common areas and elements.

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61 MPF Announcement 2017-03 (1/30/17)
The amount of coverage should be at least one million dollars ($1,000,000) for bodily injury and property damage for any single occurrence.

The policy must contain a severability of interest endorsement preventing the insurer from denying the claim of a condominium or PUD unit owner because of negligent acts of the HOA or other unit owners. The policy must include any other coverage or endorsement generally required by Applicable Standards.

The policy should provide for at least ten (10) days’ written notice to the HOA before the insurer can cancel or substantially modify it.

4.5 Fidelity Insurance

All condominium projects and PUD projects consisting of more than twenty (20) units that contain only attached dwellings must have blanket fidelity insurance coverage for anyone who handles (or is responsible for) funds held or administered by the HOA, whether or not that individual receives compensation for services. The insurance policy should name the homeowners association as the insured and the premiums should be paid as a common expense by the HOA. The policy for a condominium project must include a provision that calls for ten (10) days’ written notice to the HOA before the policy can be canceled or substantially modified for any reason.

A management agent that handles funds for the HOA should be covered by its own fidelity insurance policy, which must provide the same coverage required of the HOA. The management agent must furnish proof of such coverage to the HOA.

The fidelity insurance policy should cover the maximum funds that will be in the custody of the HOA or its management agent at any time while the policy is in force. Where the condominium or PUD project’s legal documents require that it or its management agent adhere to at least one of the following financial controls, the minimum amount of fidelity insurance coverage only needs to be equal to the sum of three (3) months of assessments on all units in the project:

- Separate depository accounts are maintained by the HOA or management agent for the association's working account and the reserve account(s), each with appropriate access controls, and the HOA receives copies of the monthly account statements directly from the institution where the accounts are maintained;

- The management agent maintains separate records and depository accounts for each HOA using its services, and does not have authority to draw checks on, or to transfer funds from, the reserve account(s) of the owners' association; or

- Two or more members of the Board of Directors are required to sign any checks written on the reserve account(s).
In a state that has statutory fidelity insurance requirements, the MPF Program will accept the state's requirements in place of the MPF Program's.

### 4.6 Property Loss Events and Insurance Loss Settlements (8/17/20)

This section covers the guidelines for handling property loss events and insurance loss settlements for Conventional Loans. For Government Loans, PFIs must comply with all requirements of the applicable Government Agency.

#### 4.6.1 General Property Loss Requirements (8/17/20)\(^{64}\)

The Servicer shall promptly take appropriate action to protect the MPF Bank's interest in the event of a hazard, flood, or other property damage loss, obtaining details of the damage, confirming that the Borrower is filing timely claims, monitoring timely completion of repairs, controlling disbursements of settlement funds, and documenting actions and the basis for its decisions in the Mortgage Loan File.

More specifically, the Servicer’s responsibilities include the following:

- Notifying the MPF Provider of the loss and recommending appropriate action;
- Performing a property inspection and providing the results of the inspection to the MPF Provider upon request;
- Notifying MPF Provider if the property is abandoned or vacant, and securing it from vandalism and the elements;
- Complying with the provisions in the Security Instrument relating to insurance settlements;
- Receiving reports of property damage insurance losses, ensuring that proof of loss statements are properly filed, helping the Borrower determine needed repairs, obtaining necessary bids, reviewing and approving final plans for repair, and being named as payee on all insurance loss drafts (subject to Applicable Standards);
- If the Servicer is unable to contact the Borrower (or it appears that the Mortgaged Property has been abandoned), the Servicer should determine the general extent of the damage and the required repairs, take appropriate measures to protect the Mortgaged Property from further damage, and contact the insurance carrier to determine whether the Borrower has submitted a claim. If the Borrower has not filed a claim, the Servicer should file a proof of loss under the standard mortgagee clause and collect the Insurance Proceeds and apply such payments as provided in the Security Instrument and this Servicing Guide;

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\(^{64}\) MPF Announcement 2020-52 (8/17/20)
MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-03 (1/30/17)
• Collecting, endorsing, and disbursing the Insurance Proceeds, providing progress inspections and payment, as necessary, and assuring that repairs are completed in a workmanship like manner according to final plans and that the pre-loss value of the Mortgaged Property is restored, as necessary;

• Any funds not disbursed to the Borrower should be escrowed in an interest-bearing account for the Borrower’s benefit. The account must yield an amount of interest that is equivalent to the interest that the Borrower could expect to obtain from a passbook savings account or a money market account, and must be in a depository institution that meets the MPF Program’s eligibility criteria for custodial depositories. The depository account also must provide for all interest earned on the funds to be credited to the account at least quarterly. The Servicer must pay the accumulated interest to the Borrower at the end of the property reconstruction period, unless the Borrower requests an earlier disbursement;

• Complying with all applicable mortgage insurer/guarantor requirements pertaining to the filing of claims and the settlement of insurance losses so that the mortgage insurance or guaranty is not jeopardized, including filing all required notices and making a part of the individual loan record any mortgage insurer/guarantor letter of assurance that the insurance or guaranty will continue in full force and effect;

• Ensuring that the priority of the lien of the Security Instrument is preserved by complying with all lien laws. Such precautions should include arranging for and authorizing the restoration or rehabilitation work, assuring through the receipt of Borrower affidavits, repair contract copies, and lien waivers that the priority lien of the Mortgage Loan is maintained, and that all other actions necessary to avoid materials or mechanics’ liens being filed against the Mortgaged Property are done;

• Applying the Insurance Proceeds to reduce the outstanding Principal Balance of the Mortgage Loan with the excess, if any, paid to the Borrower, if restoration or repair is not economically feasible or if the security of the Mortgage Loan would be impaired; and

• Causing the insurance companies to deliver all insurance loss drafts, notices, policies, billings, and other documents directly to Servicer.

The Servicer shall not enter into, nor incur legal expenses for litigation, with regard to a claim without written direction received from the MPF Provider.

If the Servicer fails to discover loss or damage that reasonably should have been discovered and fails to act in a timely manner, it will be liable for any resulting additional damage or loss.

4.6.2 Personal Property Losses
Insurance Proceeds obtained as a result of a claim for the loss of personal property, when no damage has been sustained to the Mortgaged Property, should be forwarded directly to the Borrower.

### 4.6.3 Notice to MPF Provider (4/30/20)\(^6\)

The Servicer is required to submit Form SG342 (Property Insurance Loss Draft Notification) to the MPF Provider within five (5) Business Days of discovering damage to the Mortgaged Property, regardless of the extent or amount of the loss.

### 4.6.4 Release of Insurance Proceeds (8/17/20)\(^6\)

Generally, property damage Insurance Proceeds should be applied to the restoration and repair of the damaged Mortgaged Property, and the Insurance Proceeds balance should be deposited into one or more separate Escrow Accounts, so that the balance on deposit in such accounts is fully insured at all times. If the Insurance Proceeds will not be applied to the repair and restoration of the Mortgaged Property, then the Insurance Proceeds must be deposited into the respective P&I Custodial Account. The Servicer shall report settlements to the MPF Provider on a Property Insurance Loss Draft Notification form (Form SG342), together with a summary of the disposition of the proceeds.

Servicers should assess the extent and impact of the damage and, after consulting with the Borrower to ensure that the damage will be appropriately repaired, and take into account whether:

- the Mortgaged Property is occupied
- the loss is a total or near total loss
- the insured improvements are repairable
- the security has been lessened.

The amount of the Insurance Proceeds, the contractor’s estimate, the prevailing down payment amount being requested by contractors, and the length of time for repairs to be completed, should all be considered by the Servicer in deciding whether to disburse the proceeds for the repairs and restoration in a single payment or in a series of progress payments as work is completed. The Servicer must monitor the progress of the repair work through periodic property inspections and conduct final inspections to ensure all repairs are completed.

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\(^6\) MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-62 (10/27/17)

\(^6\) MPF Announcement 2020-52 (8/17/20)
MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-62 (10/27/17)
In addition, decisions regarding the amount and timing of disbursements must be made based on the status of the Mortgage Loan at the time of the loss event, as is more fully described in below subsections.

If the Borrower has made advance payments to the contractor and/or to purchase materials, then the Servicer is authorized to reimburse the Borrower by releasing insurance loss proceeds as evidenced by paid receipts. Receipts are not necessary if the loss proceeds are less than or equal to $40,000.

4.6.4.1 Mortgage Loans Current or Less Than 31 Days Delinquent (8/17/20)

If the Mortgage Loan status is current or less than 31 days delinquent at the time of the loss event, the Servicer must follow the requirements below when disbursing Insurance Proceeds:

- When the Insurance Proceeds are less than or equal to $40,000, the Servicer may release such proceeds directly to the Borrower without obtaining prior approval from the MPF Provider.
- If the Insurance Proceeds are greater than $40,000, the Servicer:
  - must obtain written approval from the MPF Provider prior to disbursing the Insurance Proceeds through the submission of a Property Insurance Loss Draft Notification form (Form SG342);
  - is authorized to release an initial disbursement up to the greater of:
    - $40,000;
    - 33% of the Insurance Proceeds; or
    - the amount by which the release funds exceed the sum of the UPB, accrued interest, and advances on the Mortgage Loan.
- must disburse any remaining funds based on periodic inspections of the progress of the repairs.

4.6.4.2 Mortgage Loans 31 or more Days Delinquent (8/17/20)

If the Mortgage Loan status is 31 days or more delinquent at the time of the loss event the Servicer is authorized to disburse Insurance Proceeds without obtaining prior approval if the Insurance Proceeds are disbursed as follows:

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67 MPF Announcement 2020-52 (8/17/20)
68 MPF Announcement 2020-52 (8/17/20)
• less than or equal to $5,000: in one payment.

• greater than $5,000:
  o an initial disbursement of 25% of the total Insurance Proceeds but no more than $10,000, and
  o remaining funds in increments not to exceed 25% of the Insurance Proceeds following inspection of the repairs.

Servicers should also evaluate Borrower for applicable loss mitigation options.

### 4.6.5 Total or Near Total Loss (4/30/20)\(^69\)

After discussing with the Borrower plans for repairing the Mortgaged Property, the damage should be reported to the MPF Provider on the Hazard Insurance Loss Draft Notification form (Form 342), including the Servicer’s recommendation to either initiate repair of the Mortgaged Property or apply the proceeds to reduce the Mortgage Loan. If the Borrower is willing to repair the Mortgaged Property and the restoration or repair is economically feasible, the Servicer must follow either option (1) or (2) below:

1. If the Insurance Proceeds exceed the total amount due on the Mortgage Loan (including unpaid principal, accrued interest and any advances), the excess should be disbursed to the Borrower; or

2. If the Insurance Proceeds do not exceed the total amount due on the loan (including unpaid principal, accrued interest and any advances), the Servicer may release insurance proceeds to the Borrower based on the status of the Mortgage Loan at the time of the loss as provided for above.

In both instances the contractor’s estimate should be reviewed to determine the method of disbursement for the remaining funds. Progress and completion of the repair work should be monitored through property inspections, including a final inspection to confirm that all repairs are completed. The final disbursement should be made payable to both the Borrower and the contractor.

However, the Servicer must recommend to the MPF Provider an appropriate action, and provide any applicable supporting documentation, if the Mortgage Loan is in Foreclosure or the Mortgaged Property has been abandoned.

In most cases, the Servicer should disburse the Insurance Proceeds to the Borrower and the repair contractor when the restoration or repairs have been completed and inspected, although progress payments can be made as portions of the work have been completed and inspected. All actions should be properly documented in the Mortgage Loan File.

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\(^69\) MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-62 (10/27/17)
MPF Announcement 2017-03 (1/30/17)
If the improvements on the Mortgaged Property have been completely destroyed and the Insurance Proceeds equal or exceed the unpaid Principal Balance of the Mortgage Loan, the Servicer shall obtain permission from the MPF Provider to liquidate the Mortgage Loan. If the Note or Security Instrument for the Mortgage Loan requires the Insurance Proceeds to be used to repair, restore, or reconstruct the improvements on the Mortgaged Property, then the Servicer must liquidate the Mortgage Loan by purchasing or repurchasing it.

4.6.6 Major Disasters (8/13/18)

In the event that a Mortgaged Property is located in an area affected by a Major Disaster, the Servicer must not take any action that would jeopardize the full recovery of a property, flood or other insurance settlement. Servicers are required to follow the MPF Program requirements for providing major disaster assistance as detailed in the Guides. Servicers are also encouraged to waive late payment charges if the Borrower is late because of additional expenses or loss of income from the natural disaster.

4.6.7 Uninsured Disaster or Vandalism Losses (4/30/20)

When a disaster or Borrower vandalism results in uninsured losses, the Servicer shall take action to protect the MPF Bank’s interest as follows:

- Promptly ascertain the extent of the damage to the Mortgaged Property and whether value still exists;
- Protect abandoned property against vandalism and the elements when value still exists;
- Forward a completed report of its findings and send by email to the MPF Provider along with recommendations as to any action that should be taken to protect the interest of the MPF Bank and the Borrower;
- Closely communicate with the Borrower(s), counsel them, provide assistance through forbearance or modification where warranted, and familiarize them with any disaster relief programs available; and
- For Government Mortgage Loans, comply with all requirements of the applicable Government Agency.

If the Servicer receives a “notice of intent” letter from a mortgage insurer regarding the insurer’s intent to reduce a claim due to damage or general condition of the Mortgaged Property, the Servicer must promptly notify the MPF Provider and provide the following items to the MPF Provider:

70 MPF Announcement 2018-39 (8/13/18)
71 MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-03 (1/30/17)
A copy of the mortgage insurer’s letter indicating notice of intent to curtail or reduce the claim;

A copy of the property inspection report indicating damage;

A copy of a recent broker’s price opinion indicating damage (if available);

A copy of repair bids (supplied by mortgage insurer);

A copy of the mortgage insurer checklist (if applicable);

A copy of the original Appraisal;

A copy of the hazard claim;

A copy of the hazard claim results (if available);

A copy of the collection efforts for the past twelve (12) months; and

A payment history for the past twelve (12) months.

Written permission must be obtained from MPF Provider prior to accepting a claim reduction. The mortgage insurer will stop paying interest on the claim after ten (10) days from the date the notice of intent was issued and will not resume paying interest until they have received the decision regarding the claim reduction. Any interest lost due to the Servicer’s negligence or delay in forwarding hazard loss information to the MPF Provider will result in such loss being borne by the Servicer.

Once the Servicer receives permission from MPF Provider, the Servicer is responsible for communicating the decision to the mortgage insurer. Acceptance of the claim reduction by the MPF Provider does not represent approval for the hazard loss.

### 4.7 Mortgage Insurance/ Guaranty

This section describes the requirements for servicing Loans with mortgage insurance/guaranty.

#### 4.7.1 Required Coverage (12/11/18)

The Servicer must ensure that the mortgage insurance/guaranty coverage required when the Mortgage Loan was purchased remains in effect for as long as required under the MPF Program and must pay all escrowed renewal premiums when due.

For Conventional Mortgage Loans, mortgage insurance is required if the LTV exceeds eighty percent (80%).

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72 MPF Announcement 2017-03 (1/30/17)
MPF Announcement 2018-60 (12/11/18)
For Government Mortgage Loans, the Servicer shall require each Borrower to keep in force the mortgage insurance or guaranty provided by the applicable Government Agency. The Servicer must follow the applicable Government Agency’s guidelines for notifying them of the sale of the loan to the MPF Bank.

4.7.2 Mortgage Insurance Cancellation for One-Unit Properties (6/1/17)

4.7.2.1 Introduction (3/1/19)

MPF Program Conventional Mortgage Loans are subject to The Homeowner’s Protection Act of 1998 (HPA). HPA provides for the automatic termination of borrower paid conventional mortgage insurance (MI) and borrower-requested cancellations of borrower paid MI for certain mortgages closed on or after July 29, 1999, as well as those provisions which define the equity requirements for borrowers requesting cancellation of their MI. The MPF Program’s MI termination policy is that all Mortgage Loans secured by single family, single unit owner occupied dwellings, regardless of their origination date, and whether modified or not, shall be administered in accordance with HPA requirements (such as the definition of an acceptable payment history).

Servicers must comply with the Guides and Applicable Laws when cancelling or terminating MI, including provisions of the HPA and applicable state law, and shall not use any criteria for such terminations or cancellations that are in violation of the HPA or applicable state law.

4.7.2.2 Borrower-Requested Cancellation (6/1/17)

4.7.2.2.1 Borrower-Requested Cancellation Based on Original Property Value (6/1/17)

The Borrower may request in writing to cancel MI when either (i) the Principal Balance of the Mortgage Loan is scheduled to reach 80% of the original value of the Mortgage Property (regardless of the current unpaid Principal Balance) based on the initial amortization schedule; or (ii) the unpaid Principal Balance reaches 80% of the original value of the Mortgage Property based on actual payments.

The loan must be current at the time MI cancellation is requested, meaning the payment for the month prior to the date of the cancellation request must have been paid.

The Borrower: (a) must not have made any payments that were thirty (30) days or more past due in the prior twelve (12) months, or (b) payments that were sixty (60) days or more past due within the

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73 MPF Announcement 2017-25 (6/1/17)
74 MPF Announcement 2017-03 (1/30/17)
75 MPF Announcement 2019-18 (3/1/19)
76 MPF Announcement 2017-25 (6/1/17)
first twelve (12) months of the last two (2) years prior to the date the Borrower requests cancellation. There are no requirements for a loan’s seasoning before the Borrower may request cancellation; however, if the loan is seasoned less than two (2) years, the payment history criteria must be applied to the length of time since the loan’s origination.

For example, a loan that qualifies for Borrower requested cancellation that is seasoned six (6) months is eligible for cancellation so long as there have not been any payments that were thirty (30) days or more past due. As another example, a loan that qualifies for Borrower requested cancellation that is seasoned fifteen (15) months is eligible for cancellation so long as there have not been any payments that were thirty (30) days or more past due within (12) months of the request or sixty (60) days or more past due in the thirteen to fifteen (13-15) months prior to the request.

The Servicer is required to obtain evidence that the value of the Mortgaged Property has not declined below the original property value. The property valuation may only be used to determine whether the value of the Mortgaged Property has declined below the original value. The Servicer may pass on the property valuation fee to the Borrower.

The Borrower must certify that their equity in the property is not subject to any subordinate lien. The Servicer may not require further MI premiums more than thirty (30) days after the date the Borrower request is received or the date on which Borrower satisfies the requirements for establishing current value and certification as to subordinate liens.

### 4.7.2.2.2  
Borrower-Requested Cancellation Based on Current Property Value  
(6/1/17)  

The Borrower may also request in writing to cancel MI based on the current appraised value of the Mortgaged Property if the Mortgage Loan is a one-unit Primary Residence or second home that is:

- Seasoned less than two (2) years if the Borrower has made improvements to increase the value of the Mortgaged Property, the Appraisal specifies the improvements that were made and contains commentary on their effect on value, and the LTV is 75% or less, based on the current appraised value.
- Seasoned between two (2) and five (5) years with an LTV ratio of seventy-five percent (75%) or less, based on the current appraised value.
- Seasoned five (5) years or more with an LTV ratio of eighty percent (80%) or less, based on the current appraised value.

The loan must be current at the time MI cancellation is requested, meaning the payment for the month prior to the date of the cancellation request must have been paid. The Borrower must not
have made any payments that were thirty (30) days or more past due in the prior twelve (12) months, or payments that were sixty (60) days or more past due within the first twelve (12) months of the last two (2) years prior to the date the Borrower requests cancellation. If the loan is seasoned less than two (2) years, the payment history criteria must be applied to the length of time since the loan’s origination.

The Borrower must certify that their equity in the property is not subject to any subordinate lien.

The Servicer must obtain a new Appraisal with an interior and exterior inspection that meets the Appraisal requirements in the MPF Traditional Selling Guide and must receive the results directly from the appraiser. The Servicer may pass on the Appraisal fee to the Borrower.

**4.7.2.3 Automatic Termination (6/1/17)**

Pursuant to the HPA, the Servicer must automatically terminate borrower paid MI if the Borrower is current when the Principal Balance of the Mortgage Loan is first scheduled to reach 78% of the original value of the Mortgage Property (regardless of the current unpaid Principal Balance) based on the initial amortization schedule. If the Borrower is not current on the date the MI is scheduled to automatically terminate, then the MI must be cancelled on the first day of the first month following the date that the Borrower becomes current. The Servicer may not charge the Borrower further MI premiums more than thirty (30) days after the termination date. The Servicer may not charge the Borrower a fee for MI cancellation.

**4.7.2.4 Final Termination (6/1/17)**

If the MI was not previously terminated automatically or at the Borrower’s request, the Servicer must terminate borrower paid MI by the first day of the month immediately following the date that is the midpoint of the Mortgage Loan’s amortization period based on the initial amortization schedule, if on that date, the Borrower is current. If the Borrower is not current on that date, the MI must be terminated when the Borrower becomes current on the loan. The Servicer may not charge the Borrower further MI premiums more than thirty (30) days after the termination date.

**4.7.2.5 Lender-Paid MI (6/1/17)**

For Mortgage Loans with lender-paid MI, the Servicer must provide notice to the Borrower not later than thirty (30) days after the date when the Principal Balance of the Mortgage Loan is first scheduled to reach 78% of the original value of the Mortgage Property (regardless of the current unpaid

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74 MPF Announcement 2017-25 (6/1/17)
79 MPF Announcement 2017-25 (6/1/17)
80 MPF Announcement 2017-25 (6/1/17)
Principal Balance) based on the initial amortization schedule, that the Borrower may wish to review financing options that could eliminate the requirement for MI.

**4.7.2.6 Other Servicer Obligations (6/1/17)**

The Servicer is responsible for providing disclosures and notices required under the HPA, including annual disclosures, notice of MI cancellation and notice of grounds for denial of MI cancellation.

In all cases when MI has been cancelled or terminated, the Servicer must notify the mortgage insurer and advise the Borrower(s) that no further escrow deposits for mortgage insurance premiums will be due.

Within forty-five (45) days of cancellation or termination, the Servicer must return any unearned mortgage insurance premium received from the mortgage insurer to the Borrower(s).

Within five (5) Business Days of cancelling or terminating MI for any Mortgage Loan, the Servicer must report the MI cancellation or termination to the MPF Provider using the MI Cancellation Notice (Form SG343).

**4.7.3 Mortgage Insurance Cancellation for Two- to Four-Unit Properties (6/1/17)**

Borrower-requested MI cancellation for two- to four-unit properties follows the same guidelines as borrower-requested MI cancellation for one-unit properties with the exception that regardless of the age of the loan, the LTV ratio must be seventy percent (70%) or less based on either the original or current value.

MI must be automatically terminated on the first day of the month immediately following the date that is the midpoint of the Mortgage Loan’s the Mortgage Loan’s amortization period based on the initial amortization schedule, if on that date, the Borrower is current.

The Servicer must follow all HPA notice and disclosure requirements.

**4.7.4 Replacement Coverage**

When the MPF Program removes a mortgage insurer from its approved mortgage insurers list, the applicable private mortgage insurance policy does not need to be replaced, provided that the amount and scope of coverage does not change and the insurer remains licensed in all pertinent jurisdictions and meets the requirements for licensed primary mortgage insurers in those jurisdictions.

In the event it becomes necessary to replace original or existing mortgage insurance with substitute coverage, it must be provided by an insurer on the MPF Program’s approved mortgage insurers list,

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81 MPF Announcement 2017-25 (6/1/17)
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and the premium for any replacement private mortgage insurance policy shall not exceed the premium for the discontinued private mortgage insurance policy.

If the rating assigned by a rating agency to the claims paying ability of any supplemental mortgage insurer is reduced below the level permitted, the Servicer should contact its MPF Bank to determine the available options under the applicable Master Commitment.

4.7.5 Mortgage Insurance Claims (4/30/20)\textsuperscript{83}

See Servicing Guide Chapter 11.6 for MI claim filing procedures.

The Servicer is required to provide the MPF Provider with copies of all notices, mortgage insurance explanation of benefits forms, claims forms, and any other documents received from or sent to any mortgage insurer or guarantor.

4.7.6 Loss Due to Untimely Claim

The Servicer shall indemnify the MPF Bank against losses resulting from the Servicer’s failure to submit a Notice of Delinquency claim to the applicable mortgage insurer/guarantor within the time limits specified in the mortgage insurance policy.

4.7.7 Loss Due to Insufficient Coverage

The Servicer shall indemnify the MPF Bank against any uninsured loss resulting from Servicer’s maintenance of insurance in an amount less than the amount required in the Guides. Alternatively, the Servicer may be required to repurchase the Mortgage Loan.

4.7.8 Loss Due to Lapsed, Canceled, or Contested Policy

The Servicer shall indemnify the MPF Bank against any uninsured loss resulting from failure of the Servicer to comply with the terms and conditions of an MI policy or to maintain or cause to be maintained mortgage insurance/guaranty as required by the Guides. Alternatively, the Servicer may be required to repurchase the Mortgage Loan at its outstanding principal balance and all interest due to date of repurchase.

4.7.9 Claim Adjustments by Mortgage Insurer

The amount by which any Mortgage insurance claims have been adjusted (i.e. the claim amount has been reduced) by the insurer or guarantor by reason of a servicing deficiency will be paid by the

\textsuperscript{83} MPF Announcement 2020-25 (4/30/20)

MPF Announcement 2017-03 (1/30/17)
Servicer to make the MPF Bank whole. The Servicer shall pay the amount of the reduced or adjusted claim to the MPF Bank within sixty (60) days of demand.

4.8 Title Insurance (4/30/20)\textsuperscript{84}

The Servicer must ensure the title policy for each Mortgage Loan is maintained until the loan is paid in full. The Servicer shall not reduce the amount or change the scope of coverage under any title insurance policy, or otherwise do or authorize any act or omission that would affect the coverage of any title insurance policy, unless the Servicer has received written direction from the MPF Provider specifying the amount(s) or scope to which the coverage is to be changed.

The Servicer must perform and comply with all requirements and conditions of each title insurance policy for each Mortgage Loan and the related Mortgaged Property that are to be performed or observed by the “insured” or obligee as a condition to maintaining and keeping it in force or making a claim.

The Servicer must notify the MPF Provider simultaneously with the making of any title claim. The Servicer shall be named as a payee on all title insurance loss drafts. Upon receipt of funds, the Servicer shall credit the funds to the P&I Custodial Account up to an amount equal to the sum of:

- The unpaid Principal Balance of the Mortgage Loan and any accrued interest;
- Any outstanding advances; and
- Any expenses owed by the Borrower.

Any remaining funds shall then be deposited into the T&I Custodial Account. The Servicer must disburse the proceeds of any settlement in accordance with the MPF Provider’s instructions.

\textsuperscript{84} MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-03 (1/30/17)
CHAPTER 5. ASSUMPTIONS AND UNAUTHORIZED TRANSFERS

5.1 General (4/30/20)85

Mortgage Loans may be assumed only by individuals meeting the current MPF Program eligibility and underwriting requirements. The Servicer may permit the Assumption of a defaulted Mortgage Loan to prevent a Foreclosure or Deed-in-Lieu of Foreclosure if the Servicer believes the default is unlikely to be cured with a loss mitigation workout option.

Mortgage insurer approval is required on all Assumptions as outlined below. The liability of the original Borrower(s) is not released except where the Note requires same. When release of liability is required by the Note, the respective mortgage insurance release in writing is required, as applicable.

All Assumptions must be reported to the MPF Provider via email at MPFServicing@fhlbc.com.

If the Security Instrument has MERS as nominee for the lender, as the named beneficiary, and a Borrower is added and assumes the outstanding mortgage debt, the Borrower would sign the MERS Assumption Agreement. The Servicer is responsible for entering the new Borrower information on the MERS system.

5.2 Unauthorized Assumptions (4/30/20)86

When a Servicer becomes aware of an unauthorized assumption, the Servicer must notify the MPF Provider via email and applicable primary and/or supplemental mortgage insurer immediately, and include any relevant information. Upon receiving written permission from MPF Provider and the applicable primary and/or supplemental mortgage insurer, the Servicer shall accelerate the Mortgage Loan pursuant to the Due-on-Sale clause of the Security Instrument.

5.3 Junior Lien Assumption

Non-qualifying junior lien holders are not authorized to assume any Mortgage Loans, or hold title subject to any Mortgage Loan after Foreclosure of the junior lien. The Servicer shall require payment in full of any Mortgage Loan within ten (10) days of the junior lien holder’s Foreclosure sale. Failure by the junior lien holder to pay the Mortgage Loan in full is a transfer without the Servicer’s consent. The Servicer shall accelerate the Mortgage Loan upon notification that a junior lien holder has acquired the Mortgaged Property. In the event the foreclosing junior lienholder is a nonprofit or

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government entity, the Servicer shall inform the MPF Bank within three (3) days of the junior lienholder’s Foreclosure sale for direction on how to proceed.

5.4 Permitted Fees and Charges
Servicers are permitted to charge the Borrower an assumption fee.

5.5 Approval Process
The Servicer will process the request for an assumption by underwriting the Mortgage Loan according to that loan’s qualifying requirements, as set out in the Selling Guide, the Security Instrument, and by the mortgage insurer.

All other qualifying documents necessary to protect the Mortgage Loan’s lien, including the updated mortgage insurance certificate, are the responsibility of the Servicer.
CHAPTER 6. AMENDMENT OF SECURITY INSTRUMENTS

6.1 General

The Servicer is responsible for ensuring the instruments used in connection with changes affecting Mortgage Loans are in proper form, and that all requirements under Applicable Laws are met. Any monies received and applied to the Mortgage Loan for a release, easement, or other amendment or modification shall be set forth in the Mortgage Loan File. If appropriate, the Servicer should inform the taxing authority of the release of real property and request an adjustment of any taxes levied or to be levied. A certified copy of the instrument used to complete the transaction must be sent to the appropriate mortgage insurer.

6.2 Removal of a Co-Borrower (12/5/17) \(^{87}\)

The Servicer must evaluate all release of liability requests. Generally, no requests to remove a co-Borrower may be considered within twelve (12) months of the loan closing date. Thereafter, the Servicer may consider requests on a case-by-case basis, if the requirements in this section are met.

Release agreements must be prepared by the Servicer and executed by all parties. The Servicer is responsible for ensuring the statements in the release are accurate, and that the release complies with Applicable Laws.

6.2.1 Release of Liability (1/30/17) \(^{88}\)

The removal of a Borrower with a release of liability is acceptable if the following conditions are met:

- The transfer of ownership of the Mortgaged Property is exempt from enforcement of the due-on-sale-clause;
- Supporting documentation for the release of liability is provided by the Borrower;
- The current market value of the Mortgaged Property has not decreased from the property value at origination. Depending on the original loan-to-value ratio, the age of the Mortgage Loan, and other circumstances, the Servicer may require a complete new Appraisal report (cost paid by the remaining Borrower);
- The remaining Borrower has been deemed creditworthy in accordance with underwriting requirements in the Selling Guide;
- The security will not be impaired by the release of liability;

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\(^{87}\) MPF Announcement 2017-72 (12/5/17)

\(^{88}\) MPF Announcement 2017-03 (1/30/17)
The remaining Borrower was a signer on the original Note;

Pre-approval by the mortgage insurer has been obtained;

Copies of any agreement between Borrowers is retained in the Mortgage Loan File;

The terms of the Security Instrument and the Note will remain the same, other than removing the liability of a co-borrower;

The Servicer follows all Applicable Laws related to executing a release agreement or other transfer of ownership;

The Servicer advises the property insurance company, tax authorities, and if applicable, the flood insurance company and other interested parties; and

If the Security Instrument has MERS as the nominee for the lender, as the named beneficiary, the Servicer must remove the one Borrower and enter the remaining Borrower information on the MERS system.

6.2.2 No Release of Liability

The removal of a Borrower without a release of liability is acceptable if the following conditions are met:

The specific reason for the removal is provided by the Borrower;

Copies of any agreement between Borrowers are retained in the Mortgage Loan File;

A Copy of instrument transferring title is retained in the Mortgage Loan File; and

A Copy of notification to the mortgage insurer is retained in the Mortgage Loan File.

If the Security Instrument has MERS as nominee for the lender, as the named beneficiary, and a Borrower is removed, the Servicer is responsible for removing the one Borrower and entering the remaining co-Borrower information on the MERS system.

6.3 Addition of Co-Owner

Generally, no requests for partial transfers of any right, title, or interest in a Mortgaged Property will be considered within twelve (12) months of the loan Closing date. Thereafter, requests will be considered on a case-by-case basis. Partial transfers are generally allowed only to a new spouse of the Borrower who will hold title either as a joint tenant or as community property.
6.4 Unauthorized Transfers (4/30/20)\textsuperscript{89}

When a Servicer becomes aware of an unauthorized transfer, the Servicer shall notify the MPF Provider and applicable primary and/or supplemental mortgage insurer immediately. Upon written authorization by the MPF Provider and the applicable primary and/or supplemental mortgage insurer, the Servicer shall accelerate the Mortgage Loan pursuant to the Due-on-Sale clause of the Security Instrument.

6.5 Transactions Exempt from Due-On-Sale Clause

Under the Garn-St. Germain Depository Institutions Act of 1982, the Servicer shall not enforce the Due-On-Sale clause for certain types of transfers or related transactions. In the following cases when the Mortgaged Property is occupied or is to be occupied by the Borrower or transferee, the Servicer shall not enforce the Due-On-Sale clause:

- A transfer of the Mortgaged Property to a relative as a result of the Borrower's death;
- A transfer of the Mortgaged Property to the Borrower's spouse or child/children;
- A transfer of the Mortgaged Property by devise, descent, or operation of law on the death of a Borrower who is a joint tenant or tenant by the entirety;
- A transfer of the Mortgaged Property to a spouse under a divorce decree or legal separation agreement or from an incidental property settlement agreement;
- A transfer of the Mortgaged Property into an inter vivos trust, as long as the Borrower will be the beneficiary of the trust and will remain the occupant of the Mortgaged Property;
- The creation of a subordinate lien, as long as it does not relate to a transfer of rights of occupancy in the Mortgaged Property;
- The creation of a purchase money security interest for household appliances; and
- The granting of a leasehold interest in the Mortgaged Property with a term of three (3) years or less, that does not provide an option to purchase.

6.6 Partial Property Releases and Granting of Easements

This section addresses the Servicers requirements when evaluating a request for the release, or partial release, or granting of an easement for a Mortgaged Property.

\textsuperscript{89} MPF Announcement 2020-25 (4/30/20)  
MPF Announcement 2017-03 (1/30/17)
6.6.1 General Requirements (3/18/20)

All partial releases of the Mortgaged Property, easements requests to substantially alter the Mortgaged Property, and any other changes affecting the Mortgaged Property must follow the requirements of this subsection 6.6.1, in addition to meeting specific requirements provided for in the following sections applicable to specific types of requests, and must have prior written approval from the applicable mortgage insurer or Government Agency.

The Servicer must review applicable legal documents for the proposed partial release and ensure that any requirements specified in the Security Instrument related to granting a partial release or easement are met.

The Servicer may decline a request for partial release or for granting of an easement without obtaining the MPF Provider’s prior approval if it is determined that the request would adversely affect the value or use of the Mortgaged Property.

Servicers are required to obtain written approval prior to granting requests that do not meet all the requirements provided in this Section 6.6. Servicers may approve requests for partial releases or granting of easements without obtain prior approval, provided all of the following conditions are met:

- The Mortgage Loan was originated greater than 12 months prior to the date of the request;
- The Borrower's monthly Mortgage Loan payment is current and has not been:
  - over thirty (30) days past due more than once in the last twelve (12) month period, or
  - otherwise in default under the terms of the Mortgage Loan over the most recent 12-month period;
- The 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 Mortgaged Property is not greater than the amount of cash consideration, and the remaining Mortgaged Property adequately secures the unpaid Principal Balance of the Mortgage Loan;
- The portion of the Mortgaged Property to be released does not contain any improvements that are material to the residential improvements on the remaining Mortgaged Property;
- The remaining LTV after release will not exceed sixty percent (60%); and

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90 MPF Announcement 2020-8 (3/18/20)
MPF Announcement 2019-41 (8/5/19)
MPF Announcement 2017-03 (1/30/17)
• All specific requirements provided for in the remaining subsections of section 6.6 applicable to the specific type of request are met.

If any of the following apply, a new interior/exterior inspection Appraisal is required and must show separate values for the land and for the improvements, and must indicate the market value of the Mortgaged Property before and after the proposed release:

• The current LTV of the Mortgage Loan, based on the original value, is greater than sixty percent (60%);
• The value of the released property is estimated by the Servicer to be ten thousand dollars ($10,000) or greater;
• The Borrower receives a consideration greater than five percent (5%) of the original value of the Mortgaged Property, or there is no consideration received; or
• The transaction is not at arm's length.

If the current LTV exceeds sixty percent (60%) and/or the Borrower receives a consideration greater than five percent (5%) of the original value, the full amount of the consideration must be applied to the unpaid Principal Balance.

6.6.1.1 Mortgage Electronic Registration System (MERS)
If the Security Instrument has MERS as the nominee for the lender and as the named beneficiary, the appropriate information on the Mortgage Electronic Registration System (MERS) should be updated.

6.6.2 Evaluating Requests for the Lease of Oil, Gas, or Mineral Rights
Servicers may process requests for lease of oil, gas, or mineral rights, provided the granting of such rights meets the above general requirements listed above in section 6.6.1 and the following requirements:

• The request is of the type commonly granted by private institutional mortgage investors and lenders in the area of the Mortgaged Property, and it will not jeopardize the mortgage insurance coverage.
• The exercise of such rights will not:
  o result in damage to the Mortgaged Property or impairment of the use or marketability of the Mortgaged Property for residential purposes; or
  o expose the residents to health or safety hazards;
• The lease does not have a material impact on the value of the Mortgaged Property.
• At least one (1) of the following conditions is met and documented in the Mortgage Loan File:
6.6.3 Evaluating Requests to Lease Real Property for the Installation of a Semi-Permanent Structure

Servicers may process requests to lease a portion of the property for the installation of any semi-permanent structure such as a wind turbine, cellular base station or other similar structure, provided the granting of such rights meets the above general requirements listed above in section 6.6.1 and meets the following requirements:

- Before approving any agreement related to the placement of a semi-permanent structure on the security property, the Servicer must consider the extent to which the subject property and neighboring properties may be affected by the exercise of the rights covered in the lease.
- The rights granted by the agreement must not materially infringe on the property owner’s rights.
- No hazards, nuisances, or damages may result from the exercise of the rights granted by the lease.
- The installed structure must lie outside of a 500-foot radius from the dwelling and any additional structures, including but not limited to detached garages, storage sheds, or accessory dwelling units.

6.6.4 Evaluating Request for the Release of an Easement

Servicers may process requests for the release of easements, provided the granting of such rights meets the above general requirements listed above in section 6.6.1 and has determined the release will not adversely affect the value of the property securing a Mortgage Loan by considering the following:

- the convenience, access, or other benefits provided by the easement, which will be lost upon release, and...
• the value of the property with the easement in place compared with the value of the property without the easement.

The Servicer must assess the effect a release of the easement may have on the use or value of the property.

6.6.5 Evaluating Requests for the Granting of an Easement

Servicers may process requests for the granting of an easement, provided the granting of such rights meets the above general requirements listed above in section 6.6.1 and has determined the granting of the easement does not adversely affect the use, value, or future marketability of the property securing a Mortgage Loan by considering the following:

• the degree and quantity of rights that are released with the easement;
• the community’s customs, attitudes, and prevalent practices regarding such easements;
• the value of the property without the easement in place compared with the value of the property with the easement in place; and
• the manner and extent of the use of the easement.

6.6.5.1 Public Utility Easements

The Servicer is authorized to approve any request for a customary public utility easement as long as:

• A subsurface utility easement does not extend under the house or other improvements to the property.
• An above-surface utility easement for distribution purposes that runs along any of the property lines or easements for drainage purposes that run along the rear property line if the easements do not extend more than 12 feet from the property line, do not interfere with any of the improvements or use of the property, and do not present a health or safety hazard.

6.7 Condemnation or Eminent Domain

The Servicer shall immediately notify the MPF Provider and the mortgage insurer upon learning of any planned or impending taking by condemnation or eminent domain of any property securing a loan. Notice to the MPF Provider must include:

• MPF loan number;
• Borrower name(s);
• Who inquiry was received from;
• Deadline for response; and
• Any other relevant information or document.

The Servicer is instructed to take the necessary steps to prevent the loss of mortgage insurance by reason of eminent domain.
CHAPTER 7. BANKRUPTCY OF BORROWER

7.1 Bankruptcy Proceedings (4/30/20)\textsuperscript{91}

The Servicer must handle all bankruptcy notifications in a timely manner, in accordance with the federal bankruptcy code. When a bankruptcy notification has been received and confirmed, all collection and foreclosure actions must cease immediately. Collection actions include any outbound phone calls, default related notices or letters, monthly billing statements, and other attempts to collect the debt. In the event a Borrower calls in, the Servicer is permitted to respond to Borrower inquiries, but no collection efforts may be made.

Borrowers may voluntarily continue to make regular mortgage payments in accordance with the terms of the Mortgage Loan or as required by a bankruptcy repayment plan.

A bankruptcy notification (Chapter 7, 11, 12, or 13) can be received through one of the following sources:

• Electronically, from Electronic Bankruptcy Noticing (EBN) or Public Access to Court Electronic Records (PACER\textsuperscript{®});
• By mail; or
• Verbally from either the Borrower or the Borrower’s attorney.

Once notification of a bankruptcy has been received, the Servicer must verify the information using PACER and send the matter to the bankruptcy attorney firm. The Servicer must also provide written notice of the bankruptcy to the MPF Provider, including the following information:

• MPF loan number;
• Borrower name(s);
• Bankruptcy type/chapter;
• Date of filing;
• [Any court deadlines]; and
• Any other relevant loan or borrower information (i.e. loan status, payment history).

If the Mortgage Loan was in Foreclosure prior to the bankruptcy filing and/or there is a Foreclosure Sale pending, the Servicer must notify the Foreclosure attorney/trustee and stop the sale, unless or until relief from the automatic stay has been obtained.

\textsuperscript{91} MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-37 (7/24/17)
The loan servicing system should be updated with the appropriate bankruptcy status code, chapter filing information, etc. The Servicer must submit to the MPF Provider, by the fifth (5th) Business Day of each month, a Delinquent Mortgage & Bankruptcy Status Report (Servicing Guide Exhibit B uploaded to eMAQCS®Plus) reporting the status of the bankruptcy regardless if the loan is current/delinquent.

When a Chapter 7 bankruptcy is filed during Foreclosure, the bankruptcy attorney must immediately file a Motion for Relief from Stay. Coordination with the Foreclosure attorney/trustee is necessary.

In accordance with the Bankruptcy Code, Servicers may keep bankrupt customers informed as to the status of their Mortgage Loan. Monthly information statements and other legally required communications, with clear language approved by the Servicer’s Legal Counsel communicating that the communication is not an effort to collect on their Mortgage Loan, must be provided to customers.

Borrowers in Chapter 7 bankruptcy proceedings have the option to reaffirm their Mortgage Loan debt with a documented reaffirmation agreement. Once the reaffirmation agreement is executed and filed with the bankruptcy trustee, normal servicing routines, including collection calls, billing statements, etc., may resume. A fully executed reaffirmation agreement is required prior to any Mortgage Loan modification.

### 7.2 Selection of Bankruptcy Attorneys

The Servicer must retain licensed attorneys experienced to handle bankruptcy cases in the applicable jurisdiction.

In all cases, the Servicer must advise the attorney to whom the referral is made if the MPF Bank or an investor owns or securitized the Mortgage Loan being referred.

The Servicer may not enter into or participate in any arrangements with an outsourcing company or third-party vendor pursuant to which the Servicer receives a direct or indirect benefit of any kind (e.g., a lower charge for services or a payment) for referring a bankruptcy matter to a particular attorney. Outsourcing companies or third-party vendors must not be permitted to directly or indirectly select (or influence the selection of) the attorneys.

### 7.3 Bankruptcy Management

This section covers the guidelines for managing bankruptcy cases.

#### 7.3.1 Procedures

The Servicer must have established bankruptcy management procedures to address at a minimum:

- Proactively monitoring bankruptcy filings in order to identify bankruptcies at the time Borrowers actually file them;
• Establishing a case status and portfolio performance tracking system to permit the proper reporting and analysis of activity for individual cases and to monitor the overall bankruptcy management process;

• Maintaining an individual case file for each Mortgage Loan that is involved in bankruptcy proceedings;

• Referring the case to the bankruptcy attorney promptly;

• Filing a proof of claim—the circumstances under which it is required, how to prepare it, time frame for filing, etc.;

• Reviewing proposed payment plans and analyzing the results of the bankruptcy attorney’s negotiations to determine whether they represent adequate bankruptcy resolution provisions;

• Pursuing legal action to obtain early dismissal of the case, stay relief, plan objection, or other relevant proceedings if negotiations have failed;

• Determining when the prerequisites for filing motions for bankruptcy relief have been met;

• Establishing and maintaining a legal events record to define the status of a case at various times throughout the bankruptcy proceedings and to identify when conditions for additional legal proceedings have been met;

• Establishing procedures to ensure that the bankruptcy court and the Chapter 13 bankruptcy trustee are promptly and appropriately notified when a Mortgage Loan for which a Chapter 13 bankruptcy has been filed is included in a servicing transfer;

• Establishing and maintaining a payment compliance record to define the Borrower’s and/or bankruptcy trustee’s compliance with any payment plan or other court-ordered arrangement, to identify when conditions for additional legal proceedings have been met, and to take appropriate action if the Borrower fails to make payments under the plan (including filing a motion to have the automatic stay lifted when the Borrower becomes sixty (60) days delinquent under the plan);

• Ensuring that the debtor’s counsel and bankruptcy trustee are notified upon a change in payment amount due an escrow analysis when necessary or appropriate;

• Initiating Foreclosure proceedings or finalizing a Foreclosure prevention alternative, if appropriate, promptly following the completion of the bankruptcy proceedings; and

• Ensuring compliance with the automatic stay and the co-debtor stay.

7.3.2 Filing Proof of Claim
The Proof of Claim (POC) establishes the claim against the Borrower and includes a right to payment and claims against the Borrower’s property in a bankruptcy proceeding. The POC must be filed within the deadlines set by the court, which is usually noted on the bankruptcy notice.

Amended POCs (APOCs) must be filed promptly when needed.

The Servicer is responsible for the following:

- Referring Mortgage Loans to the appropriate attorney once bankruptcy has been filed;
- Working with the assigned attorney firm to ensure POCs are filed in accordance with timelines set by the bankruptcy court; and
- Monitoring the attorney firm to ensure all POCs are completed within the required timeline.

### 7.3.3 POC Amendments

A POC may require an amendment due to one or more of the following reasons:

- Incorrect or missing fees, costs, escrowed amounts, and/or loan documents;
- Compliance with Borrower, trustee, or court requests; and
- Mutual agreement by both parties to adjust the prepetition claim amounts.

When it has been determined that an APOC is required, the Servicer must request that the attorney firm file the APOC. Once the APOC is filed, the attorney firm will provide the Servicer with appropriate information to update the Servicing File.

The Servicer is responsible for the following:

- Requesting an APOC from the approved attorney firm;
- Monitoring the request to ensure the attorney firm processes the APOC within the required time frame; and
- Updating the Mortgage Loan File.

### 7.3.4 Challenging Bankruptcy Reductions

If the bankruptcy debtor or trustee proposes to:

- Reduce the Principal Balance of a Note;
- Reduce the related Note Rate;
- Extend the final maturity of the Note;
• Bifurcate of the claim into "secured" and "unsecured" portions (with the "unsecured" portion equal to the difference between the Principal Balance and the value of the Mortgaged Property); or

• Reduce the level of any monthly payment on the Note

The Servicer must:

• Challenge any such modification on a timely basis;

• Refer the case to a bankruptcy attorney competent to handle such cases;

• Notify the MPF Provider immediately; and

• Follow instructions provided by the MPF Provider regarding the bankruptcy proceedings, and in the absence of explicit instructions, exercise reasonable judgment to protect the interests of the owner of the Mortgage Loan.

7.3.5 Bankruptcy Adjustments

If the action of any court results in a deficient valuation or reduced monthly payment, the Servicer must calculate the effects of such modification and notify the MPF Provider of the new Principal Balance, interest rate, final maturity, or monthly payment of the Mortgage Loan. The Servicer must verify that payments are being made in accordance with the plan approved in the related bankruptcy proceedings.

7.3.6 Cramdowns

Servicers must take necessary steps avoid a bankruptcy court imposing cramdown provisions. If a bankruptcy court confirms a reorganization plan that provides for a Cramdown of a Conventional Mortgage Loan, the Servicer must provide the MPF Provider with a copy of the bankruptcy court Cramdown order.

Applicable Government Agency requirements regarding notification and reporting must be followed. Cramdowns for MPF Government Loans that are not covered by Government Agency insurance or guaranty become part of the Servicer's Unreimbursed Servicing Expenses.

Any loss resulting from a cramdown that was not objected to by the Servicer will be the responsibility of the Servicer.

7.4 Bankruptcy Plan Payments

The Servicer shall hold payments made on arrearage pursuant to a plan in bankruptcy until an entire regular monthly PITI payment has accrued.
CHAPTER 8. DELINQUENCIES

8.1 General
Servicers are expected to assist all Borrowers who are facing default or are in default in avoiding Foreclosure on their home in the shortest possible time, by providing them with the most appropriate, long term home retention or Liquidation option that is available under the MPF Program.

The Servicer's collection staff must be sufficiently skilled in financial counseling and mortgage servicing techniques to assist a Borrower while at the same time protecting the interest of the MPF Bank.

Servicers are required to abide by all requirements of Applicable Laws, including CFPB Servicing Rules, when dealing with Delinquent Mortgages.

8.2 Delinquent Government Loans (8/13/18)\(^{92}\)
The Servicer must comply with applicable Government Agency requirements for Delinquency, collection efforts, loss mitigation, and required approvals.

The Servicer or its designee, may request repurchase any Government Loan where no payment is made for three (3) consecutive months for an amount equal to one-hundred percent (100%) of the Mortgage's then current scheduled Principal Balance plus interest as follows:

- For all Government Mortgage Loans with a scheduled/scheduled remittance options, Scheduled Interest due on the Mortgage Loan through the end of the month of Liquidation for Scheduled/Scheduled remittance.
- For all Government Mortgage Loans with an actual/actual or actual/actual single remittance option, scheduled Interest due on the Mortgage Loan plus Interest through the month of Liquidation calculated based on actual/365 days.

The principal amount of the repurchased Mortgage Loan must be reported to the Master Servicer for the reporting month of the repurchase, and remitted by the remittance date of the subsequent month. Refer to Servicing Guide Chapter 11.4.2 for Servicing and Liquidation requirements of Government Loans repurchased after reaching REO status.

8.3 Servicing Requirements
This section describes the guidelines for servicing Delinquent Mortgage Loans.

\(^{92}\) MPF Announcement 2018-39 (8/13/18)
8.3.1 Collection Efforts

The Servicer should treat each Mortgage Loan as an individual case, based upon the Servicer’s knowledge of the Borrower, the location and type of Mortgaged Property, and the extent of the Delinquency. The Servicer should make use of notices, letters, emails, telephone and personal contacts, and in general all collection methods normally employed by the industry and as required and permitted under Applicable Law, including CFPB Servicing Rules.

8.3.2 Contacting Borrowers (12/11/18) 93

The Servicer must contact Borrowers with Delinquent Mortgage Loans as soon as required or permitted under Applicable Laws. Specifically, the Servicer shall establish contact with the Borrower as permitted by Applicable Law by establishing or making a good faith effort to establish live contact with Borrowers by the thirty-sixth (36th) day of Delinquency to determine the cause of the Delinquency and to promptly inform Borrowers, where appropriate, that loss mitigation options are available. By the forty-fifth (45th) day of Delinquency, the Servicer is also expected to provide such Borrowers with written notice of information about loss mitigation options.

The Servicer is expected to continue to contact the Borrower as permitted by Applicable Laws. The Servicer must continue outbound contact attempts unless and/or until:

- Mortgage Loan is current or Borrower is paying pursuant to a loss mitigation plan;
- Applicable law requires discontinuance of outbound contact attempts; or
- Applicable Law no longer requires the servicer to review the borrower for loss mitigation options.

The Servicer must maintain policies and procedures that ensure that on or before the 45th day of Delinquency, a single point of contact (SPOC) is assigned and made available to the Borrower to assist with any loss mitigation options.

The Servicer must send a Borrower a written notice on or before the forty-fifth (45th) day of Delinquency that encourages the Borrower to contact the Servicer, provides the Servicer’s telephone number and address to access the assigned SPOC, describes examples of loss mitigation options that may be available (if applicable), provides loss mitigation application instructions or advises how to obtain more information about loss mitigation options such as contact the Servicer (if applicable), and lists either the CFPB’s or HUD’s website to access a list of homeownership counselors or counseling organizations and HUD’s toll-free number to access homeownership counselors or counseling organizations.

93 MPF Announcement 2018-60 (12/11/18)
8.3.3 Notices and Disclosures

The Servicer shall send all the required statements and notices regarding Delinquency and loss mitigation options, including Late Notices, Notices of Default, and Breach Letters, as required by the Applicable Standards, including the CFPB Servicing Rules. If the Servicer fails to provide the proper notices or disclosures to the Borrower and such failure results in a delay to initiate Foreclosure, the Servicer shall reimburse the MPF Bank all interest lost by reason of not being covered under any private mortgage insurance, or at the MPF Bank’s option, repurchase the Mortgage Loan.

8.3.4 Records

The Servicer is required to maintain all collection related records for the period of time required by Applicable Law.

8.3.5 Property Inspections (1/30/17)94

If there have been no satisfactory arrangements made to cure the Delinquency, the Servicer shall inspect the Mortgaged Property on or before the sixtieth (60th) day of Delinquency to determine occupancy and the condition of the Mortgaged Property and to secure it as necessary. The Servicer is required to continue inspecting the Mortgaged Property monthly until the Delinquency is cured or the Mortgage Loan is liquidated. All required property inspections are at the Servicer’s expense. The Servicer shall retain all Property Inspection Reports (Form SG331) and forward to the MPF Provider upon request. In addition, the Servicer must comply with all applicable mortgage insurer or guarantor requirements concerning property inspections.

If a Mortgaged Property is found to be unoccupied, the Servicer must immediately attempt to contact the Borrower to determine the reason for the vacancy. If the Servicer determines that the Mortgaged Property has been abandoned, the Servicer must take all actions necessary to protect the Mortgaged Property from waste, damage, and vandalism. The Servicer is responsible for advancing funds for the protection and preservation of the Mortgaged Property.

If a Mortgaged Property is vacant, abandoned, or non-owner occupied, or if evidence of hazardous waste is found on the Mortgaged Property, the Servicer shall immediately report the results of the inspection in writing to the Master Servicer. In addition, if a property inspection indicates emergency repairs are required to protect the Mortgaged Property, the Servicer should immediately contact the Master Servicer.

Where the Mortgaged Property has been abandoned and a loss is caused by vandalism, or where damage caused by fire or other hazard is not covered by the required property insurance, the Servicer...
shall indemnify the MPF Bank for all loss arising from the failure of the Servicer to comply with the Applicable Standards.

Fines or penalties imposed as a result of the Servicer’s failure to comply with Applicable Laws regarding inspecting properties or securing vacant or abandoned properties shall be the sole responsibility of the Servicer and may not be included in the Calculation of Realized Loss or Gain (Form SG332).

8.3.6 Costs and Expenses

Unless a cost is reimbursable pursuant to the Guides (including reimbursable expenses on the SG332) all expenses related to Servicing and collection of the Mortgage Loans shall be borne solely by the Servicer and shall not be recoverable by the Servicer from the MPF Bank or from Liquidation Proceeds, Insurance Proceeds, payments on the Mortgage Loan, or any other source relating to the Mortgage Loan or the related Mortgaged Property. In addition, the Servicer may, subject to the Applicable Standards, recover such expenses, including legal expenses, recording or similar costs or expenses, from the Borrower.

8.3.7 Advances

For delinquent scheduled/scheduled remittance Mortgage Loans, the Servicer must advance its own funds to cover the full amount of the scheduled Monthly Remittance. This requirement applies even if the Servicer and the Borrower have agreed to a Forbearance Plan.

8.3.8 Primary and Supplemental Mortgage Insurance

The Servicer must be familiar with and satisfy all requirements of applicable primary and supplemental mortgage insurance policies with respect to the Delinquent Mortgage Loan.

8.3.9 Escrow Items (1/30/17)

The Servicer is responsible for ensuring that all escrow items are paid when due until Liquidation of the Mortgage Loan.

8.3.10 Buydown Funds (1/30/17)

Unless permitted under the Applicable Standards, the Servicer may not use Buydown Funds to cure a Delinquency. Any Buydown Funds remaining in the related Custodial Account must be disposed of in accordance with Applicable Standards.

8.4 Delinquency Reporting

95 MPF Announcement 2017-03 (1/30/17)
96 MPF Announcement 2017-03 (1/30/17)
This section covers the requirements for reporting Delinquent Mortgage Loans to the MPF Provider and applicable insurer.

### 8.4.1 Reporting to the MPF Provider

The Servicer must submit to the MPF Provider, by the fifth (5th) Business Day of each month, a Delinquent Mortgage & Bankruptcy Status Report (Servicing Guide Exhibit B submitted via eMAQCS Plus) containing the status of:

- all Delinquent Mortgage Loans that are thirty (30) or more days delinquent as of the last day of the preceding month; and
- all Borrower’s who are in Bankruptcy status must be reported in monthly regardless of the status of the loan (current/delinquent).

Exhibit B must be uploaded with the following additional provisions:

- The “Delinq_Status_Code” field of the Standard File Layout is to be completed using the Delinquency Status Codes provided in Appendix 1 of Exhibit B; and
- The “Delinq_Reason_Code” field of the Standard File Layout is to be completed using the Delinquency Reason Codes provided in Appendix 2 of Exhibit B.

If the Delinquent Mortgage Loan is a Government Loan, the Servicer must also follow the applicable Government Agency’s requirements for reporting Delinquencies.

### 8.4.2 Report to Insurers

The Servicer must provide notice of Delinquency to the applicable mortgage insurer within the time frames and using the methods required by the insurer. The Servicers shall furnish to the insurer all reports requested by the insurer and/or as required in the insurance policy.

### 8.5 Loss Mitigation (4/30/20)

The loss mitigation options described in this section are the only loss mitigation options available under the MPF Program. The Servicer must obtain any necessary approvals from the applicable mortgage insurer/guarantor and direction from the MPF Provider before agreeing to a loss mitigation option.

### 8.5.1 General Loss Mitigation Requirements (4/30/20)

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97 MPF Announcement 2020-25 (4/30/20)
98 MPF Announcement 2020-25 (4/30/20)

MPF Announcement 2017-03 (1/30/17)
MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-62 (10/27/17)
All attempts should be made to bring a Delinquent Mortgage Loan current to avoid Foreclosure. If the reason for default appears to be long term, the Servicer is required to explore all loss mitigation alternatives permitted under the MPF Program, as described more fully in this Servicing Guide, for the purpose of Foreclosure prevention.

While Servicers have discretion to extend appropriate relief options to Borrowers encountering a hardship, they are required to obtain approval for some options, such as a Deed-in-Lieu of Foreclosure or a short sale, and they are required to comply with all Applicable Laws, including CFPB regulations, insurer requirements, and the requirements of this Servicing Guide as they pertain to loss mitigation alternatives and efforts.

The Servicer must maintain policies and procedures to ensure compliance with any and all applicable “dual tracking” restrictions.

Any relief requiring prior approval must be adequately documented by the Servicer using the Workout Worksheet (Form SG354), all required supporting documentation as indicated on the Workout Worksheet, and the Borrower Hardship Certification (Form SG402). The Servicer may charge the Borrower for any recording or similar costs associated with workout option.

8.5.2 Government Mortgage Loan Modifications

FHA loans repurchased in compliance with the policies of this chapter may be modified in accordance with FHA’s loss mitigation requirements and re-sold to the MPF Bank. FHA loans repurchased from a Person other than the MPF Bank may not be sold to the MPF Bank. Modified FHA loans brought current must meet all the eligibility criteria for Government Mortgage Loans. The modified FHA loan term may not be greater than three-hundred sixty (360) months from the due date of the first installment payable under the modification agreement. The Servicer must ensure that the modified FHA loan constitutes a first lien, which may require a subordination agreement from any junior lienholder and/or an endorsement to the title policy. The Servicer must determine whether the modification agreement must be recorded in order for the full amount of the FHA loan to be insured or guaranteed by the FHA. The Servicer should contact the MPF Service Center for delivery information.

8.5.3 Forbearance Plan (4/30/20)99

Under a forbearance plan, the Servicer can agree to reduce the Borrower’s monthly payments for a period not to exceed twelve (12) months. After the forbearance period, the Borrower must fully

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99 MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-62 (10/27/17)
MPF Announcement 2017-03 (1/30/17)
reinstate the Mortgage Loan, enter into a repayment plan with the Servicer, or pay off the Mortgage Loan.

Forbearance should be considered in circumstances such as:

- A Borrower’s or co-Borrower’s death, or the death of a family member who made a significant contribution toward the monthly payment;
- Illness or some natural disaster the Borrower was not insured against; or
- A substantial reduction in income the Borrower could not prevent.

The Servicer does not need to request approval prior to entering into a Forbearance Plan with a Borrower, unless the Forbearance Plan exceeds three (3) months. The Servicer must request approval from any applicable primary and/or supplemental mortgage insurer prior to entering into a Forbearance Plan with a Borrower.

The Servicer must submit the following supporting documentation to the MPF Provider and receive approval prior to entering into a Forbearance Plan with a Borrower that exceeds three (3) months:

- Workout Worksheet (Form SG354) and all required supporting documentation as indicated on the Workout Worksheet;
- A copy of the proposed Forbearance Plan; and
- The Borrower Hardship Certification (Form SG402).

The Forbearance Plan must be in a written agreement signed by both the Servicer and Borrower prior to the effective date of the Forbearance Plan. No specific format or form agreement is required; however, the agreement must be legally binding and enforceable under all Applicable Laws and, if the Forbearance Plan exceeds three (3) months, the written agreement must include the following statement: "Failure to abide by the terms of the agreement will result in the termination of the Forbearance Plan and commencement of Foreclosure".

**8.5.4 Repayment Plan (4/30/20)**

Under a repayment plan, the Borrower agrees to make payments in excess of the regular monthly payments over a period not to exceed twelve (12) months in order to cure a Delinquency, unless the permission has been obtained from MPF Provider and, where applicable, the primary and/or supplemental mortgage insurer, to provide for a longer period of time. The Servicer must consider a repayment plan when the Delinquency resulted from a temporary hardship that appears to be resolved. The Servicer must ensure that the priority of the lien of the Mortgage Loan remains in

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100 MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-62 (10/27/17)
effect and is not adversely affected, and that the applicable primary and/or supplemental mortgage insurance policy remains in full force and effect. The Servicer does not need to request approval prior to entering into a repayment plan with the Borrower, unless the repayment plan exceeds three (3) months and the Mortgage Loan is not covered by MI. When the repayment plan requires prior approval, the Servicer must complete and submit to MPF Provider the Workout Worksheet (Form SG354) and the Borrower Hardship Certification (Form SG402).

If the repayment plan requires approval or if the Mortgage Loan is more than sixty (60) days past due, then the repayment plan must be stated in a written agreement executed by both the Borrower and the Servicer.

The Servicer must report the terms of any repayment plan to the MPF Provider.

### 8.6 Alternative Solutions

This section describes additional solutions for Delinquent Mortgage Loans.

#### 8.6.1 Short Sale (4/30/20)\(^{101}\)

Occasionally, when none of the Servicer’s efforts to cure a Delinquency are successful, the use of relief provisions may not be feasible, and a short sale may be appropriate. A short sale is a sale of Mortgaged Property prior to Foreclosure, where the sale may result in insufficient proceeds to pay the total indebtedness. A short sale should be considered if the sale would reduce the loss that would otherwise be incurred from foreclosing on the Mortgaged Property.

If a Mortgage Loan is covered by primary and/or supplemental mortgage insurance, the Servicer shall not agree to a short sale unless the Servicer has obtained the mortgage insurer’s written approval.

If the proceeds from a short sale and the primary mortgage insurance settlement are greater than or equal to the total indebtedness, resulting in the MPF Bank being made whole, the Servicer may negotiate and complete the sale without seeking prior approval. However, if the proceeds from the short sale and the primary mortgage insurance settlement will be less than the total indebtedness, the Servicer must submit the Workout Worksheet (Form SG354) and all required supporting documentation as indicated by the Workout Worksheet to the MPF Provider, and receive approval prior to agreeing to the short sale.

The Servicer is required to deposit all short sale proceeds into the appropriate P&I Custodial Account within one (1) Business Day of receipt. Within two (2) Business Days of receipt, the Servicer must submit to the MPF Provider copies of the buyer and seller’s Settlement Statements, closing statements or escrow instructions, and an estimate of total advances made to date.

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\(^{101}\) MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-62 (10/27/17)
MPF Announcement 2017-03 (3/30/17)
For insured Mortgage Loans, the Servicer shall file a mortgage insurance claim with the mortgage insurance company. The Servicer shall simultaneously provide the MPF Provider with a copy of any claim filed.

For reimbursement of servicing related expenses, the Servicer must prepare and submit a Calculation of Realized Loss or Gain (Form SG332).

All other refunds for overpayment of taxes or hazard insurance received by the Servicer after completion of the short sale are to be forwarded to the MPF Bank.

8.6.2 Deed-in-Lieu of Foreclosure (4/30/20)\(^{102}\)

The Servicer must obtain applicable insurer or guarantor’s written authorization to accept a voluntary Deed-in-Lieu of Foreclosure. In addition, the Servicer must submit the Workout Worksheet (Form SG354) and all required supporting documentation as indicated by the Workout Worksheet to the MPF Provider, and receive approval prior to accepting a Deed-in-Lieu of Foreclosure.

The Servicer may consider a Deed-in-Lieu of Foreclosure from a delinquent Borrower who is experiencing financial hardship, assuming all other relief measures or loss mitigation alternatives have been explored and proven unworkable. However, the Servicer should always make every effort to collect some portion of the delinquent installments from the Borrower in order to reduce the loss. The Servicer shall require the Borrower to submit a letter requesting a Deed-in-Lieu, along with documentation of the Borrower’s financial hardship. In addition, the Servicer should consider the results from any property inspections in determining whether a Deed-in-Lieu of Foreclosure should be accepted.

The Servicer may accept a Deed-in-Lieu of Foreclosure if:

- There are legal impediments to pursuing a routine Foreclosure;
- The Deed-in-Lieu complies with all the requirements of the applicable primary and/or supplemental mortgage insurer and does not and will not violate or contravene any restriction or prohibition of the applicable mortgage insurance policies, or otherwise result in any loss of benefits or reduction in the coverage under either policy;
- Borrower can convey clear, marketable, and insurable title (a title commitment and insurance policy will be required) to:
  - The Servicer or its approved designee for REO for all Conventional Mortgage Loans and all RHS Section 502 Mortgage Loans;

\(^{102}\) MPF Announcement 2017-62 (10/27/17)
MPF Announcement 2017-03 (1/30/17)
The Secretary of HUD for FHA Loans and HUD Section 184 Mortgage Loans; and

- The Secretary of the VA for VA Mortgage Loans.

- Borrower receives no cash consideration;

- The Mortgaged Property is in good condition (reasonable wear and tear excepted);

- The Mortgaged Property is vacant, or if the property is occupied, the mortgage insurer or guarantor have agreed to accept an occupied property and the Servicer received approval of an SG354 which noting such occupancy. If the Mortgaged Property is occupied by a renter, Borrower must provide an assignment of rents;

- The Servicer has obtained written acknowledgement from the Borrower accepting the Deed-in-Lieu of Foreclosure; and

- The Mortgaged Property is not subject to liens (subordinate or otherwise) held by others, judgments, attachments, affordability covenants, resale restrictions, claims, encumbrances, attachments, reservations, or any other restrictive agreements affecting marketability, unless such restrictions were already in effect at the time the Security Instrument’s lien was placed on the property.

Within 24 hours of acquiring such Mortgaged Property, the Servicer shall promptly notify the MPF Provider using the Notice of Acquired Property form (Form SG334 submitted via eMAQCS Plus) and shall notify the applicable mortgage insurer/guarantor. Title shall be conveyed directly from the Borrower to the Servicer or applicable Government Agency.

### 8.7 Major Disaster Assistance (8/13/18)

This section covers the guidelines for offering assistance to Borrowers affected by Major Disasters. Although the definition of a Major Disaster as used in this Guide only includes counties, municipalities or parishes identified as a Declared Disaster area by the Federal Emergency Management Agency (FEMA) (see [www.fema.gov](http://www.fema.gov)), and does not include state or local declared disasters, Servicers should use their knowledge of particular geographic areas to determine when to submit a request to their MPF Banks and the MPF Provider to apply the requirements of this Guide to those situations. Servicers should reach out to their MPF Bank and/or the MPF Provider (as applicable) when they encounter a particular situation they wish to address that does not meet MPF Program disaster related requirements.

#### 8.7.1 Statement of Policy (8/13/2018)

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As soon as the Servicer learns of the identification of a Major Disaster area which may impact any Mortgage Loans it is Servicing, it should make every effort to work with Borrowers whose income was affected by a disaster, or whose property is located in a Major Disaster area to prevent Delinquencies and to avoid Foreclosures.

Servicers must obtain information on each affected Borrower’s situation, including determining the extent of the Borrower’s loss of income, assessment on all property damage and working with the Borrower on the assessment of all property insurance claims.

The Servicer must inform the MPF Provider of any affected Mortgage Loan and recommend appropriate action to protect the Mortgaged Property and assist the Borrower, including any relevant supporting documents.

The Servicer must not take any action that would jeopardize the full recovery of a property, flood, or other insurance settlement.

### 8.7.2 Offering Assistance to the Borrower (4/30/20)

For all Borrowers whose property is located in a Major Disaster area and has incurred damage, Servicers must:

- Consider waiving late fees for 90 days;
- Not file negative reports to the credit repositories for any payments not made for 90 days;
- Suspend all collection and foreclosure proceedings during the first 90 days if in doubt about the effect of the disaster on the condition of the property or the Borrower’s employment status until the status can be verified;
- Assess the extent of the damage and its effect on the Borrower’s ability to sustain their mortgage payment;
- Provide guidance to the Borrower with respect to available relief provisions and/or loss mitigation alternatives; and
- Ensure that insurance claims are filed and settled promptly.

Servicers are authorized to grant a forbearance plan or temporarily suspend mortgage payments for up to 90 days. Following the first 90 day period, with MPF Provider authorization, Servicer may extend the forbearance plan or payment suspension for an additional 90 days, but Servicers must also complete an assessment of each Mortgage Loan to determine the appropriate workout alternative that best fits the Borrower’s circumstances.

When determining the appropriate relief provisions to offer, the Servicer shall take into consideration any uninsured losses, extended unemployment, or extraordinary expenses related to the disaster and their potential impact on the Borrower’s ability to pay his or her loan payment.
Servicers may grant relief for longer terms than those generally allowed under the MPF Program, subject to the mortgage insurance company’s or Government Agency’s written approval, as applicable. Prior to granting such longer terms, Servicer must submit a request to the MPF Provider’s in writing, including MPF Loan number, description of the relevant facts and any supporting documents, and receive approval.

Servicers under the Scheduled/Scheduled remittance option are expected to continue to make required P&I advances.

### 8.7.3 Mortgage Insurer/Guarantor Prior Approval

The Servicer shall ensure that any action it takes to enter into relief provisions or to postpone Foreclosure proceedings will not affect its right to file a mortgage insurance or guaranty claim in the future. Specifically, the Servicer shall obtain the prior written approval of the mortgage insurance company or Government Agency before delaying any Foreclosure proceedings. The Servicer shall document the Mortgage Loan File regarding all Servicing actions taken during this time to ensure that any future insurance or guaranty claims will not be adversely affected.

#### 8.7.3.1 Government Loans (4/30/20)

Servicers are required to follow the applicable Government Agency requirements for providing major disaster assistance.

The MPF Bank may authorize the Servicer to repurchase Government Loans secured by Mortgaged Properties that have been directly damaged by the disaster. Such Mortgage Loans do not have to be delinquent before they can be repurchased. Repurchases will be for an amount equal to one-hundred percent (100%) of the Mortgage Loan’s then current outstanding scheduled Principal Balance. If the MPF Bank does issue such an authorization, the Servicer must submit a written request to the MPF Provider and receive approval to purchase such Mortgage Loans. Such request should be submitted within six (6) months from the date the MPF Bank issues its authorization to repurchase, and should include: MPF Loan number, description of the relevant facts and any supporting documents.

### 8.7.4 Foreclosure Action (8/13/18)

Servicers should suspend all foreclosure proceedings for all Mortgage Loans affected by the declaration of a Major Disaster for 90 days from the date of the declaration. If in doubt about the effect of the disaster on the condition of the property or the Borrower’s employment status foreclosures should be suspended until the status can be verified.

### 8.7.5 Insurance Proceeds (8/13/18)

Where the property can be legally rebuilt or repaired, and depending on the status of the Mortgage Loan, the amount of the Insurance Proceeds, and the length of time required to repair or reconstruct the Mortgaged Property, Servicer should expedite the release of insurance proceeds to help the Borrower needing resources
to repair their home. If the Mortgaged Property cannot be legally rebuilt, any Insurance Proceeds shall be used to reduce the amount of the Principal Balance of the Mortgage Loan.

When the Mortgage Loan is in Foreclosure before the disaster, the Servicer shall release Insurance Proceeds directly only to the verified licensed contractor in the form of progress payments with periodic property inspections as directed above.

8.8 Early Payment Default (EPD) (1/30/17)¹⁰⁴

An Early Payment Default (EPD) is where a Conventional Mortgage Loan becomes delinquent within the first twelve (12) months of the Borrower’s first payment due date as specified in the Note and subsequently becomes ninety (90) days past due. This definition only applies to a Conventional Mortgage Loan that becomes ninety (90) days past due within fourteen (14) months of the Borrower’s first payment due date as specified in the Note. The Servicer should pay particular attention to a Delinquency which occurs during the first twelve (12) months and must make every effort to contact the Borrower as soon as Applicable Law permits in order to try to cure the Delinquency.

The Servicer is required to perform a QC review for all EPDs. In addition, the MPF Provider will perform a QC review for all EPDs the month after the Mortgage Loan first reaches EPD status.

8.9 Early Eligibility Review at 120 Days Delinquent (12/11/18)¹⁰⁵

The MPF Bank reserves the rights to conduct an early eligibility review of any Conventional Mortgage Loan on the first occurrence of the loan reaching 120 days delinquent.

The MPF Provider will review each Mortgage loan selected for an early eligibility review to verify that it meets the definition of investment quality and complies with the Guides and the Applicable Agreements.

The Servicer will be notified in writing to submit specified HLC Mortgage Loan documents to the MPF Provider for an early eligibility review at 120 delinquent. The Servicer must send the requested information to the address contained on the notification.

8.10 High Level Concern (HLC) Mortgage

This section covers the guidelines for determining if a Mortgage Loan is an HLC Mortgage and the requirements for servicing any Mortgage Loan that is classified as an HLC Mortgage.

¹⁰⁴ MPF Announcement 2017-03 (1/30/17)
¹⁰⁵ MPF Announcement 2018-60 (12/11/18)
8.10.1 HLC Determination (4/30/20)\textsuperscript{106}

An HLC Mortgage is defined as:

- An Early Payment Default (EPD) Mortgage with an estimated Realized Loss, including accrued interest, of $5,000 or more; or

- Any other delinquent Conventional Mortgage Loan with an estimated Realized Loss, including accrued interest, of the greater of $20,000 or 20% of the original property value.

Servicers are required to conduct HLC determinations on an ongoing basis beginning at REO acquisition until REO disposition or Liquidation, as expenses grow or circumstances indicate a reduction in property value.

The Form SG332 must be submitted timely to the MPF Provider, so the HLC Mortgage determination must be made by the Servicer as soon as possible in order to meet the form’s claim filing requirements.

The Servicer must submit the HLC Mortgage Loan File with a completed HLC Mortgage Notification (Form SG337) and/or field review appraisal to the MPF Provider’s Default Servicing Department for an HLC review within sixty (60) days of determining that the loan is an HLC Mortgage, but no later than the date Form SG332 is submitted. The required contents of the HLC Mortgage Loan File and the required field review appraisal forms are listed on Form SG337.

A loss claim on an HLC Mortgage will not be settled until the completion of the required HLC review. Failure to submit the HLC Mortgage File or the field review appraisal will result in the Servicer forfeiting its right to file a claim under the Applicable Agreement.

The MPF Bank reserves the right to defer any future payment of credit enhancement fees to preserve its right of recovery for any HLC Mortgages with expected losses greater than $20,000 that have been purchased at a Foreclosure sale by the Servicer and are in the process of REO marketing for the purpose of filing a Form SG332 for a loss.

8.10.2 HLC Review Exceptions (12/11/18) \textsuperscript{107}

Certain HLC Mortgages that are not EPDs are exempt from HLC review requirements.

- Conventional Mortgage Loans with a satisfactory result from previous loan eligibility review at 120 days delinquent.

\textsuperscript{106} MPF Announcement 2020-25 (4/30/20)
\textsuperscript{107} MPF Announcement 2018-60 (12/11/18)
• Conventional Mortgage Loans with a satisfactory result from previous MPF Program Quality Control review only require a field review appraisal.

• Conventional Mortgage Loans sold prior to January 1, 2008 where the Borrower was not thirty (30) days delinquent on any of the eighty-four (84) monthly mortgage payments following the purchase of the Mortgage Loan only require a field review appraisal.

• Conventional Mortgage Loans sold on or after January 1, 2008 are exempt from an HLC review if:
  o the Borrower had no more than two (2) thirty (30) days Delinquencies during the thirty-six (36) monthly mortgage payments following the purchase of the Mortgage Loan by the MPF Bank. (A field review appraisal is required.); or
  o the Borrower was not thirty (30) days delinquent on any of the eighty-four (84) monthly mortgage payments following the purchase of the Mortgage Loan by the MPF Bank, then a field review appraisal is not required.

8.10.3 Field Review Appraisals
In certain instances as noted above, Mortgage Loans that are exempt from an HLC review require a field review appraisal. A field review appraisal must be:

• Written on one of the following forms, based on the property type:
  o One-Unit Residential Appraisal Field Review Report (FNMA Form 2000 / FHLMC Form 1032); or
  o Two-to-Four Unit Residential Appraisal Field Review Report (FNMA Form 2000A / FHLMC Form 1072).

• Performed by a qualified, appropriately licensed or certified appraiser independent of the original appraiser or appraisal firm and unaffiliated with the Originator or Servicer.
CHAPTER 9. TEMPORARY LOAN PAYMENT MODIFICATION PLAN

9.1 Description
The intent of a loan modification is to eliminate the arrearage and provide the Borrower, who is in default or facing imminent default, with a monthly loan obligation that is affordable and sustainable. A temporary loan payment modification plan (Modification Plan) may be an appropriate loss mitigation option only after all other loss mitigation options have been exhausted or determined to be ineffective given the Borrower’s circumstances.

9.2 Temporary Loan Payment Modification Plan Eligibility
This section describes the eligibility and other requirements that must be met prior to offering a Temporary Loan Payment Modification Plan.

9.2.1 Prior Approvals (4/30/20)108
In addition to ensuring the Modification Plan meets all requirements in this chapter, the Servicer must obtain approval from the applicable primary and/or supplemental mortgage insurer prior to the Borrower’s execution of the modification agreement. In addition, the Servicer must submit the required documentation (See Section 9.2.6) to the MPF Provider and receive approval prior to sending the modification agreement to the Borrower for signature. Servicer must allow for a minimum of 5 Business days processing of such requests.

Under no circumstance will a modification be approved which adversely affects the MPF Bank’s first lien.

9.2.2 Mortgage Loan Eligibility
To be eligible for a Modification Plan, the Mortgage Loan must be:

- A Conventional Loan;
- In default or in imminent danger of default because the Borrower’s income has involuntarily declined and/or expenses have unexpectedly increased;
- Not previously modified except for modifications allowed in accordance with the Guides for re-amortizations and Note modifications;
- Serviced other than under one of the following:

108 MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-72 (12/5/17)
9.2.3  Mortgaged Property Eligibility

To be eligible for a Modification Plan, the Mortgaged Property must be:

- A Primary Residence; and
- Not condemned.

The Servicer is required to complete a property inspection to validate the occupancy status of the Mortgaged Property within ninety (90) days of the Modification Plan request. If the property does not meet the eligibility requirements, Servicers must submit an exception request to the MPF Provider.

9.2.4  Borrower Eligibility

To be eligible for a Modification Plan:

- The Borrower(s) must be the same Borrower(s) that signed the Mortgage Note; or
- The individual executing the Modification Plan must have acquired interest in the Mortgaged Property as a result of a transfer of ownership that was exempt from the Due-On-Sale Clause.

9.2.5  EPD Loans

The Servicer must obtain its MPF Bank’s approval prior to pursuing a Modification Plan for any EPD Mortgage Loan by submitting the MPF Provider Quality Control Department’s quality control review report showing a determination that the Mortgage Loan was eligible for sale under the MPF Program and was of investment quality.
9.2.6 **Required Documentation (7/24/17)**

The Servicer must collect the following documentation and permanently retain it in the Mortgage Loan File:

- Workout Worksheet (Form SG354);
- Borrower Hardship Certification (Form SG402);
- Income verification in accordance with the requirements described in the Selling Guide;
- IRS Form 4506-T executed by the Borrower;
- Borrower’s tax return transcripts obtained from the IRS;
- Asset documentation in accordance with the Selling Guide and any other documentation necessary to fully document the Borrower’s financial situation;
- A new credit report that meets the requirements in the Selling Guide;
- Reaffirmation Agreement or approval from Trustee if Borrower was previously in bankruptcy;
- Approval to pursue a Modification Plan from the Servicer’s MPF Bank if the Mortgage Loan is an EPD; and
- Any other documentation used to process and evaluate the Modification Plan request, including but not limited to, documentation of the causes of a Borrower’s hardship, such as medical bills, divorce decree, etc.

9.2.7 **Underwriting the Modification Plan (4/30/20)**

The Servicer is required to analyze the Modification Plan request from a Borrower to determine whether a modification would feasibly permit the Borrower to cure or avoid a Delinquency. The goal of a modification is to provide a payment, which under the Borrower’s current circumstances, is affordable and sustainable. Therefore, the Borrower’s monthly housing expense ratio should not exceed 31%, including any subordinate financing payments.

In situations where a Borrower does not meet the requirements for a Modification Plan, the Servicer should deny the Borrower’s modification request. However, if the Servicer feels special consideration is warranted, the Servicer may submit a proposed alternative to the MPF Provider for review via eMAQCS Plus, clearly indicating that the proposal is outside the requirements of the Modification Plan and specifying terms the Servicer proposes.

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109 MPF Announcement 2017-37 (7/24/17)
110 MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-03 (1/30/17)
Where the Borrower’s current housing expense ratio exceeds 31%, the Mortgage Loan is in default or facing imminent default, and a Modification Plan appears feasible to cure or avoid a Delinquency, the Servicer will need to consider several modification terms in order to achieve a target housing ratio of 31% under the Modification Plan, cumulatively if necessary, in the exact following order:

1. If the Borrower is able to make a cash contribution, it must be applied pursuant to the Note and Applicable Law.

2. Capitalize remaining delinquent interest (costs, fees or escrow items should not be capitalized) by adding it to the unpaid Principal Balance. However, if this capitalization would result in a Principal Balance exceeding the original Principal Balance funded by the MPF Bank, all the delinquent interest should be written off.

The Servicer must submit a Calculation of Realized Loss or Gain (Form SG332) to request reimbursement of any delinquent interest write offs, which will be allocated as a Realized Loss in accordance with the terms of the Master Commitment based on the requirements of the applicable MPF Mortgage Product.

3. Reduce the Principal and Interest payments for up to thirty-six (36) months, based on an amortization schedule up to 40 years (480 months) from the original Note date. At the end of the thirty-six (36) month term, the original Principal and Interest payments stated in the Note are re-instated, unless another Modification Plan is approved. The full Principal Balance of the Mortgage Loan, including any capitalized interest, will be due and payable on the original loan maturity date. Please note that the scheduled payments do not fully amortize the modified Mortgage Loan and will result in a balloon payment being due at maturity.

4. Reduce for up to thirty-six (36) months the interest rate in 0.125% increments below the original Note Rate, to a floor rate of 3.00%.

If the Borrower has any subordinate loans that are owned by the Originator, the Servicer or their respective affiliates, the subordinate loan must also be modified to an equivalent of the terms of the Modification Plan, until the target 31% housing expense ratio is met.

If the Borrower’s total debt ratio exceeds 50% after the Mortgage Loan has been modified, the Servicer must require credit counseling for the Borrower through a HUD-approved agency.

9.3 Modification Plan Terms

This section covers the terms for each Temporary Loan Modification Plan.

9.3.1 Document Execution

Prior to implementing a Modification Plan, the Servicer must complete, but not sign, the following documents:
• Loan Workout Plan (Form SG400), which implements an initial three (3) month trial period;
• Temporary Loan Payment Modification Agreement (Form SG401);
• Workout Worksheet (Form SG354); and
• All required disclosures.

The Servicer must submit all necessary documentation to the MPF Provider for review and receive approval prior to sending any documentation to the Borrower for signature.

Once the Modification Plan is approved, the Servicer must send two (2) originals each of Forms SG400 and SG401 for the Borrower’s signature. After the Borrower returns the signed forms, the Servicer must then sign the Form SG400 and provide a copy of the signed form to the Borrower.

9.3.2 Initial Trial Period

Once the Loan Workout Plan (Form SG400) and the Temporary Loan Modification Agreement (Form SG401) are executed by the Borrower, and the Loan Workout Plan (Form SG400) is executed by the Servicer, the Borrower will be given a trial period of three (3) months, during which their new modified payments must be made on time as described in the Loan Workout Plan (Form SG400). The Servicer must hold the modified trial period payments in suspense status as “unapplied funds” in the T&I Custodial Account, until all three (3) payments are made as agreed, at which point the Servicer must apply the three (3) payments to the Mortgage Loan in accordance with the terms of the Temporary Loan Payment Modification Agreement.

If the Borrower fails to make any of the trial period payments on time or fails to meet any other requirements of the trial period as stipulated in the Loan Workout Plan (Form SG400), the Modification Plan will be immediately terminated, which includes cancellation of any proposed capitalization or write-off of delinquent interest and a return to the original Note Rate and terms, P&I payments, interest rate, and amortization schedule.

If the Borrower meets all the requirements of the trial period as stipulated in the Loan Workout Plan (Form SG400), the Servicer can modify the loan payments for the next thirty-three (33) months.

9.3.3 Temporary Plan Period

After successful completion of a trial period, the Servicer can modify the loan payments for an additional thirty-three (33) months by signing both originals of the Temporary Loan Payment Modification Agreement (Form SG401), sending one fully executed original Form SG401 and any required disclosures to the Borrower, and retaining one fully executed original Form SG401 in the Mortgage Loan File.

The three (3) trial period payments held in suspense must be applied in accordance with the Temporary Loan Payment Modification Agreement (Form SG401) terms.
If the Borrower fails to make a timely payment or fails to meet any other requirements of the Modification Plan as stipulated in the Temporary Loan Payment Modification Agreement (Form SG401) at any point during this additional thirty-three (33) month period, they are not eligible for another Modification Plan.

If the Borrower successfully makes all payments on time and meets all other requirements of the Modification Plan as stipulated in the Temporary Loan Payment Modification Agreement (Form SG401) during the thirty-three (33) month period, then the Borrower may be reviewed for one additional thirty-six (36) month Modification Plan.

No later than six (6) months prior to the expiration of the thirty-three (33) month period, the Servicer must analyze the loan history and the Borrower’s current circumstances to determine which of the following three (3) options to pursue:

1. Allow the Modification Plan to expire and return the Mortgage Loan to the original interest rate provided on the Note, P&I payments, and amortization schedule;

2. Submit request to the MPF Provider with all required documentation and allow at least 5 Business days for review, to allow Borrower to be considered for an additional thirty-six (36) month Modification Plan, and receive approval; or

3. Offer the Borrower some other loss mitigation option.

The analysis must be completed prior to the expiration of the thirty-three (33) month period to ensure transition from the expiring Modification Plan to the next stage without any lapse.

**9.3.4 Extension of the Modification Plan**

To extend a Modification Plan by an additional thirty-six (36) month, the Servicer must submit to the MPF Provider at least 5 Business Days prior to expiration of the Modification Plan, a file updated with the Borrower’s current information, including completed Forms SG400, SG401 and SG354, along with all documents as stated in the Required Documentation section, and receive approval prior to sending to the Borrower for signature.

If the request is not approved, the Servicer must allow the Modification Plan to expire and return the Mortgage Loan the original interest rate provided on the original Note, P&I payments, and amortization schedule.

**9.3.5 Servicer Obligations (1/30/17)**

If the Mortgage Loan is covered by primary and/or supplemental mortgage insurance (MI), the Servicer is required to notify the MI company of the loan modification in accordance with MI
company requirements and obtain the approval of the MI company to the modification. The Servicer must ensure the MI is maintained and pay any MI premiums based on the Principal Balance.

Once the Modification Plan is executed, the Servicer must collect Escrow Funds from the Borrower. If the Borrower does not have an Escrow Account, one must be established and in place for the remaining life of the Mortgage Loan.

Any late charges incurred by the Borrower prior to the implementation of the Modification Plan must be waived.

No referral fees, as defined by RESPA, are allowed in connection with Modification Plans.

9.3.6 Recording Requirements (12/11/18)

When completed, Form SG401 must be in recordable form, but only needs to be recorded if:

- State or local law requires modifications to be recorded in order to be enforceable or maintain lien priority; or

The modification includes an assignment of rents/lease provisions. The Servicer must also obtain a title endorsement or similar title insurance product issued by a title insurance company if the Form SG401 will be recorded.

The Servicer is not authorized to modify Form SG401 in any way, other than as required to comply with Applicable Law. In the event that compliance with Applicable Law requires making substantive changes to Form SG401, the Servicer may not implement the Modification Plan.

The Servicer must obtain subordination agreements from other lien holders when recordation is required to maintain first lien position. If the Servicer is unable to obtain all necessary subordination agreements, the Servicer may not implement the Modification Plan.

The Servicer shall satisfy all requirements of the mortgage insurer and shall forward a copy of the Temporary Loan Payment Modification Agreement (Form SG401) to the applicable mortgage insurer.

9.4 Reporting Requirements

This section covers the requirements for reporting the Temporary Loan Modification Plan.

9.4.1 Reporting to the MPF Provider

The Servicer must notify the MPF Provider within one (1) Business Day following the execution by all parties of the Loan Workout Plan (Form SG400) or the Temporary Loan Payment Modification

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112 MPF Announcement 2018-60 (12/11/18)
Agreement (Form SG401). During the 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 MPF Provider.

When the Modification Plan is terminated or expires, the Servicer must notify the MPF Provider within one (1) Business Day of the termination or expiration. The Servicer must remove the Action Code of ‘12’ and report an appropriate Action Code or null in their Monthly Accounting Reports to the MPF Provider.

9.4.2 Credit Reporting Requirements
Servicers must continue reporting to the four credit bureaus. The Servicer should be reporting the modified Mortgage Loan as follows:

- If the Borrower is current when the Loan Workout Plan (Form SG400) is executed and is making timely modified payments at the time of report, the Servicer should report the Borrower current but on a modified payment;
- If the Borrower is delinquent when the Loan Workout Plan (Form SG400) is executed, the Servicer should report in a manner to accurately report the Delinquency and the workout status according to usual and customary reporting standards; and
- If at any time the Borrower becomes delinquent under the Modification Plan, the Servicer should accurately report the Delinquency and the termination of the workout or modification status as applicable.

9.4.3 Tax Reporting
The Servicer will be responsible for completing certain forms or providing other information required under the IRS Code, and/or by state taxing authorities for temporary loan modifications. If at any time, any debt, as defined by the Code or state authorities, is canceled, the Servicer shall forward to each Borrower and the IRS, such forms and information within the control of the Servicer as are required by the Applicable Laws.

9.4.4 Disclosures and Notices
Some actions taken by Servicers in the context of reviewing and granting modifications may necessitate the use of certain federal or state required disclosures. Servicers are responsible for ensuring that all disclosures and notices required under Applicable Law (e.g. ECOA, TILA, RESPA, FCRA, and FDCPA) are provided to the Borrowers, and if applicable, any individuals with interest in the Mortgaged Property.
CHAPTER 10. FORECLOSURE PROCEDURE

10.1 General
The section describes the Servicer’s responsibilities when foreclosing on a Mortgage Loan.

10.1.1 Servicer Responsibility (4/30/20)\textsuperscript{113}
The Servicer must process Foreclosures in accordance with the provisions of the Security Instrument, federal and state law, the requirements of the mortgage insurer or guarantor, and the requirements as set out in the Guides. The Servicer must provide written notification to the MPF Provider no later than ten (10) days after the start of Foreclosure proceedings, including:

- MPF loan number;
- Borrower(s) name;
- Date of initiation of foreclosure; and
- Any other relevant information or documentation.

The Servicer is expected to administer Foreclosure proceedings on behalf of the MPF Bank in a competent, highly professional manner and be diligent in monitoring its vendors and contractors to assure the same standard of professional conduct and competency.

Most Mortgage Loans will carry some form of mortgage insurance or guarantee. The Servicer is required to provide written notification to the applicable mortgage insurer/guarantor no later than ten (10) days after the start of Foreclosure proceedings. The Servicer must know and comply with the procedures established by the applicable mortgage insurer or guarantor. In case of conflict between the mortgage insurer’s procedures or guarantor’s procedures, and the MPF Guides, the more restrictive procedures should be followed.

The Servicer is responsible for ensuring Foreclosures are initiated and completed within the allowable time frames. Failure to meet an applicable time frame will result in curtailment of reimbursable foreclosure related expenses. See Form SG332 for additional information.

For Government Mortgage Loans, the Servicer must be aware of and follow any specific requirements the applicable Government Agency has for the Foreclosure process, including timelines and required approvals.

10.1.2 Federal and State Law

\textsuperscript{113} MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-03 (1/30/17)
The Servicer is required to follow all applicable provisions of federal and state laws, including applicable CFPB rules.

10.1.3 Foreclosing in Proper Name

Foreclosures should be initiated in the name of the Servicer. However, the jurisdiction in which the property is located will dictate the name in which the Foreclosure must be brought and the Foreclosure proceeding is to be conducted. The Servicer and its Foreclosure law firm must determine the proper name in which to foreclose in each jurisdiction.

The Servicer must ensure its law firm obtains title to any foreclosed property vested in the MPF Bank’s name in a manner that will not result in the imposition of a transfer tax.

On Mortgage Electronic Registration System (MERS) loans, MERS will show as the beneficiary or mortgagee of record. The Servicer is responsible for obtaining an Assignment of the Security Instrument from MERS to the proper entity prior to initiating foreclosure process. The Assignment obtained must be recorded if the Mortgaged Property is located in a state that requires assignments be recorded. The MERS online system must be updated to reflect against the Mortgage Identification Number (MIN) that the MIN has been deactivated and that the status is “Deactivation Assigned from MERS for Default or Bankruptcy.” The Servicer should consult its Foreclosure attorney to determine if any other legal requirements apply when conducting Foreclosures on Mortgage Loans in which MERS is the prior beneficiary or mortgagee of record.

The Servicer must provide written notification to the MPF Provider and applicable primary and supplemental mortgage insurers no later than ten (10) days after the start of the Foreclosure proceedings, including:

- MPF loan number;
- Borrower(s) name;
- Date of initiation of foreclosure; and
- Any other relevant information of documentation.

The MPF Provider may direct the Servicer to stop the Foreclosure action.

The Servicer is also required to provide the MPF Provider with an electronically transmitted copy of the Deed or Trustee’s Deed Upon Sale (TDUS), to include county recording information no later than thirty (30) calendar days following the Foreclosure sale date. The Servicer or its trustee will submit a copy of the recorded TDUS to the MPF Provider.
10.1.4 Servicemember’s Civil Relief Act (1/30/17)\textsuperscript{114}

Foreclosure proceedings cannot be commenced (or continued) against an eligible servicemember unless he or she has given written consent to the proceedings, a court authorizes commencement of proceedings, or a court authorizes the re-commencement of proceedings that were authorized previously. A Servicer must attempt to ascertain the military status of the Borrower before initiating Foreclosure proceedings on any loan to make sure it does not begin proceedings against a servicemember who is eligible for relief under the Servicemember’s Civil Relief Act of 2003 (“SCRA”) or state laws providing similar protections, without the servicemember’s written permission. The Servicer is responsible for complying with the SCRA and any similar state or local laws.

10.2 Repurchase Requirements

10.2.1 MPF Bank Initiated Repurchase Request

At the MPF Bank’s option, the Servicer may be required to repurchase any loan regardless of insurer/guarantor, if a Foreclosure is prevented, delayed, or judicially denied because of any defect in the Security Instrument or Note. This repurchase requirement is binding, should the MPF Bank exercise its option herein, even if the defect was caused by the Servicer’s predecessor or the loan originator.

10.2.2 Voluntary Repurchase Request - Subordinate Liens (8/5/19)\textsuperscript{115}

During the Foreclosure process, the Servicer may submit a request to their MPF Bank to voluntarily repurchase a Mortgage Loan if it holds a subordinate lien interest in the Mortgaged Property that it is trying to mitigate losses for.

10.3 Foreclosure Referral

This section describes the requirements for referring a Mortgage Loan to Foreclosure.

10.3.1 Attorney/Trustee Referral

When commencing a Foreclosure proceeding, the Servicer shall submit a complete referral package to a qualified, experienced attorney/trustee who will perform in accordance with Applicable Law, and professional standards of conduct. The Servicer is expected to monitor the attorney/trustee it chooses to retain to ensure the Foreclosure is completed in a timely and cost-effective manner.

\textsuperscript{114} MPF Announcement 2017-03 (1/30/17)
\textsuperscript{115} MPF Announcement 2019-41 (8/5/19)
The Servicer is required to keep the attorney/trustee advised of any significant negotiations for modifications, repayment plans or workout agreements under consideration, so as not to impair or impede the Foreclosure process in the event the plan fails and Foreclosure must be resumed.

10.3.2 Allowable Time Frames (1/30/17)\textsuperscript{116}

The Servicer must begin the Foreclosure process the day after the Mortgage Loan reaches the 120th day of Delinquency, unless a different time frame is required by Applicable Law. Failure to meet the appropriate time frame will result in curtailment of allowable Foreclosure related expenses. See Form SG332 for additional information.

10.3.3 Expense Limitations (4/30/20)\textsuperscript{117}

During the Foreclosure process, the Servicer shall advance funds to cover Foreclosure costs and related expenses, some of which may be recovered through the mortgage insurance claims process after the Foreclosure has been completed.

The Servicer is required to make these advances unless it is reasonably determined that:

- Such Foreclosure advances will not increase the proceeds of the Mortgage Loan after reimbursement of the Servicer for its expenses; or
- Such expenses will be eventually nonrecoverable from any Insurance Proceeds, Liquidation Proceeds, or the Borrower.

The Servicer must obtain approval prior to stopping advances by submitting request via eMAQCS Plus including the following:

- MPF Loan number;
- Borrower(s) name;
- Explanation as to why stopping advance is appropriate;
- Any other information and supporting documents necessary to grant approval.

All Foreclosure fees and expenses shall be consistent with mortgage industry standards and shall not exceed those permitted under the applicable mortgage insurance policy or the limitations outlined in Form SG332.

If a Foreclosure is stopped before completion (as a result of reinstatement, bankruptcy filing, or workout agreement), the attorney/trustee’s fee should be pro-rated to directly reflect the actual

\textsuperscript{116} MPF Announcement 2017-03 (1/30/17)
\textsuperscript{117} MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-03 (1/30/17)
work performed up to that point. Excess fees and non-customary fees must receive prior, written approval by submitting a request to the MPF Provider and applicable mortgage insurer.

The Servicer is responsible for all fees incurred during the Foreclosure process that exceed the allowable limits imposed in the Guides and Form SG332 unless such fees are reimbursable under the applicable mortgage insurance policy.

10.4 Demand Letter

All demand letters and other required notices must be sent in accordance with the CFPB Servicing Rules and other Applicable Laws.

10.5 Partial Payments

Unless otherwise required by law or prior approval has been received, no partial payments may be accepted after a Demand Letter has been sent. Servicers must submit request to accept such payments to the MPF Provider and allow 5 business days for processing.

10.6 Postponements of Foreclosure sale

If the Borrower is pursuing any loss mitigation or Foreclosure prevention alternatives, the Servicer shall postpone the Foreclosure sale per Applicable Laws (e.g., CFPB) and shall immediately notify the MPF Provider. Where the postponements is not pursuant to an Applicable Law or a court ordered stay, the Servicer must submit a request for approval to the MPF Provider by submitting the explanation of the reason and allowing 5 business days for the request to be processed.

10.7 Reinstatements

The Servicer can accept full reinstatement of a loan, even if Foreclosure proceedings have already begun, up to and including the scheduled Foreclosure sale date. A full reinstatement includes payment of:

• All delinquent loan payments (bearing interest at the rate applicable on the date they became due);
• Late charges on the delinquent payments;
• Any funds the Servicer advanced for protection of the security or to pay taxes, insurance premiums, etc.;
• The costs of performing the pre-foreclosure property inspections, if permitted under the terms of the Security Instrument; and
• All legal fees (including attorney or trustee fees) that were actually incurred in connection with the Foreclosure proceedings.

Except as otherwise required by the Applicable Standards, the Servicer may not accept less than the full amount from a Borrower without the prior written approval applicable mortgage insurer(s). Service must receive approval, prior to accepting the reinstatement, by submitting a request to the MPF Provider, and allowing 5 business days for the request to be processed. The request must include the following:

- The MPF loan number,
- Borrower name(s),
- explanation as to why request is being made, and
- any other supporting documentation or relevant loan or Borrower information.

Upon accepting the reinstatement, the Servicer must immediately notify the appropriate Foreclosure attorney or trustee to avoid incurring additional costs or fees.

Upon receipt of reinstatement funds from a Borrower, the Servicer must:

- Notify the MPF Provider and, if applicable, the primary and/or secondary mortgage insurer of the reinstatement;
- Return the Note and other related Mortgage Loan documents to the Custodian to be returned to the Collateral File; and
- Immediately apply the reinstatement funds to pay the expenses enumerated above.

If an Assignment has been recorded from MERS to the Servicer and the Borrower reinstates the Mortgage Loan prior to completion of the Foreclosure proceedings, the Servicer need not re-assign the Mortgage to MERS nor re-register it with MERS. Any such action will be at the discretion and expense of the Servicer.

10.8  Foreclosure Sale

This section addresses the guidelines for Servicing a Mortgage Loan that has gone to a Foreclosure sale.

10.8.1 Setting Foreclosure Sale Date (4/30/20)\textsuperscript{118}

\textsuperscript{118} MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-03 (1/30/17)
State law will dictate whether non-judicial Foreclosure is authorized in any jurisdiction. If the Servicer is judicially foreclosing, after the Servicer obtains a judgment for possession or sale, the presiding court will issue a writ (authorization) to sell the real property, and will direct the levying official (often the county sheriff) to conduct the sale. The levying official will then give a notice of sale within the mandated time before the sale. The amount of time between the date of the notice of sale and the sale date varies by state law.

If the Foreclosure is in a non-judicial state, the Foreclosure sale shall be scheduled not later than thirty-five (35) days following the end of the applicable pre-publication period, or one hundred and twenty-five (125) days following the recording of the demand letter, if permitted under applicable state and federal law. The Servicer will indemnify the MPF Bank against any uninsured loss (including loss of interest) resulting from the Servicer’s or its sub-contractor’s failure to schedule the trustee sale within the thirty-five (35) day allowable period.

It is the Servicer’s responsibility to ensure that the party conducting the sale correctly forecloses, and if the Servicer is the successful bidder at the sale, issues the Foreclosure Deed in the name of Servicer. After the Foreclosure sale, the Foreclosure Deed is to be recorded in the name of the Servicer. The Servicer shall also provide the MPF Provider and applicable mortgage insurer/guarantor of appropriate advance notice of pending Foreclosure sales. Such notice must include the date, location, and time of the Foreclosure sale. The Servicer shall instruct its foreclosing attorney, trustee, or other responsible party to provide direct and separate mailing of the Foreclosure sale to the MPF Provider and any applicable mortgage insurer/guarantor.

### 10.8.2 Bidding Instructions

For conventional uninsured Mortgage Loans, Servicer’s must submit Bidding Instructions (Form SG404) to the MPF Provider at least 5 business days prior to foreclosure sale.

For conventional insured Mortgage Loans, bidding instructions must be obtained from the primary (PMI) and/or supplemental (SMI) insurer. If the PMI and/or SMI insurer issues specific instructions to enter a bid of less than one-hundred percent (100%) of the total mortgage indebtedness, the Servicer must submit the proposed bidding instructions to the MPF Provider.

The Servicer’s request to the MPF provider must include the following information:

- The Brokers Price Opinion (BPO) or the estimated market value from the appraisal report if an Appraisal is required by Applicable Law;
- The amount of the total indebtedness; and
- If the Mortgage Loan is covered by a primary and/or supplemental mortgage insurance policy, the bid amount approved by the primary and/or supplemental mortgage insurer.

### 10.8.3 Foreclosure Sale Results
The Servicer is required to notify the MPF Provider of Foreclosure sale results within twenty four (24) hours of conducting the public sale.

10.8.4 Rescission of Foreclosure Sale
The Servicer must notify the MPF Provider as soon as they receive notice that the Foreclosure sale may be rescinded. The Servicer is to provide the MPF Provider the following information when requesting approval of a rescission of a Foreclosure sale:

- The date and time of the Foreclosure sale;
- If a bankruptcy was filed the same day as the Foreclosure sale was held, the bankruptcy filing with the date and time. if the party filing the bankruptcy was not the Borrower, then the Servicer must provide documentation to show the transfer of ownership from the Borrower to the party filing Bankruptcy);
- If there is another reason for the Foreclosure sale not to be valid: incorrect NOD, TOS or some other documentation regarding the Foreclosure sale; and
- When the Servicer found out about the possible rescission.

10.9 Foreclosure Proceedings Property Inspections
This section covers the guidelines for performing property inspections before and during the Foreclosure process.

10.9.1 General Property Inspection Requirements (4/30/20)119
All inspections must be documented on the Property Inspection Report (Form SG331), retained in the Mortgage Loan file, and made available to the MPF Provider upon request. The results of any inspection should be considered by the Servicer in determining whether Foreclosure is appropriate.

It is the contractual obligation and duty of the Servicer to report any such findings in writing to the MPF Provider where the Servicer learns of, or finds evidence of, potential hazardous toxic waste, or property damage claimable under a property insurance policy. The Servicer shall postpone pending Foreclosure action unless it obtains written direction from the MPF Provider to proceed. Should the Servicer acquire a property where there is evidence of hazardous waste or substantial property damage, such acquisition shall be for the Servicer’s own account. The Servicer will be required to remit to its MPF Bank the unpaid Principal Balance of the Mortgage Loan, together with all accrued but unpaid interest. In such case, the Servicer’s actions shall be its own, and not as agent for the Master Servicer, the MPF Bank or MPF Provider.

119 MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-03 (1/30/17)
Should the Servicer fail to conduct property inspections which results in property damage or causes the MPF Bank to incur any loss, Servicer shall indemnify the MPF Bank for that loss. The extent of Servicer indemnification shall include, but is not limited to, attorney fees, legal fees, fines, penalties, and cost of correction or cleanup.

10.9.2 Pre-referral Inspection
Prior to referring a loan to the Foreclosure attorney/trustee, it is the responsibility of the Servicer to conduct a thorough property inspection to: 1) determine if the property improvement is a manufactured home and to so advise the attorney/trustee, 2) to ascertain any material damage to the property which may be covered by hazard insurance, and 3) to identify any evidence or obvious signs of adverse environmental conditions (i.e., hazardous waste, toxic substances, mold, lead paint, or other contamination).

10.9.3 During Foreclosure (1/30/17)
After initiation of the Foreclosure process, the Servicer shall conduct an inspection of the property every thirty (30) days until the Foreclosure is complete and ownership is transferred. However, if the mortgagor enters into a payment arrangement with the Servicer and the pre-foreclosure referral inspection was satisfactory, the Servicer may discontinue monthly inspections unless and until such time as the mortgagor defaults under the curative agreement, at which time the Servicer should resume regular property inspections.

10.9.4 Pre-Sale Inspection
Not sooner than thirty (30) days prior to the scheduled Foreclosure sale date, the Servicer must perform an additional property inspection.

10.10 Servicing During Foreclosure
This section describes the responsibilities for servicing a Mortgage Loan in Foreclosure.

10.10.1 Loss Mitigation
The Servicer should not foreclose on a Delinquent Mortgage Loan if there is a reasonable chance of avoiding Foreclosure. If the reason for default appears to be long term or too serious for short term relief measures to be effective, the Servicer should consider permanent Foreclosure prevention alternatives. Any loss mitigation plan proposed by the Servicer after initiating Foreclosure must be submitted using the SG354 to the MPF Provider and receive approval. However, the Servicer may not pursue Foreclosure while still pursuing loss mitigation options with the Borrower.

120 MPF Announcement 2017-03 (1/30/17)
10.10.2 Taxes and Insurance
The Servicer must pay all taxes and/or insurance premiums when due. The Servicer shall maintain property insurance in an amount sufficient to rebuild unit and include a vacancy clause on the property.

10.10.3 Homeowners Association (HOA) Dues
For Mortgaged Properties that are located in states that provide for HOA assessment lien priority over a previously recorded mortgage document, the Servicer must take steps to protect the priority of the Mortgage Loan lien. Necessary steps the Servicer must take include, but are not limited to:

- Payment of the amount due, generally the lowest of:
  - The actual delinquent assessment balance and allowed costs;
  - The maximum amount due from the foreclosing first mortgage entity based on the provisions in the project’s declarations; or
  - The maximum amount due from a foreclosing first mortgage entity under the relevant state statute.
- Clearing the priority lien within thirty (30) days after the Foreclosure sale date or acceptance of a deed in lieu of foreclosure.

10.10.4 Reporting to the MPF Provider
The Servicer must report the current status of the Foreclosure proceedings to the MPF Provider on the monthly Delinquent Mortgage & Bankruptcy Status Report (See Exhibit B).

10.11 IRS Reporting Requirements
IRS Code requires information returns be filed when a third party acquires property in satisfaction of the secured debt, or upon determination the property has been abandoned and/or upon cancellation of six hundred dollars ($600) or more of a borrower’s mortgage debt. It is the Servicer’s responsibility to accurately and timely report acquired properties. The Servicer filing must show the Servicer’s name, address, and federal tax identification as well as the Servicer’s loan number and the MPF loan number for identification purposes.

Servicers who fail to file an Acquisition or Abandonment of Secured Property (IRS Form 1099-A) or Cancellation of Debt (IRS Form 1099-C) or correction, when it is due, must reimburse the MPF Bank for any penalties the IRS may assess.

10.12 Release of Documents
The Servicer must complete the Request for Release of Documents (Form SG340) and submit it to the Custodian within five (5) calendar days of Liquidation.
CHAPTER 11. POST FORECLOSURE & REO PROPERTIES

11.1 Notification (4/30/20)\textsuperscript{121}

The Servicer must notify the MPF Provider within 24 hours of acquiring a Real Estate Owned (REO) property by submitting Form SG334 (Notice of Acquired or Conveyed Property).

In addition, the Servicer must prepare and file reports for foreclosure and abandonment in accordance with Section 6050J of the Internal Revenue Code.

11.2 Conveyance Documents (4/30/20)\textsuperscript{122}

The Servicer is responsible for conveying the REO property to the appropriate entity.

Any conveyance of an REO property by a Servicer to the applicable mortgage insurer/guarantor shall be made by the form of deed commonly used in the particular jurisdiction where such property is located. The Servicer must prepare the necessary documents at least two (2) weeks prior to the expected date of sale at Foreclosure or confirmation of sale, if applicable, and must forward the documents to the MPF Provider for approval. Once approved, the conveyance documents will be returned to the Servicer for execution and recordation.

The conveyance documents must not transfer the Mortgaged Property to the MPF Provider, the MPF Bank or the Master Servicer unless the Servicer is explicitly instructed to do so by the MPF Provider or the MPF Bank. If the Mortgaged Property is transferred to the MPF Provider, the MPF Bank or the Master Servicer by the Servicer without explicit instructions to do so, the Servicer will be charged a one-hundred dollar ($100.00) fee for completion of an assignment, quitclaim deed or other conveyance document to transfer the property back to the Servicer or to any other party.

11.3 Third-Party Acquisition

This section covers the guidelines for handling property that has been acquired by a third party.

11.3.1 General (1/30/17)\textsuperscript{123}

\textsuperscript{121} MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-62 (10/27/17)
MPF Announcement 2017-03 (1/30/17)
\textsuperscript{122} MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-03 (1/30/17)
\textsuperscript{123} MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-03 (1/30/17)
If a third party outbids the Servicer’s credit bid at the Foreclosure sale, the Servicer shall notify the MPF Provider of the sale in writing as soon as possible, and shall deposit the proceeds from the Foreclosure sale into the P&I Custodial Account within two (2) Business Days after receipt.

### 11.3.2 Hazard Insurance

The Servicer must cancel the property insurance on the foreclosed property on the date of the Foreclosure sale and notify the third-party purchaser of the cancellation. Any returned premiums may be used to reimburse the Servicer for any property insurance payments it advanced.

### 11.3.3 Transfer of Ownership

The Servicer must coordinate with the attorney or trustee in Foreclosure to ensure the timely transfer of ownership of the foreclosed property to the third-party purchaser within ten (10) calendar days.

In addition, the Servicer must prepare and file all reports regarding Foreclosure and abandonment which are required under the Internal Revenue Code or the regulations of the IRS.

### 11.4 REO Property Acquisition

This section covers the guidelines for handling property that has been acquired by the Servicer.

#### 11.4.1 All Mortgage Loans (4/30/20)

The Servicer must market the property and complete the sale of the REO per the directions from the mortgage insurer, if applicable, and the MPF Provider. The Servicer must ensure that any action taken with respect to the sale of an REO property does not jeopardize the maximum benefits available under any applicable mortgage insurance/guaranty policy.

Within ten (10) Business Days after acquiring title to any REO property, the Servicer must submit an REO Marketing Plan (FORM SG405) with the following documents to the MPF Provider and applicable mortgage insurer:

- Evidence of title to the REO property in the name of the Servicer or Servicer's designee;
- Estimated time required to dispose of the REO property;
- Refurbishing bids as necessary to make the REO property marketable;
- Copies of all correspondence with the applicable mortgage insurer, the foreclosure attorney and the MPF Provider;

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124 MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-03 (1/30/17)
PFI Notice 2016-12 (9/1/16)
• A recommendation for the most effective manner to dispose of the REO property (i.e.: the REO action plan) based on a market analysis and Appraisal which is not more than 60 days old;

• Income and expense documentation, if not already sent to the MPF Provider, which may include:
  o Any details of any force placed hazard insurance and, if applicable, flood insurance;
  o Real estate tax bills;
  o Special assessments;
  o Maintenance contracts;
  o Owner's association dues; and
  o Utility bills.

• Details of steps taken to secure the REO property;

• An updated title insurance policy showing changes following the Foreclosure (if available); and

• Plat map or house location survey.

The Servicer must retain copies of the following documentation in the Mortgage Loan File and provide the documentation to the MPF Provider or applicable mortgage insurer upon request:

• Force-placed property insurance policy or flood insurance policy, if applicable;

• Maintenance contracts; and

• Contractor bids relating to the rehabilitation of the REO property.

The Servicer must retain any invoices relating to expenses incurred in the administration of REO properties. Upon request, the Servicer must provide the invoice to the MPF Provider.

Unless otherwise directed by the MPF Provider, the Servicer shall implement each REO property action plan in an expeditious manner. The MPF Provider may direct the Servicer to modify any action plan. The Servicer shall provide the MPF Provider with written monthly progress reports regarding each action plan detailing the status of the related REO property and the progress achieved in implementing the plan.

For all Mortgage Loans serviced under the scheduled/scheduled remittance option, Principal and Interest Payments must be advanced until the Mortgage Loan is liquidated.

For all Mortgage Loans serviced under either actual/actual or actual/actual single remittance options, Principal and Interest Payments are not advanced monthly, but upon liquidation, the Servicer must remit the Liquidation Proceeds of the Mortgage Loan with interest to the date of Liquidation.

11.4.2 Government Loans
The Servicer is required to pay down the Principal Balance to zero for all Government Loans acquired by the Servicer as a result of Foreclosure. The Servicer must:

- Pay down the Principal Balance to zero upon completion of the Foreclosure sale within the accounting period in which the sale was completed;
- Pay down the Principal Balance to zero upon receipt of the initial claim payment within the accounting period in which the initial payment was received; or
- Pass through the initial claim payment as a Curtailment and pay down the Principal Balance to zero upon receipt of the final claim payment within the accounting period in which the final claim payment was received.

If the Insurance Proceeds from the insurance claim are insufficient to pay the Principal Balance of the Mortgage Loan down to zero, then the Servicer must remit its own funds to reduce the Principal Balance to zero.

Upon paying it down to zero or in no case later than ninety (90) calendar days following the Foreclosure sale date, the Servicer must record the grant deed conveying title to:

- The Servicer or its approved designee for REO properties for all RHS Section 502 Mortgage Loans;
- The Secretary of HUD for FHA Loans and HUD Section 184 Mortgage Loans; and
- The Secretary of the VA for VA Mortgage Loans.

The Servicer must maintain sufficient property insurance to adequately protect the REO property during the interim period until the REO property can be conveyed to the insurer or guarantor. The Servicer must then submit its claim with the applicable insurer for reimbursement of the Servicer’s Foreclosure costs and related expenses.

11.4.3 Conventional Insured or Uninsured Loans (1/30/17)\textsuperscript{125}

Marketable title for the REO property must be conveyed to the Servicer or its approved designee. The Servicer must dispose of the REO property and, by the next remittance date, must make available in the Servicer’s applicable DDA or A/A Account all Liquidation Proceeds, Liquidation interest, any unpaid mortgage insurance premium, and all other funds due as a result of the disposition of the REO property.

The Liquidation interest payable to the MPF Bank is calculated as follows:

- Scheduled / Scheduled: Liquidation interest payable to the MPF Bank is the Scheduled Interest due on the Mortgage Loan through the end of the month of Liquidation (30 / 360 day basis).

\textsuperscript{125} MPF Announcement 2017-03 (1/30/17)
• Actual / Actual: Liquidation interest payable to the MPF Bank is the monthly interest due from the Borrower (30 / 360 day basis) and partial month interest due up to but not including the date of payoff (actual days / 365 day basis).

• Ineligible loans (regardless of remittance option): Liquidation interest payable to the MPF Bank shall be calculated in accordance with the repurchase provisions in the Guides.

For all Mortgage Loans serviced under the scheduled/scheduled remittance option, Principal and Interest Payments must be advanced until the Mortgage Loan is liquidated.

For all Mortgage Loans serviced under either actual/actual or actual/actual single remittance options, Principal and Interest Payments are not advanced monthly, but upon disposition the Servicer must liquidate the Mortgage Loan with interest to the date of Liquidation.

The Servicer must submit the Calculation of Realized Loss or Gain (Form SG332) for expense reimbursement.

The REO property should be liquidated within thirty (30) days of disposition. Allowable related expenses on Form SG332 will be curtailed if that time frame is not met.

11.5 REO Property Servicing

This section covers the guidelines for servicing REO properties.

11.5.1 Change of Property Insurance Policy (1/30/17)\[126\]

For all Government Mortgage Loans and Conventional Mortgage Loans, the Servicer shall during the period any Mortgaged Property is REO (property is vested in the Servicer’s name on behalf of the MPF Bank), keep in force fire and extended coverage insurance, of the type that provides for claims to be settled on a replacement cost basis, upon the Mortgaged Property, regardless of whether the Mortgaged Property is vacant or occupied. Property insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, or any other perils that are normally included under an extended coverage endorsement are not acceptable.

On the date of the Foreclosure sale, the Servicer must notify the current property insurance carrier of the change in title and require that the policy on the Mortgaged Property be amended to name the Servicer as property owner and insured. The Servicer shall also require that the property insurance include a “vacancy permit endorsement” as protection in the event of vandalism. Should the existing property insurance carrier refuse the Servicer’s request, the Servicer shall cancel the existing policy and obtain the required coverage. If the Servicer maintains a form of “blanket” coverage or “master” policy, the Servicer’s coverage must extend to the Mortgaged Property while title is temporarily held.

\[126\] MPF Announcement 2017-03 (1/30/17)
by the Servicer. The Servicer shall monitor and maintain insurance with extended coverage (to include the vacancy permit endorsement) in force until the REO property is liquidated.

The Servicer shall be liable for damage sustained by a Mortgaged Property which otherwise would be recoverable under an insurance claim, if the Servicer fails to maintain the required hazard insurance. The Servicer must provide evidence of a property insurance policy to the MPF Provider upon request.

11.5.2 Property Management (1/30/17)\textsuperscript{127}

The Servicer must arrange for the proper securing, routine inspection, and maintenance of the REO property until the REO property is liquidated. The Servicer is required to inspect the REO property at least once every thirty (30) days and complete the Property Inspection Report (Form SG331) for each inspection.

The Servicer is responsible for advancing all maintenance and management costs of the REO property.

11.5.3 Rehabilitation Advance (4/30/20)\textsuperscript{128}

The Servicer must advance funds to cover any necessary rehabilitation work and ensure that the work is done efficiently and properly. The Servicer is required to make such advances unless it is determined that the rehabilitation will not increase the proceeds of the Mortgage Loan after reimbursement of the Servicer for its expenses. In addition, the Servicer is not required to advance funds for rehabilitation work if the advances will not be recoverable from Insurance Proceeds, Liquidation Proceeds, or the Borrower. The Servicer must obtain approval prior to stopping rehabilitation advances by submitting a request to the MPF Provider, via email including:

- MPF loan number;
- Borrower name(s);
- Explanation as to why request is being made; and
- Any other supporting documentation or relevant loan or borrower information that may be needed to respond to Servicer’s request prior to stopping rehabilitation advances.

If a Mortgaged Property has become REO and the related Mortgage Loan is covered by primary (PMI) and/or supplemental (SMI) mortgage insurance, the Servicer is expected to notify the applicable primary and/or supplemental mortgage insurers of such rehabilitation plans and obtain approval.

\textsuperscript{127} MPF Announcement 2017-03 (1/30/17)
\textsuperscript{128} MPF Announcement 2020-25 (4/30/20)

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before the completion of the mortgage insurance claim(s) to ensure reimbursement from the primary and/or supplemental mortgage insurers.

The Servicer must submit request to the MPF Provider, and receive approval for rehabilitation work according to the following schedule:

• Cumulative repair expenses totaling less than $2,500: approval is not required;
• Cumulative repair expenses totaling $2,500 - $5,000: prior approval and one independent bid are required; and
• Cumulative repair expenses totaling $5,000 or more: prior approval and two independent bids are required.

11.5.4 Foreclosure Deed Upon Sale
The Servicer shall take the necessary steps to ensure that the Mortgaged Property is conveyed by deed to the Servicer within ten (10) days of the Foreclosure sale date. Servicers are to ensure that the deed correctly vests title to Servicer. Failure to convey title to the Servicer within the time frame given will cause property taxes to accrue at the expense of the Servicer.

11.5.5 Escrow Items (1/30/17)\textsuperscript{129}
The Servicer is responsible for paying timely all taxes, insurance, and other escrow items until the Mortgage Loan is liquidated.

11.6 Mortgage Insurance Claim
This section covers the guidelines for filing MI claims post-Foreclosure.

11.6.1 Government Mortgage Insurance Claims
The Servicer must file the mortgage insurance claim for Government Loans, naming the Servicer as payee and instructing Insurance Proceeds to be sent directly to the Servicer. The Servicer must follow the applicable Government Agency procedures for filing claims.

11.6.2 Conventional Mortgage Insurance Claims (4/30/20)\textsuperscript{130}
The Servicer must take all necessary steps to ensure the payment of the maximum benefits payable under the terms of the mortgage insurance policy. The Servicer shall prepare and file mortgage insurance claims in accordance with the timing requirements specified by the applicable mortgage

\textsuperscript{129} MPF Announcement 2017-03 (1/30/17)
\textsuperscript{130} MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-03 (1/30/17)
insurer. All allowable to-date expenses are to be paid by the Servicer and included in the Servicer’s initial claim to the mortgage insurer.

The Servicer must inform the applicable mortgage insurer of any listing agreement or purchase offers received prior to the final disposition of the claim. If an REO property is covered by a mortgage insurance policy that will not provide coverage up to one hundred percent (100%) of losses, prior to listing and marketing the REO property, the Servicer must submit a request for approval to the MPF Provider, and receive approval.

Hazard insurance premiums and HOA dues will accrue as an expense to the Servicer only subsequent to the Servicer acquiring the Mortgaged Property via the Foreclosure sale. To the extent provided by Applicable Laws, HOA dues prior to the Foreclosure sale are not an obligation of the mortgagee and are discharged by the Foreclosure sale. Therefore, only those dues incurred after the Foreclosure sale are allowable, and are paid directly by the Servicer to the HOA.

If the mortgage insurance company is settling its primary and/or supplemental mortgage insurance claims with a combination of an upfront cash payment and a deferred payment obligation (DPO), the Servicer must:

• Complete the Calculation of the Realized Loss or Gain (Form SG332);
• Assign the DPO to the MPF Bank in accordance with the mortgage insurance company’s requirements;
• Retain records of, track, and manage the receipt and payout of both assigned and unassigned DPO payments;
• Forward to the MPF Bank the quarterly reports from the applicable mortgage insurance companies that inform the Servicer of its outstanding DPOs; and
• Send all DPO related information and documentation in its possession to any Subservicer it uses.

The Servicer is responsible for working with each mortgage insurer to determine whether such insurer will settle the claim by taking title to the Mortgaged Property in question or in some other manner. The Servicer must notify the MPF Provider immediately in writing of any decision made by the applicable mortgage insurer relative to a claim. The Servicer must also provide the MPF Provider with copies of all notices, mortgage insurance explanation of benefits forms, claims forms, and other papers sent to or received from the applicable mortgage insurer.

The Servicer must deposit any mortgage Insurance Proceeds into the appropriate Custodial P&I Account immediately upon receipt.

After final disposition of the Mortgaged Property, the Servicer must submit a Calculation of the Realized Loss or Gain (Form SG332) to the MPF Provider for defaulted Conventional Mortgage Loans.
11.6.3 Failure to Comply
Failure to file a mortgage insurance claim within the time period required by the Government Agency or mortgage insurer is considered to be a breach of the Applicable Agreements.

11.6.4 Loss Claims Forms
The Servicer is responsible for contacting the mortgage insurer to determine the applicable reporting and claim filing forms.

11.7 REO Property Marketing (4/30/20)\(^{131}\)
The Servicer must begin to market an REO property as soon as marketable title is acquired. The Servicer shall obtain the best market price while disposing of the REO property in a timely and efficient manner.

Unless otherwise directed by the MPF Provider, the Servicer shall dispose of such REO property within eighteen (18) months after its acquisition. If the Servicer is unable to sell the REO property, the Servicer must auction the REO property to the highest bidder in an auction reasonably designed to bring a fair price before the end of the eighteen (18) month period. The Servicer must consult with the MPF Provider prior to holding an auction. Failure to meet this time frame will result in curtailment of allowable related expenses. See Form SG332 for additional information.

The Servicer must deposit all REO property disposition proceeds into the P&I Custodial Account within two (2) Business Days after receipt.

11.8 Failure to Administer REO Property
If a Servicer’s actions or omissions result in damage to an REO property or failure to sell an REO property within a reasonable time, the MPF Provider may remove the Servicing of the REO property from the Servicer and assume or transfer responsibility for management, control, maintenance, security, rehabilitation and disposition of the REO property. In such instances, the Servicer will remain responsible for:

- Paying when due all insurance premiums, property taxes and assessments, and other amounts that would constitute escrow;
- Filing when due all claims for benefits under applicable insurance policies; and
- Fulfilling any other related responsibilities required by the MPF Provider.

\(^{131}\) MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-03 (1/30/17)
The Servicer must compensate the MPF Bank or MPF Provider for any damages caused as a result of the Servicer’s breach of its obligation to properly service an REO property. Any damages suffered as a result of the Servicer’s errors in managing an REO property may not be quantified in advance of the MPF Provider assuming or transferring responsibility for such REO property.

11.9 Realized Losses or Gains (1/30/17)\textsuperscript{132}

This section covers the guidelines for obtaining reimbursement of certain Servicing related expenses, by submitting a Calculation of Realized Loss or Gain for a defaulted Conventional Mortgage Loan (Form SG332).

11.9.1 Submitting Form SG332 (4/30/20)\textsuperscript{133}

The Servicer must complete and submit a Calculation of Realized Loss or Gain form and applicable supporting documents (collectively “Form SG332”) to the MPF Provider within the following time frames:

- For Conventional Mortgage Loans without PMI or Supplemental MI (SMI) coverage: within ninety (90) days of the date the Guides require for Liquidation;
- For Conventional Mortgage Loans with PMI but without SMI: within ninety (90) days of the date of the PMI settlement; and
- For Conventional Mortgage Loans with SMI: within ninety (90) days of the date of the SMI settlement.

The REO property should be liquidated within thirty (30) days of disposition. Allowable related expenses will be curtailed if that time frame is not met.

If additional claimable items are received after a Form SG332 is submitted, they must be provided to the MPF Provider no later than forty-five (45) days after the initial claim is approved, using a supplemental Form SG332. A supplemental Form SG332 should not show a cumulative loss or gain calculation. It should only include claimable items received after the initial Form SG332 was submitted.

Failure to submit the Form SG332 on time to the MPF Provider will result in the Servicer forfeiting its right to file a claim.

\textsuperscript{132} MPF Announcement 2017-03 (1/30/17)
\textsuperscript{133} MPF Announcement 2020-25 (4/30/20)
MPF Announcement 2017-62 (10/27/17)
MPF Announcement 2017-03 (1/30/17)
If the Mortgage Loan is covered by PMI or SMI and the mortgage insurance company is settling its mortgage insurance claims with Insurance Proceeds that are a combination of an upfront cash payment and a deferred payment obligation (DPO), the Servicer must:

- Immediately upon acquisition of the Mortgaged Property as REO or Liquidation, notify the mortgage insurer which MPF Bank is the investor/owner of the Mortgage; and

- Complete and submit the Form SG332.

The MPF Provider may deny or curtail any late submission.

11.9.2 Calculating Realized Losses or Gains (1/30/17)\(^\text{134}\)

For purposes of the Form SG332, the Realized Loss or gain is calculated as follows:

- THE SUM OF:
  - The actual Principal Balance;
  - Unpaid interest accrued at the Note Rate, which includes Servicing Fees;
  - Attorneys' fees and other Foreclosure expenses advanced by the Servicer;
  - Taxes and other nontax charges advanced by the Servicer;
  - Property maintenance expenses advanced by the Servicer;
  - Hazard insurance premiums advanced by the Servicer;
  - Hazard loss expenses advanced by the Servicer; and
  - Field Review Appraisal Fee.

- MINUS THE SUM OF:
  - The balance of the Escrow Account;
  - Any refund of property insurance premiums;
  - Gross rental income received by the Servicer;
  - Property loss Insurance Proceeds;
  - Mortgage Insurance Proceeds (if applicable, as described in this chapter);
  - Net proceeds from sale of the REO or Liquidation of the Mortgaged Property; and

\(^{134}\) MPF Announcement 2017-03 (1/30/17)
Any amounts received by the Servicer from the Borrower or pursuant to bankruptcy or insolvency proceedings.

Servicers must familiarize themselves with the additional limitations imposed on certain expenses and certain time frames in the Guides and in Form SG332.

Any Realized Loss will be allocated in accordance with the terms of the Master Commitment based on the requirements of the applicable MPF Mortgage Product.

If a gain is reported on Form SG332, then the MPF Bank agrees to make the amount of the Reported Gain available to reduce any subsequent reported Realized Loss for that Master Commitment beginning in the month of the Reported Gain. The Servicer should report the full amount of any Realized Loss/Reported Gain for each Mortgage Loan without regard to any prior Reported Gain. The MPF Provider will ensure any previous Reported Gain amounts are appropriately applied to Realized Losses subsequently allocated under the terms of the Master Commitment.

11.9.3 Mortgage Insurance Proceeds

Mortgage Insurance Proceeds must be reported on the Form SG332 as follows:

- Primary MI Proceeds / Cash proceeds amount as shown on the explanation of benefits (EOB) from the mortgage insurance company: include in the calculation of the MPF Realized Loss or gain;
- Primary MI Proceeds / DPO amount (if applicable) as shown on EOB from the mortgage insurance company: do not include in the calculation of the MPF Realized Loss or gain;
- Total MI Claim Proceeds (Cash proceeds plus DPO amount): include only in the SMI Claim Loss or gain calculation, if applicable;
- SMI Proceeds / Cash amount as shown on the explanation of benefits (EOB) from the mortgage insurance company: include in the calculation of the MPF Realized Loss or gain;
- SMI Proceeds / DPO amount (if applicable) as shown on EOB from the mortgage insurance company: do not include in the calculation of the MPF Realized Loss or gain or the SMI Claim Loss or gain; and
- Total SMI Proceeds (Cash plus DPO amounts): include only in the SMI Claim Loss or gain calculation.

11.9.4 Approval of Form SG332 (4/30/20)\textsuperscript{135}

\textsuperscript{135} MPF Announcement 2020-25 (4/30/20)  
MPF Announcement 2017-03 (1/30/17)
Servicers are expected to make every effort to reduce Servicing related expenses in a manner consistent with any limitations imposed in the Guides or the Form SG332, and where no such limitations are provided, Fannie Mae guidelines and Applicable Law.

The MPF Provider will ensure review of all submitted Form SG332s and will provide the Servicer with a final determination as to the Realized Loss or gain. If a Form SG332 is not submitted timely, is not complete, reflects expenses that exceed the maximum allowable amount, or reflects activities that have occurred outside allowable time frames, the request may be denied or curtailed, as more fully described in Form SG332.
CHAPTER 12. LEGAL

12.1  Lawsuits

This section covers the guidelines for handling legal actions.

12.1.1  Notice of Legal Action

The Servicer is not authorized to accept service on behalf of the MPF Provider or the MPF Bank, and shall so advise anyone attempting to serve either entity through the Servicer.

The MPF Provider reserves the right to direct litigation involving a Mortgage Loan, and the Servicer and any law firm retained to handle the litigation must cooperate fully with the MPF Provider in the prosecution, defense, or handling of the matter.

In instances in which the Note and/or Security Instrument provides for the Borrower to reimburse any legal fees and costs incurred by the MPF Bank or the Servicer, the Servicer shall instruct its legal counsel to notify the Borrower about his or her responsibility for such expenses. The Servicer’s legal counsel should attempt to handle such matters by stipulation or any other expeditious manner that will reduce the fees and costs that the Borrower has to pay.

Additionally, if the Security Instrument has MERS as nominee for lender, as the named beneficiary, and MERS is named in the action or proceeding, the Servicer shall immediately notify MERS and otherwise comply with all MERS requirements in regard to such litigation, as more fully set forth in MERS rules. In particular, the Servicer should be aware of Rule 14 MERS System Rules of Membership, which requires notification to MERS regarding “Legal Filings” that raise certain MERS-related challenges as detailed therein.

12.1.2  Notification Time Frames

The Servicer shall provide appropriate notice of any legal action in accordance with the time frames below.

The Servicer must forward any of the following to the MPF Service Center, within five (5) Business Days of receipt by the Servicer:

- A petition or complaint in a lawsuit naming the Servicer as defendant which involves the origination or servicing of any Mortgage Loan, or which alleges that the Servicer has failed to comply with any Applicable Laws in its mortgage origination or servicing activities;

- A petition or complaint in a lawsuit attempting to establish the existence of a class of plaintiffs that includes mortgagors whose Mortgage Loans are being serviced by the Servicer or mortgagors whose Mortgage Loans were originated by the Servicer;
• Correspondence involving a Mortgage Loan that threatens legal action or alleges violation by the Servicer or any other person of any Applicable Laws with respect to a Mortgage Loan; or
• Correspondence from a state or federal regulator involving the alleged violation by the Servicer of any Applicable Laws in its mortgage origination or servicing activities.

The Servicer must forward any of the following to the MPF Service Center, within two (2) Business Days after receipt by the Servicer:

• A petition or complaint in a lawsuit naming the MPF Provider, any MPF Bank or the Master Servicer as a party to the lawsuit; or
• A petition or application for temporary injunction or other temporary equitable relief which involves the mortgage servicing activities of the Servicer.

The Servicer must forward to the MPF Provider, within three (3) Business Days after receipt by the Servicer, a copy of any motion or pleading of any type in a Foreclosure or bankruptcy action which asserts a counterclaim or alleges the right to recover damages from the Servicer, an MPF Bank or the MPF Provider.

12.1.3 Servicer Initiating Litigation

The Servicer shall not initiate litigation on the MPF Provider or MPF Bank’s behalf (except as otherwise provided in the Guides), unless it obtains prior written consent from the MPF Provider or MPF Bank.

12.1.4 Retained Counsel

In the event that the Servicer is made aware that the MPF Bank, the MPF Provider, the Servicer, or the PFI that sold the Mortgage Loan to the MPF Bank is a named defendant in a lawsuit related to a Mortgage Loan it is servicing, the Servicer shall contact the MPF Provider. The MPF Provider will either approve the Servicer’s retaining counsel or require that the case be turned over to the MPF Provider for referral to the counsel of the MPF Provider’s choice. Whenever the Servicer retains counsel on behalf of the MPF Provider, it shall do so in accordance with the Guides. Where the defendant is an MPF Bank, the MPF Provider will discuss case handling and retention of counsel with the MPF Bank and will notify the Servicer of the direction to be taken.

In situations where an attorney must be retained immediately to protect the MPF Provider and/or MPF Bank’s interests, such as to oppose an ex parte application for a temporary restraining order, and MPF Provider and/or MPF Bank approval cannot be obtained timely, the Servicer may retain counsel on the MPF Provider and/or MPF Bank’s behalf, to appear and oppose the application. The MPF Provider shall immediately be advised, and copies of all pleadings shall be forwarded to the MPF Provider’s Office of General Counsel.
If a case is to be handled by the Servicer’s legal counsel, the Servicer will be notified of the MPF Provider staff attorney to whom their counsel shall report. The Servicer’s legal counsel shall cooperate, coordinate, and follow the direction of the assigned staff attorney, and report to the MPF Provider staff attorney at frequent intervals, depending on the progress of the case.

The Servicer should provide the MPF Provider with copies of all pleadings, motions, responses, replies and briefs with sufficient time in advance of any deadline to review and comment upon the proposed filings.

The Servicer of a Mortgage Loan that is the subject of litigation should notify retained counsel if it intends to offer any Mortgage Loan modification or other Foreclosure-avoidance alternative and provide retained counsel with sufficient opportunity in advance of the solicitation to review and provide comments in connection with any solicitation materials.

12.1.5 Counsel Selected and Retained by Servicer

All Counsel selected and retained by the Servicer to represent the MPF Provider and/or MPF Bank shall:

- Be knowledgeable and experienced in the applicable field of law;
- Be financially responsible; and
- Immediately advise the assigned MPF Provider and/or MPF Bank staff attorney of any actual, potential, or apparent conflict of interest.

12.1.6 Referring to Other Counsel

If at any time during the progress of the case, the MPF Provider or MPF Bank determines the case should be referred to other counsel, the Servicer will be advised in writing.

12.1.7 Attorney’s Fees

The MPF Provider and/or MPF Bank will review the Servicer’s legal counsel’s bills in relation to the reports made to the MPF Provider and/or MPF Bank’s staff attorney by the Servicer’s legal counsel. The MPF Provider and/or MPF Bank will reimburse the Servicer only for fees determined by the MPF Provider and/or MPF Bank to be reasonable, and which have actually been paid by Servicer. The fees charged shall not exceed those charged by the legal counsel retained by the Servicer or others for the same or similar legal services and representation. To the extent allowed by law, the Servicer’s legal counsel shall endeavor to recover all costs and fees from the Borrower, or other responsible party.

12.2 Notice of Lien
The Servicer shall take all reasonable actions to prevent new liens that would be superior to the lien of the Mortgage Loan from being attached against the Mortgaged Property. When it becomes aware that any new superior lien has been attached, the Servicer shall notify the MPF Provider.

### 12.2.1 HOA Liens

For Mortgaged Properties that are subject to an HOA and that are located in states that provide HOA assessment lien priority over a previously recorded mortgage loans, the Servicer must take all steps necessary to protect the priority lien of the Mortgage Loan. In states where particular actions or steps are required to receive notices of Foreclosure action taken by the HOA or others, Servicer must ensure all such actions or steps are taken.

### 12.3 Property Forfeitures and Seizures

Various federal statutes (including the Controlled Substances Act) provide for the civil or criminal forfeiture of certain types of property (including real estate) that are used, or are intended to be used, to commit or to facilitate the commission of certain violations of federal law. If the Servicer receives notice of any lien, seizure, or forfeiture, it shall immediately notify the MPF Provider about all deadlines and requirements specified in the notice, and promptly send the MPF Provider a copy of the notice and any accompanying documents.
CHAPTER 13. TRANSFERS OF SERVICING

13.1 General Transfer of Servicing Requirements (7/5/17)

This chapter covers transfers of Servicing made after the associated Mortgage Loans have been sold under the MPF Program. This chapter also applies when Servicing activity occurs after the Mortgage Loans have been sold to the MPF Bank but prior to the effective Servicing transfer date. For Servicing released options, see MPF Traditional Selling Guide Chapter 17.2.

13.1.1 Assuming Servicers (1/30/17)

Transfers of Servicing may be made to a Servicer who is a member of an MPF Bank or a Non-Member Servicer (NMS).

The Servicer may not sell or transfer the Servicing Rights of any Mortgage Loan without the prior written consent of the MPF Bank. The Servicer selling its Servicing Rights is considered a Selling Servicer, and the Servicer acquiring the Servicing Rights is considered an Assuming Servicer.

The Servicer must submit all requests for the sale or transfer of its servicing portfolio (all or substantially all of the Mortgage Loans it is Servicing) in writing to the MPF Bank. The Assuming Servicer must be a Servicer. It is the Selling Servicer’s responsibility to verify the Assuming Servicer is approved to acquire Servicing for the MPF Program.

The MPF Bank must receive all supporting documentation at least forty-five (45) days prior to the requested date of transfer.

No modifications may be made to the applicable Master Commitments without the prior written consent of the MPF Provider.

Assuming Servicers may be limited to specific remittance type(s) and/or certain product types of the Mortgage Loans for which it would be eligible to acquire the Servicing Rights. Additionally, the MPF Bank may set a portfolio limit for the Mortgage Loans the Assuming Servicer is acquiring, which may be increased, decreased, or terminated at the discretion of the MPF Bank.

The Assuming Servicer’s Servicing Rights are subject to the rights of its MPF Bank under the Assuming PFI Agreement as provided for in the Guides.

13.1.2 Compensation and Fees

The Assuming Servicer shall be compensated in accordance with the standard Servicer compensation policies in the Guides.

136 MPF Announcement 2017-34 (7/5/17)
137 MPF Announcement 2017-03 (1/30/17)
Credit Enhancement and Credit Enhancement Fees are not transferable through the Servicer Initiated Transfer of Servicing process.

A Servicing transfer fee of five hundred dollars ($500) is assessed per servicing transfer transaction and must be received by the MPF Bank at least forty-five (45) days prior to the requested date of transfer.

13.1.3 Sale of Servicing Contract

The Selling Servicer and the Assuming Servicer will enter into a Sale of Servicing Contract in form and substance acceptable to the MPF Provider in order to transfer Servicing unless such obligation is waived by the MPF Provider.

None of the MPF Bank(s), Owner Bank(s) or the MPF Provider are parties to the Sale of Servicing Contract and they shall have no liabilities under the Sale of Servicing Contract and shall not owe any fees to the Selling Servicer or the Assuming Servicer in connection with the transfer of the Servicing. Any compensation payable by the Assuming Servicer to the Selling Servicer in connection with the transfer of the Subject Servicing shall be as provided in the Sale of Servicing Contract.

In the event of a conflict between the Guides or the Applicable Agreements and the Sale of Servicing Contract, the Guides and Applicable Agreements will control. However, to the extent that the Sale of Servicing Contract addresses matters solely between the Selling Servicer and Assuming Servicer which do not impact the MPF Banks’, the MPF Provider’s or the Owner Banks’ (as applicable) rights with respect to the Mortgage Loans and the Subject Servicing, then the Guides or Applicable Agreement shall have no applicability to such matters.

13.1.4 Agreements and Warranties

The sale or transfer of Servicing does not amend, modify, impair, limit, or otherwise affect the rights and obligations of the Selling Servicer (and any designee, if applicable) or the applicable MPF Bank or Owner Bank under other agreements in place between those parties, except as otherwise provided in a written consent. For example, none of the Selling PFI’s origination obligations or Servicing responsibilities prior to and up to the servicing transfer date shall be waived, limited, or impaired because of the transfer.

13.2 Non-Member Servicers

In addition to the requirements applicable to Assuming Servicers, NMS must follow the additional the requirements outlined in this section.

13.2.1 Servicing Responsibilities

To become a NMS and purchase Servicing Rights from a Selling Servicer under the provisions of this chapter, the NMS must meet the Servicer and NMS eligibility criteria in the Program Guide.
When the MPF Provider or the Owner Bank, as applicable, approves the NMS, the NMS will be assigned a Servicer ID number by the MPF Provider that must be used by the Selling Servicer and the new NMS as required.

In addition to the requirements in the Guides expressly required of NMS, any reference in the Guides:

- To a requirement of a Servicer also applies to any NMS;
- To a requirement of a PFI with respect to Servicing also applies to any NMS; and
- To a PFI Agreement with respect to a PFI shall mean the applicable NMS Servicing Agreement with respect to a NMS.

Any expressly stated rights of an MPF Bank in the Guides in relation to Servicers are to be understood to belong to the MPF Provider in relation to NMS, unless otherwise stated in the Guides or the related Applicable Agreements.

The NMS must service Mortgage Loans in accordance with the Applicable Agreements and relevant portion(s) of the Guides, as may be modified by any supplement or addendum.

### 13.2.2 Grant of Security Interest

When Servicing is transferred to a NMS, the NMS hereby assigns, transfers, and pledges to the MPF Provider and grants to them a first priority security interest in the Servicing Rights for each Mortgage Loan serviced by the NMS, as such Servicing Rights may be now owned, or existing or hereafter owned by the NMS, and all general intangibles, instruments, and agreements related thereto and all proceeds of, and substitutions and replacements for, the Servicing Rights.

The NMS hereby authorizes the MPF Provider, or the Owner Bank, as applicable, to create and file such Uniform Commercial Code financing statements in such jurisdictions and to take such other action from time to time as may be deemed necessary or appropriate to perfect and maintain the perfection of its security interest and rights. Further, the NMS agrees, at its cost, to (i) execute and deliver to the MPF Provider, or the Owner Bank, as applicable, such specific pledge or security agreement as required by such party from time to time, (ii) execute, deliver and file such Uniform Commercial Code financing statements and (iii) take such other action from time to time as the MPF Provider, or the Owner Bank, as applicable, may reasonably request to perfect and maintain the perfection of the MPF Provider’s or such Owner Bank’s security interest and rights. The MPF Provider, or the Owner Bank, as applicable, may reasonably request to perfect and maintain the perfection of the MPF Provider’s or such Owner Bank’s security interest and rights. The MPF Provider, or the Owner Bank, as applicable, shall have all other rights available at law or in equity with respect to its security interest in the Servicing Rights for each Mortgage Loan. The perfection and priority of any security interest granted by the NMS to secure the NMS’s obligations under the applicable NMS Servicing Agreement (and any addendum thereunder) shall be governed by the laws of the relevant jurisdiction determined in accordance with the applicable provisions of the Uniform Commercial Code as in effect in the state of Illinois.
13.2.3 No Liens on Servicing Rights

When a NMS purchases Servicing Rights, the NMS represents, warrants, and covenants to the MPF Provider, or the Owner Bank, as applicable, that at all times each such Servicing Right shall be free and clear of any lien in favor of any third party (other than those of other Owner Banks) and shall not become subject to any security interest, encumbrance, assignment, pledge, hypothecation or any other lien, interest, or transaction whatsoever in favor of any third party.

The NMS shall not sell, assign, pledge, or designate another person or entity to perform or to be responsible for all or substantially all of its duties or obligations under the NMS Servicing Agreement, including without limitation shall not pledge, convey or otherwise transfer, cause any lien or other claim to encumber any of the Servicing Rights relating to Mortgage Loans, without first obtaining the MPF Provider’s, or the Owner Bank’s, as applicable, written consent which consent may be granted or withheld by the MPF Provider or the Owner Bank, as applicable, in their sole discretion.

The Servicing Rights for the Mortgage Loans are subject to and subordinate in all respects to all rights, powers, and prerogatives of the Owner Banks, the MPF Provider and any Participants including without limitation the right to terminate the NMS’s Servicing of the related Mortgage Loans and rights to service.

13.3 Servicing Transfer Process

This section describes the process for transferring Servicing to another Servicer.

13.3.1 Transfer Requests (1/30/17)\(^{138}\)

After receiving consents from their MPF Banks, the Selling Servicer and the Assuming Servicer must complete and submit the Servicing Transfer Notice (Form SG360) to the MPF Provider, and provide copies to their MPF Banks along with a non-refundable Servicing transfer fee of five hundred dollars ($500) per transfer transaction to be remitted to the Owner Bank.

The Servicing transfer date shall always occur on the first (1st) calendar date of the month and shall be no sooner than the first (1st) calendar day of the second (2nd) calendar month following the MPF Provider’s receipt of the Servicing Transfer Notice and not later than ninety (90) days after submitting the transfer request file. The Servicing transfer date must be acceptable to the MPF Provider and affected MPF Banks.

\(^{138}\) MPF Announcement 2017-03 (1/30/17)
The Selling Servicer will be required to upload via the eMPF website, a transfer request file containing the list of MPF loan numbers corresponding to the Mortgage Loans for which Servicing Rights are being transferred.

The MPF Service Center will complete the approval process upon:

- Consent from the applicable MPF Bank(s) and MPF Provider; and
- Review and validation of the transfer request file.

The Selling Servicer can monitor the status of the transfer via the eMPF website. The Assuming Servicer will have the ability to monitor the status only if it is approved by the Owner Bank and is assigned a Servicer ID# for that Owner Bank. A Servicer ID# is assigned to approved Assuming Servicers to be used for reporting purposes.

In addition:

- The Selling Servicer must upload the transfer request file at least forty-five (45) days prior to the requested transfer; and
- The Servicing Transfer Notice (Form SG360) must be provided to the MPF Provider and the affected MPF Banks along with a non-refundable Servicing transfer fee payable to the Owner Bank at least forty-five (45) days prior to the requested transfer.

13.3.2 Transfer of Individual Loan Files (1/30/17)\(^{139}\)

Unless otherwise provided for under Applicable Law, no later than the Servicing transfer date, the Selling Servicer shall deliver to the Assuming Servicer all funds for the Borrower or the Owner Bank that are being held in connection with the Subject Servicing, as well as the individual Mortgage Loan File for each loan included in the transfer. If both Servicers agree, Mortgage Loan File information may be provided on any suitable, secure electronic means. Among other things that may be required by Applicable Law, the individual loan file should include a history of loan payments received and escrow disbursements made for the loan during the current year and the two preceding years (making additional historical information available if the Assuming Servicer requests it), including the most recent escrow analysis and appropriate supporting documentation, copies of any current assumption or payoff statements, any pertinent related information that will avoid delays in processing a subsequent payoff or in refunding the Borrower’s escrow balance, a copy of the notice that was sent to advise the Borrower of the pending transfer of servicing, copies of all the correspondence or notices related to the servicing transfer that were sent to the Borrower, FHA/VA/USDA/mortgage insurance, MPF Bank, and any government authority or interested third party. Servicers that use a single letter, or any other media or electronic method to notify third

\(^{139}\) MPF Announcement 2017-03 (1/30/17)
parties about a transfer of servicing may provide this information to the Assuming Servicer in a master file rather than having to copy it for individual Mortgage Loan Files.

13.3.3 Transfer of Loans in Foreclosure, Bankruptcy, or Loss Mitigation

The Selling Servicer must deliver to the Assuming Servicer information and records for any loans that are in Foreclosure, bankruptcy, or loss mitigation status and for any properties that were acquired by Foreclosure or acceptance of a deed-in-lieu.

The Selling Servicer must provide the Assuming Servicer a list of each Mortgage Loan that is in the process of Foreclosure or for which the Borrower has filed bankruptcy, showing the loan number and the name and address of the attorney (or trustee) handling the Foreclosure or bankruptcy.

The Selling Servicer must provide the Assuming Servicer all pertinent information related to the status of a loan for which loss mitigation is being pursued.

The Selling Servicer must provide the Assuming Servicer a list of any acquired properties for which it is performing administrative functions—such as paying taxes and insurance premiums, performing property maintenance functions, etc.—if the responsibilities for these functions will be transferred to the Assuming Servicer. The list should identify each property by loan number and include a history of the Selling Servicer’s actions from the date the property was acquired (including information about expenditures, receipts, and management and marketing activities), and provide any appropriate documentation.

The Selling Servicer must inform the Assuming Servicer if any of the loans (or acquired properties) being transferred are the subject of litigation (including court filings, disclosure requests and responses, and preliminary rulings.)

The books and records that the Selling Servicer turns over to the Assuming Servicer should be complete so the Assuming Servicer will be able to service the transferred loans without interruption as of the effective date of the transfer of servicing. The two Servicers should agree to procedures that will enable the Assuming Servicer to obtain any other information related to the transferred Mortgage Loans that was not turned over as of the effective date of the transfer.

13.3.4 Delivery Process

No later than the servicing transfer date, the Selling Servicer shall transfer or deliver to the Assuming Servicer:

- All funds held in connection with the Servicing Rights for the benefit of the Borrowers or the Owner Bank;
- Loan files and data related to the Servicing Rights necessary to service the Mortgage Loans in accordance with Applicable Standards; and

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• All Borrower notices pertaining to transfer of the Servicing Rights in accordance with Applicable Standards and the Sale of Servicing Contract.

The Selling Servicer must retain a copy of all data and documents which are forwarded to the Assuming Servicer and which it would otherwise be required to retain under the record retention requirements in the Guides in order to respond to document requests.

As of the servicing transfer date, the Assuming Servicer shall be responsible for the Servicing of the Mortgage Loans in accordance with the Guides and Applicable Standards. The Assuming Servicer shall accept the Servicing Rights despite any Selling Servicer breach of Sale of Servicing Contract or breach of Selling Servicer Obligations.

13.3.5 Notifying the Borrower

Both Servicers are responsible for sending specific notices to the Borrower(s) whose loans are being transferred. All notices provided to Borrower(s) must be made in accordance with Applicable Law, including the provisions of Real Estate Settlement Procedures Act (“RESPA”) and any other federal or state law requirements. Both Servicers must provide each other with essential information to include in the required notification letters to the Borrower, such as, Servicer’s name, address, and telephone number (either a toll-free number or authorization to include a statement that “collect calls are acceptable”) and the name and telephone number of a contact person (or department) that can answer the Borrower’s questions plus any other information required by law.

13.3.6 Assuming Servicer Responsibilities

As of the servicing transfer date, the Assuming shall be responsible for the Subject Servicing in accordance with the Applicable Standards defined in the Guides, the Applicable Agreements, and the Sale of Servicing Contract.

The Assuming Servicer shall accept the Subject Servicing despite any Selling Servicer breach of the Sale of Servicing Contract or any breach of Selling Servicer’s responsibilities.

The Assuming Servicer shall be responsible for all funds collected from or on behalf of the Borrowers of the Mortgage Loans for the benefit of the Owner Bank.

If the Owner Bank reverses funding of a Mortgage Loan for which the Servicing has been transferred in order to correct loan data and subsequently issues a new funding confirmation for the Mortgage Loan, the Assuming Servicer shall service the Mortgage Loan in accordance with the new funding confirmation.

13.3.7 Custody Documents

The custodial documents for the Mortgage Loans shall continue to be held by the Custodian used by the Selling Servicer unless all of the conditions for using a different custodian set forth in the Custody
Manual of the Guide are satisfied. If the Assuming Servicer elects to use a Custodian other than the MPF Program Custodian, the Assuming Servicer shall pay all custody fees for those Mortgage Loans. NMS must use the MPF Program Custodian.

Unless MERS is the Mortgagee of record, the Selling Servicer must prepare and record an Assignment of the Security Instrument to the Assuming Servicer for each Mortgage Loan in the form required by Applicable Law. The Assignment must be prepared in accordance with the requirements in the Guides.

If MERS is the Mortgagee of record, the Selling Servicer must register the transfer of servicing with MERS by providing the correct organization identification number for the Assuming Servicer.

13.3.8 Certification with the MPF Program Custodian

The Selling Servicer is responsible for the Initial Certification of the Collateral Files, resolving Initial Certification issues with the MPF Program Custodian, and payment of all fees imposed for uncertified documents or custodial Exceptions. All Mortgage Loans that do not meet the Initial Certification requirements prior to the servicing transfer date must be repurchased immediately by the Selling Servicer. The Selling Servicer may request and obtain the Collateral File from the MPF Program Custodian in order to correct certification exceptions until the servicing transfer date.

13.3.9 Quality Control (1/30/17)\textsuperscript{140}

The Originating PFI is responsible for conducting the quality control reviews in accordance with MPF Program requirements.

If a Mortgage Loan for which the Servicing Rights was transferred is selected for MPF quality control review, the current Servicer at the time the Mortgage Loan is selected shall be responsible for providing copies of the required documents upon request from the MPF Provider.

13.3.10 Accounting

The Assuming Servicer is required to maintain Custodial Accounts in accordance with the Guides and is required to maintain separate Custodial Accounts for each Owner Bank for which it acquires Subject Servicing Rights.

The Assuming Servicer will be responsible for monthly loan accounting and reporting commencing on the first (1st) day of the month reported by the Selling Servicer in the transaction validation process. Mortgage Loans that are owned by the Assuming Servicer’s MPF Bank are reported using the Assuming Servicer’s regular PFI number (NMS must use the Servicer ID number assigned by the MPF

\textsuperscript{140} MPF Announcement 2017-03 (1/30/17)
Provider) while Mortgage Loans that are owned by any other Owner Bank are reported using the Servicer ID number assigned to the Assuming Servicer for that Owner Bank.

The Assuming Servicer shall remit funds to an A/A Account or DDA Account as the Owner Bank and its MPF Bank directs.

13.3.11 Remittances
The Assuming Servicer shall service each Mortgage Loan based on the remittance type specified in the applicable Master Commitment. Remittances must be made in accordance with the Guides. If the remittances are not made as required, the amount of loss or damages to the Owner Bank, in addition to the amount of the remittances due, shall be as provided for in the MPF Guides.

13.3.12 Unreimbursed Servicing Expenses
When Servicing is transferred to a NMS, the Selling Servicer is responsible for Unreimbursed Servicing Expenses for Government Loans until the MPF Provider notifies the Selling Servicer and NMS in writing of the effective date this obligation transfers to the NMS.

The NMS will assist in administering the reimbursement process of such expenses in accordance with the following requirements:

- The NMS shall promptly provide written notice to the MPF Provider upon making any demand to a Selling Servicer for reimbursement of Unreimbursed Servicing Expenses and for the cost of maintaining the government insurance or guaranty as set forth in the Sale of Servicing Contract;
- The NMS shall provide written notice to the MPF Provider in the event that reimbursement payment was not made by the Selling Servicer in accordance with Sale of Servicing Contract. Each such notice from the Servicer to the MPF Provider shall provide an itemization of the amounts demanded and a total;
- Upon request of the MPF Provider, the NMS shall provide satisfactory documentation as determined and required by the MPF Provider, to prove any amount itemized in any demand for reimbursement from a Selling Servicer; and
- The NMS shall coordinate with the MPF Provider in pursuing and exercising its rights and remedies against the Selling Servicer under the Sale of Servicing Contract.

13.3.13 MI and SMI Notification
If the Mortgage Loans involved in the servicing transfer are insured under an MI and/or SMI policy, the Selling Servicer must notify the MI and/or SMI company of Servicing transfer and if necessary, obtain the approval of the MI and/or SMI company.

It is the responsibility of the Selling Servicer and the Assuming Servicer to adhere to all requirements of the applicable MI or SMI policy.
13.4 Selling Servicer Covenants (1/30/17)\textsuperscript{141}

In addition to the representations and warranties in the Applicable Agreement, by selling the Servicing of Mortgage Loans on the Servicing Transfer Date, the Selling Servicer represents and warrants that for each Mortgage Loan transferred:

- The Selling Servicer is the sole and lawful owner of the Servicing Rights;
- The Selling Servicer has the full right and power to transfer the Servicing Rights to the Assuming Servicer;
- Except for the Sale of Servicing Contract and the Applicable Agreement, the Servicing Rights are not subject to any contract or other agreements of the Selling Servicer;
- If the Selling Servicer is a PFI, the terms of the Master Commitment(s) remain in full force and effect; and
- The Selling Servicer’s Applicable Agreement remains in full force and effect.

Additionally, the Selling Servicer shall remain liable for:

- The Origination Obligations for the Mortgage Loans (if the Selling Servicer sold the loan to the Owner Bank);
- The Credit Enhancement obligations for the Mortgage Loans (if the Selling Servicer sold the loan to the Owner Bank);
- Delivery of the Document Package to the Custodian in accordance with MPF Program requirements; and
- Any violations of the Servicing Obligations that occur prior to the Servicing Transfer Date.

13.5 Assuming Servicer Covenants (1/30/17)\textsuperscript{142}

In connection with any transfer of Servicing to be performed by the Assuming Servicer, the Assuming Servicer must comply with the following requirements:

- The Assuming Servicer must perform all Servicing of the Mortgage Loans in accordance with the Applicable Agreements, the Sale of Servicing Contract, and the Guides;
- The Assuming Servicer shall take such actions as the MPF Provider may deem necessary or advisable, at its sole discretion, to enable the MPF Provider to monitor:
  - All transfers of Mortgage Records;

\textsuperscript{141} MPF Announcement 2017-03 (1/30/17)
\textsuperscript{142} MPF Announcement 2017-03 (1/30/17)
The processing and handling of all information regarding the Mortgage Loans with loss mitigations plans or loan modifications in process at the time of the transfer of Servicing;

- The Assuming Servicer’s and the Selling Servicer’s compliance with all Applicable Laws and the Guides relating to transfers of Servicing and with the terms of the underlying Mortgage Loans; and

- All quality control review results relating to the Mortgage Loans, whether performed by the Assuming Servicer, the predecessor Servicer or otherwise.

- To the extent there are any Mortgage Loans which, at the time of the transfer of the related Servicing, are subject to existing loss mitigation agreements or have loan modification agreements in process, the Assuming Servicer shall:

  - Honor and abide by the terms of such agreements, or propose options that are no less beneficial to the Borrower than such agreements; and

  - Take such actions as may be reasonably necessary to obtain all information required to complete such loan modification agreements.

- The Assuming Servicer shall provide to the MPF Provider such information as the MPF Provider may deem necessary or advisable to evaluate the current and potential effects of the transfer of Servicing on the Borrowers, including, without limitation, any effects such transfer may have on Borrowers with in-process Mortgage Loan workouts, bankruptcies, or litigation;

- The Assuming Servicer shall require in writing all third-party service providers, vendors, and other entities it may engage in connection with the transfer of Servicing to comply with the Guides;

- The Assuming Servicer agrees to make and provide the MPF Provider with such additional reports as may be reasonably requested by the MPF Provider with sufficient advance written notice; and

- Under the terms of the Applicable Agreements, related addendum or the Guides, the Assuming Servicer may be required to purchase Mortgage Loans in certain circumstances. If, however, an Assuming Servicer is not required to purchase a Mortgage Loan and if a Selling Servicer or Selling PFI is required to repurchase such Mortgage Loan from the applicable Owner Bank for any reason, the MPF Provider shall notify the Assuming Servicer of such repurchase request. The Assuming Servicer shall assist the MPF Provider and applicable Owner Bank with the repurchase, and the Assuming Servicer will continue to service such Mortgage Loan until it is repaid, liquidated, or the MPF Provider or the Owner Bank, as applicable, notifies the Assuming Servicer that the Mortgage Loan has been sold.

The Owner Bank shall request the Assuming Servicer to purchase any Serviced Mortgage Loan which does not meet the requirements of the Guides, whether such condition is due to the Selling Servicer’s breach of any of its Origination Obligations or servicing obligations with respect to such Serviced
Mortgage Loan. Without waiving its rights against the Selling Servicer, the Assuming Servicer shall affect such purchase, provided:

- The Selling Servicer has not filed nor has a filing been made against the Selling Servicer under the Bankruptcy Codes;
- Neither a receiver nor a conservator has been appointed for the Selling Servicer;
- The Owner Bank assigns its rights against the Selling Servicer with respect to such Mortgage Loan to the Assuming Servicer; and/or
- The Assuming Servicer is subrogated to the rights of the Owner Bank against the Selling Servicer with respect to such Mortgage Loan.

All Serviced Mortgage Loans for which a repurchase determination is made prior to the 15th of any month, or the prior Business Day if the 15th is not a Business Day, shall be reported as repurchased for the end of the accounting cycle (the last Business Day) of the month with funds to be transferred on the following month’s remittance day (the 18th of the month or the immediately prior Business Day if the 18th is not a Business Day).

### 13.6 Conflict between Selling Servicer and Assuming Servicer

If the Selling Servicer and Assuming Servicer disagree about liability for violations of representations, warranties, covenants or any other Servicing requirements hereunder, the MPF Provider has the right, in its sole discretion, to determine which party or parties are liable for such violations.

### 13.7 Termination of Servicing (1/30/17)

Except as otherwise provided in the Applicable Agreement or the Guides, the Servicing of Mortgage Loans (including the related Servicing Rights) may be terminated for the reasons and in the manner as provided below and in the Guides. In all such cases, the Servicer will continue servicing the Mortgage Loans as required in the Applicable Agreement and the Guides, until the Servicing Rights for the Mortgage Loans are transferred to a successor servicer approved by the Owner Bank and, if applicable, the MPF Provider. The Servicer’s MPF Bank or the MPF Provider, if applicable, shall determine servicing termination transfer date.

Termination of the Servicer’s right to service Mortgage Loans under the Applicable Agreement shall terminate the Servicer's Subject Servicing without separate notice to the Servicer. Such termination shall not relieve the Servicer of its obligation to transfer all funds, Mortgage Loan Files and data for the Mortgage Loans in its possession to the party designated by the Owner Bank, nor relieve the Selling Servicer or Owner Bank of the Credit Enhancement. The Servicer’s MPF Bank shall give notice

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to the Owner Bank and the Originating PFI of termination of the Assuming Servicer’s right to service Mortgage Loans under the Applicable Agreement.

From and after the servicing termination transfer date specified for each Mortgage Loan, the Servicer shall not be entitled to compensation for further services for the Mortgage Loans, but shall be paid all compensation accruing to such servicing termination transfer date and shall be reimbursed for all outstanding servicing advances for the Mortgage Loans in accordance with the Guides. In the event of a termination of the Applicable Agreements for any reason, the Servicer, the MPF Provider and the Owner Bank agree to cooperate in taking such action as is necessary to affect the transfer of Servicing of the Mortgage Loans and the termination of the Servicing Responsibilities and rights of the Servicer hereunder, including, without limitation:

- Transferring to the Owner Bank or, at the written direction of the Owner Bank, to a successor Servicer, all Mortgage Records, data, property, documents and complete records of the Owner Bank then in the custody or possession of the Servicer; and

- Executing documents that are necessary to accomplish the transfer of Servicing Responsibilities and obligations to a successor Servicer. Notwithstanding any provision to the contrary in the Applicable Agreements or Guides, herein, any transfer of Servicing pursuant to this section shall comply with all Applicable Law, including without limitation any requirements regarding notification of each Borrower under the Real Estate Settlement Procedures Act (“RESPA”).

In connection with a termination of the Applicable Agreement for cause by the Owner Bank or the MPF Provider, all reasonable out-of-pocket costs and expenses (including attorneys’ fees) incurred by the Owner Bank and the MPF Provider in connection with the transfer of Servicing following termination shall be paid by the Servicer upon presentation of reasonable documentation of such costs and expenses. In connection with a termination of the Applicable Agreement without cause, the party that initiated the termination shall pay all reasonable out-of-pocket costs and expenses (including attorneys’ fees) incurred by the other party in connection with the transfer of the Servicing Responsibilities upon presentation of reasonable documentation of such costs and expenses. In connection with a termination of the Applicable Agreement by mutual consent, the parties shall pay their own respective out-of-pocket costs and expenses (including attorneys’ fees) incurred in connection with the transfer of Servicing duties.

13.8 Non-Servicer Initiated Transfers

The MPF Bank may, in its sole discretion, direct a Servicer to sell to a party designated by the MPF Bank the Servicing Rights of any and all Mortgage Loans if the aggregate principal amount of Mortgage Loans serviced by the Servicer is less than $10 million.

The purchase price of such Servicing Rights shall equal the fair market value, which will be mutually agreed to by the Servicer, the MPF Bank, and the designated buyer.
13.9 **Non-Compliant Transfers**

Any unauthorized Servicing transfer or any Servicing transfer that is found to be non-compliant with any requirement of the Guides may be the basis for terminating the Applicable Agreements with both the Selling and Assuming Servicers.

Instead of terminating the Applicable Agreements, the MPF Bank has the discretion to impose sanctions, compensatory fees, demand repurchase, or other available remedies when a Servicer participated in an unauthorized Servicing transfer or a Servicing transfer that is found to be non-compliant with any requirement of these Guides. In addition to any other remedy imposed on the Servicer by the MPF Bank, any Servicer that participates in an unauthorized Servicing transfer or a Servicing transfer that is non-compliant with any requirement of these Guides, will be held liable for any losses, liabilities, or other expenses the MPF Bank and MPF Provider incur as the result of the unauthorized transfer.