

MPF® Traditional Product

Loss Mitigation Options Overview

December 2023



About this Material

The following material is based upon recently announced information relative to the MPF® Traditional Product Servicing Guide. These materials should not be used in place of the MPF Traditional Product Servicing Guide and the associated MPF announcement. The official versions of all MPF Guides and recent announcements are available through www.fhlbmpf.com and AllRegs®.

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MPF® Traditional Product Overview of Workout Option Updates

Changes Ahead

As announced in November, the MPF Traditional (conventional) workout options guidelines are being updated

- **Chapter 9** of the MPF Traditional Selling Guide has been updated.
- The new Chapter 9 can be accessed through a link provided in the November 17th announcement.
- The revised guidelines in the new Chapter 9 are optional beginning on **January 3**, and become mandatory on **March 1**.



What's Changed: Workout Option Approvals

In many cases, servicers will now have the ability to extend appropriate workout options to borrowers without prior approval from the MPF Bank

If the Servicing Guide requirements are met, MPF Bank approval is not required (in most cases) for the following workout options:

- Forbearance Plans
- Repayment Plans
- Payment Deferral Plans
- Loan Modifications

MPF Bank approval is required for:

- Short Sales
- Deed-in-Lieu of Foreclosure
- Loan Modifications where the new maturity date exceeds the initial maturity date by more than 20 years

What's Changed: Workout Worksheet

The Workout Worksheet (SG354) located in eMAQCS[®]plus has been revised to reflect the updates made to Chapter 9 of the MPF Traditional Servicing Guide

- Less information is required because servicers have more authority to grant workout plans.
- When required, Form SG354 must be used. No alternative or equivalent forms will be accepted.

Form SG354 is not required for the following workout options (unless an exception is being requested):

- Forbearance Plans
- Repayment Plans

Form SG354 is required for the following workout options

- Payment Deferral Plan (upon completion)
- Loan Modification (upon completion)
- Short Sale
- Deed-in-Lieu of Foreclosure

What's New: Workout Request Application (WRA)

The Workout Request Application (Form SG355) is a **NEW, borrower-facing document**

- The purpose of the new Form SG355, is to collect information about the borrower's hardship and financial situation so servicers can properly determine an appropriate workout option for the borrower.
- It is not required in all cases, but some workout options will require the SG355 as part of the full **Workout Request Package (WRP)**.
- Chapter 9 has been updated to provide guidance on what should be included in a complete WRP.

Workout Request Application

Hardship Information

The hardship causing mortgage payment challenges began on approximately (date) _____ and is believed to be:

☐ Short-term (not expected to last more than 6 months)

☐ Long-term or permanent (expected to last more than 6 months)

☐ Resolved as of (date) _____

Borrower 1	Borrower 2	Type of Hardship (Check ALL that apply)	Required Hardship Documentation
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> Unemployment	Not required
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> Reduction in income: a hardship that has caused a decrease in your income due to circumstances outside your control (e.g., elimination of overtime, reduction in regular working hours, a reduction in base pay)	Not required
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> Increase in housing-related expenses: a hardship that has caused an increase in your housing expenses due to circumstances outside your control (e.g., uninsured losses, increased property taxes, HOA special assessment)	Not required
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> Disaster (natural or man-made) impacting the property or borrower's place of employment	Not required
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> Long-term or permanent disability, or serious illness of a borrower/co-borrower or dependent family member	Written statement from the borrower, or other documentation verifying disability or illness Note: Detailed medical information is not required, and information from a medical provider is not required
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> Divorce or legal separation	Final divorce decree or final separation agreement OR Recorded quitclaim deed
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> Separation of borrowers unrelated by marriage, civil union, or similar domestic partnership under applicable law	Recorded quitclaim deed OR Legally binding agreement evidencing that the non-occupying borrower or co-borrower has relinquished all rights to the property

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The Workout Hierarchy

Temporary Hardships	
If the hardship has...	Then the servicer must consider a...
Not been resolved	Forbearance Plan (Section 9.2.1)
Is resolved and the borrower is not able to reinstate the loan	Repayment Plan (Section 9.2.2)
Is resolved and the borrower is not able to afford a repayment plan	Payment Deferral Plan (Section 9.2.3)

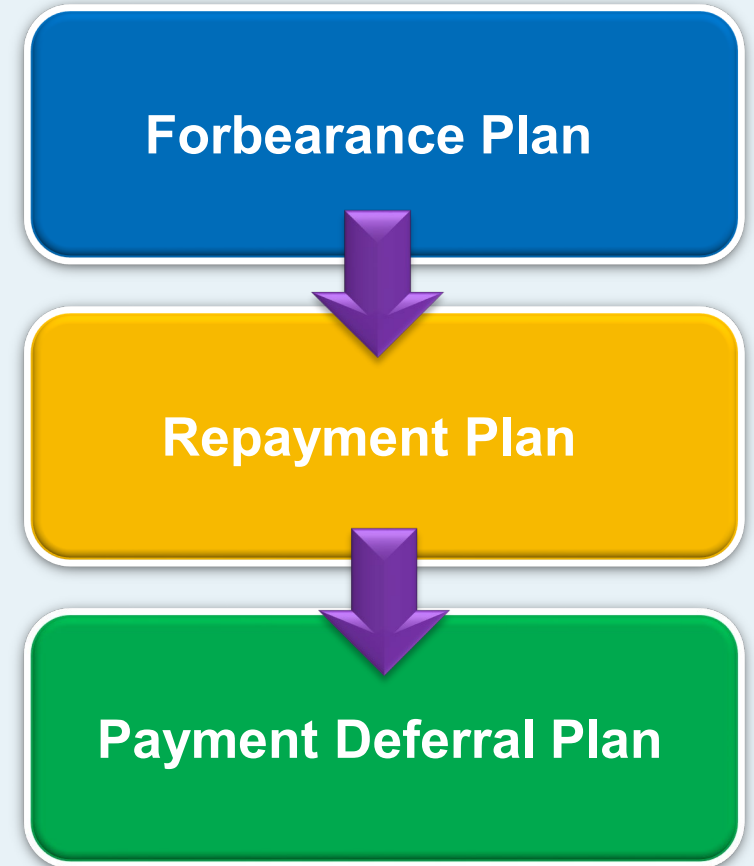
Permanent Hardships
If the borrower is experiencing a hardship that has resulted in a permanent or long-term decrease in income, or an increase in expenses, servicers must evaluate the borrower for a workout option in the following order:
<ul style="list-style-type: none"> • Loan Modification (Section 9.2.4) • Short Sale (Section 9.3.1) • Deed-in-Lieu of Foreclosure (Section 9.3.2)
NOTE: If a borrower requests to be evaluated for a liquidation workout option, the servicer must first evaluate the borrower for a liquidation workout option.

Temporary Hardships Retention Workout Options

Temporary Hardships

What is considered to be a temporary hardship?

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



Forbearance Plans

Forbearance Plans

- When an eligible hardship exists, servicers may **reduce or suspend** the borrower's payments.
- Plans can be offered for an initial period of up to 6 months with the option to grant an extension for an additional 6 months.
- The cumulative length of a forbearance plan may not exceed a total of 12 months or result in the loan becoming more than 12 months delinquent.
- **Updated Guideline:** The property must be a primary residence that is not vacant, condemned, or abandoned.

- **NEW: Prior approval for forbearance plans over 3 months will no longer be required. Plans with exception requests still require up-front approval.**
- **The Workout Worksheet (SG-354) is not required unless an exception to the guidelines is being requested.**
- **A Workout Request Package (WRP) from the borrower is not required.**

Forbearance Plans

- The terms of the forbearance plan must be provided to the borrower in writing.
- Servicers should begin attempts to contact the borrower no later than 30 days prior to the plan's expiration date to determine the following:
 - What's the status of their hardship?
 - Does the borrower have any plans with respect to the property?
 - Should the borrower be evaluated for other workout options?
- **Note:** The servicer may not accrue or collect late charges during the forbearance plan unless the borrower defaults. In that case, the servicer may accrue late charges from the date the borrower defaulted on the plan.



Forbearance Reporting Information

Each loss mitigation option in the new Chapter 9 includes a section titled ***MPF Reporting***

- Provides guidance on how and what to report to the MPF Default Team

Forbearances must be reported monthly using the Delinquent Mortgage & Bankruptcy Report (Exhibit B) and must include the following information:

- Action Code = 20
- Delinquency Status Code = 9
- Provide the applicable Delinquency Reason Code
- Loss Mitigation Type = FFA (Formal Forbearance Agreement)
- Provide the Loss Mitigation Approval (effective) Date
- Provide the Loss Mitigation Estimated Completion Date or Loss Mitigation Actual Completion Date, as applicable

Forbearance Plans

Once the forbearance plan is complete, one of the following must occur:

- The loan is brought current/reinstated
- The borrower is approved for another workout option per the workout hierarchy
- The mortgage is paid in full
- The loan is referred to foreclosure as allowed by applicable laws.

If a temporary hardship is resolved and reinstatement is not possible, workout options should be considered in this order:

Repayment Plan



Payment Deferral Plan

Repayment Plans

Repayment Plans

- When a temporary hardship is resolved, many borrowers cannot afford to reinstate all at once.
 - Repayment plans allow borrowers to make up the shortage they accrued during the forbearance period.
 - The shortage is divided by the repayment term and that amount is added to the borrower's regular, monthly payment.
 - Repayment plans may not exceed 12 months.
 - The total repayment plan payment must not exceed 150% of the borrower's full, regular payment.
- **NEW: Prior approval from the MPF Bank is not required unless an exception to the guidelines is being requested.**
 - **A complete Workout Request Package (WRP) is not required if at the time of evaluation, the loan is less than or equal to 90 days delinquent and the term of the repayment plan doesn't exceed 6 months.**
 - **Submission of the Workout Worksheet (SG354) is not required unless an exception to the guidelines is being requested.**

MPF Reporting for Repayment Plans

Once the Borrower agrees to the terms of the repayment plan, servicers must report the repayment plan monthly on Exhibit B with the following information:

- Action Code = 20
- Delinquency Status Code = 12
- Provide the applicable Delinquency Reason Code
- Loss Mitigation Type: Repayment Plan
- Provide the Loss Mitigation Approval (effective) Date
- Provide the Loss Mitigation Estimated Completion Date or Loss Mitigation Actual Completion Date (as applicable)

What if a Repayment Plan Won't Work?

If a borrower has resolved their hardship but cannot fully reinstate or are unable to afford a repayment plan, consider a payment deferral plan.

Payment Deferral Plan

Payment Deferral Plan

What is a Payment Deferral Plan?

- Deferral plans allow servicers to defer the borrower's past due P&I payments as a non-interest bearing balance.
- The deferred balance becomes due when either the loan matures, the property is sold, refinanced, or if the unpaid principal balance is otherwise paid off.
- The borrower must be able to resume making their regular payment plus any escrow shortage amount.



Payment Deferral Plan

To be eligible for a payment deferral plan, **one** of the following must apply:

- The loan is currently in a forbearance plan.
- The loan is currently in a COVID-19 forbearance plan.
- The loan must be ≥ 2 and ≤ 6 months delinquent as of the date of the evaluation.

- **NEW:** Prior approval is not required unless an exception to the guidelines is being requested.
- **NEW:** The Payment Deferral Agreement (SG356) Form
- A completed Workout Worksheet (SG354) along with all attachments is required to complete a payment deferral plan.
- A complete Workout Request Package (WRP) is not required.

Deferral Plan – General Guidance

Additional Eligibility Criteria

- The loan must have been originated at least 12 months prior to the deferral plan evaluation date.
- Loans may receive more than one payment deferral; however, no more than 12 months of cumulative past-due P&I payments may be deferred over the life of the loan.*
- A subsequent deferral plan's evaluation date must be no sooner than 12 months from the previous plan's effective date.
- The loan cannot be within 36 months of its maturity date.
- The property cannot be vacant or condemned.

**The cumulative cap does not include past due P&I payments deferred as a result of a COVID-19 payment deferral.*

Reminder!
The information in this presentation is not all-inclusive. Always refer to the MPF Traditional Servicing Guide for additional details.

Deferral Plan – Escrows

When a borrower has escrows:

- An escrow analysis must be performed prior to offering a payment deferral plan to make sure adequate funds are available to make future payments.
- If there's a shortage, it must be spread over a term of 60 months unless the borrower can cover the shortage or make it up in a shorter period (not less than 12 months).
- If a shortage is identified in the next annual analysis cycle, it must be spread out over the remaining term of the initial escrow shortage repayment period, or another period of up to 60 months.
- Any escrow shortage identified at the time of the payment deferral should not be added to the deferred balance.



Deferral Plan Balance

What can be included in the deferred balance?

- Between 2 and 6 months of past-due P&I (or up to 12 months of cumulative P&I if more than one deferral has been granted).
- Out-of-pocket escrow advances paid to third parties provided they were paid prior to the effective date of the deferral plan.
- Servicing advances paid to third parties in the ordinary course of business paid prior to the effective date of the deferral plan (if allowed by state law).
- **NOTE:** Out-of-pocket expenses associated with the execution of a payment deferral (i.e. title charges, recording fees, etc.) **MAY NOT** be included in the deferred balance.



Completing a Deferral Plan

Plans should be completed in the same month it's determined that the borrower is eligible

- The **Workout Worksheet (SG354)** must be completed in eMAQCSplus
- Supporting documentation must be uploaded to eMAQCSplus

Servicers may use an additional month to allow for sufficient processing time to complete the deferral plan.

- If the extra month is needed, the borrower must make their full, regular payment for that month.
- After the borrower's payment is received, the servicer must complete the payment deferral within that same month.

NOTE: A borrower may also have to make a regular payment during the processing month if they are 6 months delinquent, or if they will exceed 12 months of cumulative deferred past-due P&I payments.

Completing a Deferral Plan

Within 5 days after the deferral plan is completed, the servicer must send the borrower the Payment Deferral Agreement

- Recording of the Payment Deferral Agreement may be required (legal requirement).
- If recording is required, the servicer must obtain a title endorsement (or similar title insurance product) to ensure that the mortgage loan has retained first lien position.
- Custody guidelines vary based on signature and recording requirements.

Servicers may use the Payment Deferral Agreement (Form SG356) or its equivalent

- **Please note that SG356 provides the minimum level of information that must be provided to the borrower**
- **Additional information may need to be added to comply with specific laws or servicer requirements**

MPF Reporting

Once the borrower agrees to the terms of the payment deferral and the deferral becomes effective, the mortgage no longer has to be reported on the Servicer's monthly Delinquent Mortgage and Bankruptcy Status Report (Exhibit B).

Permanent Loan Modifications

Permanent Loan Modifications

Permanent Loan Modifications may be an option for borrower's who are not eligible for a payment deferral plan or may be facing a permanent hardship.

- Servicers must consider a permanent modification when a borrower is experiencing a permanent hardship caused by a long-term decrease in income or increase in expenses.
- **NEW:** Temporary loan modifications will no longer be available after March 1, 2024, except for servicers of MPF Traditional loans owned by FHLB San Francisco*

Prior approval from the MPF Default Team is not required if all requirements outlined in the Servicing Guide are met

If a loan is less than 90 days delinquent a WRP is required

If a loan is more than 90 days delinquent a WRP is not required

*Servicers of MPF Traditional loans owned by FHLBSF are limited to only temporary modifications and may not offer a permanent loan modification.

Permanent Loan Modifications

A section on permanent loan modifications has been added to the new Chapter 9

- **New forms** related to permanent loan modifications have been created.
- Links to the new forms are found in the November 17th announcement.

- **Loan Modification Cover Letter (Form SG359)**
- **Permanent Loan Modification Trial Period Plan Notice (SG358)**
- **Permanent Loan Modification Worksheet (SG357)**
- **Loan Modification Interest Rate (Exhibit EE)**
- **Temporary Loan Modifications and Forms (Exhibit FF) FHLBSF loans only**

Permanent Loan Modifications

On January 16th, MPF National Education and the MPF Default Team will hold a webinar dedicated entirely to the new permanent loan modification option

You may register on the *Upcoming Webinars* page on the MPF Program website

<https://www.fhlbmpf.com/education/upcoming-webinars>

Liquidation Workouts Short Sales and Deed-in-Lieu of Foreclosure

Short Sales

- **Short sales should be considered when a borrower with a permanent, unresolved hardship is not eligible for other workout options.**
- Short sales reduce the loss that would otherwise been incurred from foreclosing on the property.
- Servicers must evaluate borrowers to determine that an unresolved, permanent hardship exists that has resulted in their payment being in imminent default.
- **Prior approval from the MPF Bank is required**, unless the sale will not result in a loss (which is not technically a short sale). Eligibility for a short sale should be determined during the servicer's evaluation process.
- **UPDATED:** Chapter 9 has been updated to clarify the requirements for payments to subordinate lienholders.



Short Sales: Reporting

Once the borrower agrees to the terms of the short sale, servicers must report the short sale monthly on Exhibit B.

- Action Code = 20
- The applicable Delinquency Code = Either 15 or 17
- The applicable Delinquency Reason Code
- A Loss Mitigation Type = SS
- Loss Mitigation Approval (effective) Date
- Loss Mitigation Estimated Completion Date
- Loss Mitigation Completion Date (as applicable)

Deed-in-Lieu of Foreclosure

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

- Should be considered when the borrower is experiencing an unresolved, permanent hardship and is not eligible for other workout options.
- Like a short sale, they reduce the loss that would otherwise occur through a foreclosure.
- Prior approval from the MPF Bank is required.
- **NEW:** Servicers must screen the borrower for eligibility for a three-month transition lease with no rent payment required. A new section on **Transition Options** has been added.



Deed-in-Lieu of Foreclosure: Reporting

Once the borrower agrees to the terms of the deed-in-lieu of foreclosure, servicers must report the short sale monthly on Exhibit B.

- Action Code = 20
- The Delinquency Code = 44
- The applicable Delinquency Reason Code
- A Loss Mitigation Type = DIL
- Loss Mitigation Approval (effective) Date
- Loss Mitigation Estimated Completion Date
- Loss Mitigation Completion Date (as applicable)
- Within 24 hours of acquiring the property, the servicer must submit (via eMAQCSplus) the **Notice of Acquired Property** form (**Form SG334**)
- If applicable, the servicer must notify the mortgage insurer or guarantor
- Title is to be conveyed directly to the servicer from the borrower

MPF Program Information

MPF Service Center

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

Assistance is also available via the MPF Program Customer Service Portal

MPF Program Default Team

mpfdefaultservicing@fhlbc.com

