

MPF Announcement:

2025-14

Date:

February 10, 2025

Alert:

Clarification

New Policy

Policy Update

Reminder

Training Information

Audience:

Compliance/Legal

Program Management

Origination

Quality Control

Servicing

Underwriting

Product:

MPF Government MBS

MPF Traditional

MPF Xtra[®]

Effective Date:

Immediately (*unless otherwise noted within*)

MPF Traditional Servicing – Determining Loan Modification Terms

Reference

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The MPF Program is updating the steps for determining the terms for a loan modification for MPF Traditional Conventional mortgage loans.

The updated steps to determining the loan modification terms expand eligibility by revising the mark-to-market loan-to-value (MTMLTV) based requirements, provide more equitable payment reduction to eligible borrowers by applying the terms incrementally, and targeting a 20% P&I payment reduction.

Effective Date: Servicers may immediately start determining the borrower's new modified mortgage loan terms according to the requirements outlined in the attached Exhibit A but are required to implement the changes no later than April 1, 2025.

Exhibit A to this MPF Announcement reflects the guideline updates to the applicable MPF Traditional Servicing Guide sections. These policy changes will be reflected in an MPF Traditional Servicing Guide update at a later date.

Please contact the MPF Service Center with any questions or concerns via email at mpf-help@fhlbc.com or by calling (877-FHLB-MPF).

Exhibit A

NOTE: The following updates will replace the referenced Guide section in its entirety upon the effective date described above. While only the steps for determining the new modified mortgage loan terms are being updated, Servicers must refer to all other applicable sections in the MPF Traditional Servicing Guide when evaluating a Borrower for a loan modification.

9.2.4.6.2 Determining New Modified Loan Terms

To determine the borrower's new modified mortgage loan terms, the Servicer must determine the post-modification mark-to-market loan-to-value (“MTMLTV”) ratio, which is defined as the gross UPB of the mortgage loan including capitalized arrearages, divided by the current value of the property.

The servicer must complete all the steps in the order shown in the following table, unless prohibited by applicable law, to determine the borrower's new modified mortgage loan terms, until the earlier of:

- achieving a 20% P&I payment reduction target (i.e. applying the increment or amount as described in each step of the following table to result in a payment reduction that exceeds but is as close as possible to 20% (e.g., 20.01%)); or
- exhausting the steps for determining the modification terms.

Step	Servicer Action
1	<p>Capitalize eligible arrearages. The following are considered as acceptable arrearages for capitalization:</p> <ul style="list-style-type: none"> • accrued interest; • out-of-pocket escrow advances to third parties, provided they are paid prior to the effective date of the mortgage loan modification; • servicing advances paid to third parties in the ordinary course of business and not retained by the servicer, provided they are paid prior to the effective date of the mortgage loan modification, if allowed by state laws; and • any outstanding non-interest bearing balance from a previously completed loan modification or a previously completed payment deferral. <p>Note: If applicable state law prohibits capitalization of past due interest or any other amount, the servicer must collect such funds from the borrower over a period not to exceed 60 months unless the borrower decides to pay the amount up-front. Late charges may not be capitalized and must be waived if the borrower satisfies all conditions of the Trial Period Plan.</p> <p>See Section “9.2.4.7 Administering an Escrow Account in Connection With a Mortgage Loan Modification” for additional information.</p>

Step	Servicer Action
2	<p>Set the modification interest rate to the contractual interest rate in effect for the periodic payment due in the month of the evaluation date.</p> <p>Note: The interest rate used to determine the final modification terms must be the same fixed interest rate that was used when determining eligibility for the Trial Period Plan and calculating the Trial Period Plan payment.</p>
3	<p>If the mortgage loan has a post-modification MTMLTV greater than or equal to 50% and the modified interest rate is greater than the MPF Traditional Loan Modification Interest Rate (See Exhibit EE), then the Servicer must reduce the rate in 0.125% increments until the earlier of:</p> <ul style="list-style-type: none"> ○ achieving the 20% P&I payment reduction target, or ○ reaching the MPF Traditional Loan Modification Interest Rate (Exhibit EE) <p>Note: Where the 20% P&I payment reduction target has not yet been achieved but applying a full 0.125% increment would set the modified interest rate to a rate below the MPF Traditional Loan Modification Interest Rate (Exhibit EE), the Servicer must apply a partial rate reduction increment (i.e., an amount less than 0.125%) to reach the MPF Traditional Loan Modification Interest Rate (Exhibit EE).</p>
4	<p>Extend the term in monthly increments until the earlier of:</p> <ul style="list-style-type: none"> • achieving the 20% P&I payment reduction target, or • reaching a term that is 480 months from the mortgage loan modification effective date. <p>Notes:</p> <ul style="list-style-type: none"> • Any loan modification extending the maturity date by more than 20 years from original maturity date, requires MPF Bank approval prior to offering to Borrower. • When the mortgage loan is secured by a property where the title is held as a leasehold estate, the term of the leasehold estate must not expire prior to the date that is five years beyond the new maturity date of the modified mortgage loan. In the event that the current term of the leasehold estate would expire prior to such date, the term of the leasehold estate must be renegotiated to satisfy this requirement for the mortgage loan to be eligible for the mortgage loan modification.
5	<p>Forbear principal if the post-modification MTMLTV ratio is greater than 50%, in an amount that is the lesser of</p> <ul style="list-style-type: none"> • an amount that would achieve the 20% P&I payment reduction target,

Step	Servicer Action
	<ul style="list-style-type: none"> • an amount that would create a post-modification MTMLTV ratio of 50% using the interest-bearing UPB, or • 30% of the gross post-modification UPB of the mortgage loan. <p>Note: Interest must not accrue on any principal forbearance. Principal forbearance is payable upon the earliest of the maturity of the mortgage loan modification, sale or transfer of the property, refinance of the mortgage loan, or payoff of the interest-bearing UPB.</p>

Servicers are strongly encouraged to use Form SG357 Permanent Loan Modification Worksheet, or its equivalent, to determine the loan modification terms, as Servicers are required to submit that worksheet with the SG354.

The servicer must request MPF Bank's prior written approval by submitting a request through eMAQCSplus to deviate from the prescribed steps for determining the new modified mortgage payment terms, unless a certain step is prohibited by applicable state law.

If the steps are exhausted without achieving the 20% P&I payment reduction target, then the Servicer must offer the resulting terms to the Borrower provided the Loan Modification must result in a fixed rate mortgage loan with a monthly P&I payment that is:

- less than the borrower's pre-modification P&I payment, if, at the time of evaluation, the mortgage loan is current or less than 31 days delinquent or
- less than or equal to the pre-modification P&I payment, if, at the time of evaluation, the mortgage loan is 31 or more days delinquent.

Prior to granting a permanent mortgage loan modification, the Servicer must place the borrower in a Trial Period Plan using the new modified mortgage loan terms. See 9.2.4.8 Offering a Trial Period Plan and Completing a Loan Modification.

Servicers are required to ensure that the loan is not falling out on their TAR (Turn Around Report) and that their Monthly Summary and Remittance Report (SG300) reflects the correct loan level data (including UPB) Servicer is relying on to determine eligibility. Loan Level discrepancies require resolution prior to completing a Loan Modification. See Section "2.13.1 Monthly Accounting Reports."

Servicers are strongly encouraged to use the Loan Modification Worksheet (see attachment to Form SG354) when determining the modified terms, to ensure the proper amounts are being considered, as that worksheet will be required to be submitted with the Form SG354 once the loan modification is finalized.