

# PFI Notice 2013-1

March 22, 2013

**Effective Date:** Immediately

**Special Attention:** PFI MPF<sup>®</sup> Program Management and Servicing Management

**Note:** The changes announced in this PFI Notice apply only to the Conventional MPF portfolio products (Original MPF, MPF 100, MPF 125, MPF Plus)

**Subjects:** Announcing changes to the Origination and Servicing Guides:

- Submitting Loss Claims with Deferred Private Mortgage Insurance Proceeds

Changes will affect the following Origination and Servicing Guide Chapters and Form:

Origination Guide Chapter 12	<b>Conventional Mortgage Insurance, Late Charges and Prepayment Charges</b>
Servicing Guide Chapter 103	<b>General Servicing Requirements</b>
Servicing Guide Chapter 105	<b>Custodial Accounts, Advances and Loan Accounting</b>
Servicing Guide Chapter 106	<b>Insurance</b>
Servicing Guide Chapter 107	<b>Mortgage Loan Delinquency</b>
Servicing Guide Forms and Exhibits	<b>Calculation of Realized Loss (Form SG332)</b>

## Description of Changes:

Submitting loss claims with a portion of the private mortgage insurance proceeds deferred (Origination Guide Chapters 12.1.1 and 12.2.3 (NEW), Servicing Guide Chapters 103.3.4, 105.7.7, 106.2.3, 106.2.4, 107.1.6, 107.5.1 and Calculation of Realized Loss (Form SG332)

Certain private mortgage insurance companies are settling their private mortgage insurance and supplemental mortgage insurance claims with a combination of cash proceeds paid upfront and a deferment of the balance of the claim proceeds. This deferred portion of the claim settlement is commonly known as a deferred payment obligation or “DPO”. The mortgage insurance companies currently settling their claims with a combination of upfront cash proceeds and a DPO are Triad Guaranty, PMI Mortgage Insurance Co. and (PMI) and Republic Mortgage Insurance Company (RMIC).

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Therefore, we are announcing changes in the realized loss calculation methodology and revisions to the Calculation of Realized Loss form (Form SG332) for the submission of realized loss (gain) claims where the mortgage insurance company’s claim settlement is a combination of upfront cash proceeds and a DPO.

**Effective immediately**, the process for the submission of a realized loss (or gain) claim following the disposition of an REO or the liquidation of a defaulted conventional mortgage and the private mortgage insurance company’s claim settlement is a combination of upfront cash proceeds and a DPO, is as follows:

- Upon acquisition of the mortgaged property as REO or liquidation of the mortgage, the servicer is to notify the mortgage insurance company the mortgage was delivered under the MPF Program.
- When submitting the Calculation of Realized Loss (Form SG332) use the new form (dated March 22, 2013 which provides a detailed breakdown of the mortgage insurance proceeds;
- Calculate the realized loss (or gain) by completing and submitting the Calculation of Realized Loss (Form SG332) applying only the mortgage insurance cash proceeds to the realized loss(gain) calculation as summarized below and per the Form SG332 instructions:

**Primary Mortgage Insurance Proceeds**

- Only the cash proceeds amount as shown on the explanation of benefits (EOB) from the mortgage insurance company is included in the calculation of the realized loss (gain) and is therefore included in the MPF Realized Loss (gain) column – see line 15 in the table below;
- The DPO amount as shown on EOB from the mortgage insurance company is noted for recordkeeping purposes on the form in the Receipt/Proceeds – Credit Column but is not included in the calculation of the MPF Realized Loss (gain) – see line 16 in the table below; and
- Total MI claim proceeds (cash proceeds plus DPO amount) as shown on the explanation of benefits (EOB) from the mortgage insurance company is noted for recordkeeping purposes on the form in the Receipt/Proceeds – Credit Column but is not included in the MPF Realized Loss (gain) calculation - see line 17 in the table below.

Below is an example of how the **Primary MI Claim Proceeds section** of the Form SG332 (new information is double underlined) should be completed when the primary MI EOB shows the following claim settlement:

- Cash Proceeds \$25,500
- Deferred Payment Obligation (DPO) \$17,000
- Total Claim Settlement \$42,500

Receipt/Proceeds – Credits	MPF Realized Loss/(Gain)	SMI Claim Loss/(Gain)
15) <u>Primary MI Claim Proceeds / Cash Amount</u> \$25,500	\$ 25,500	////////////////////////////////////
16) <u>Primary MI Claim Proceeds / DPO Amount</u> \$17,000	////////////////////////////////////	////////////////////////////////////
17) <u>Total Primary MI Proceeds</u> (15 +16) \$42,500	////////////////////////////////////	////////////////////////////////////

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## **Supplement Mortgage Insurance Proceeds**

If the Mortgage is insured under an SMI policy the Servicer must file its SMI claim in accordance with the SMI mortgage insurance company requirements regarding primary mortgage Insurance Proceeds that are a combination of an upfront cash payment and a DPO.

If the SMI proceeds are a combination of an upfront cash payment and a DPO, the Servicer must report the total SMI Insurance Proceeds, as shown on the explanation of benefits (EOB) from the SMI mortgage insurance company, on Line 22 of the Calculation of Realized Loss (Form SG332).

Below is an example of how the **Supplemental MI Claim Proceeds section** of the Form SG332 should be completed when the supplemental MI EOB shows the following claim settlement:

- Cash Proceeds \$18,000
- Deferred Payment Obligation (DPO) \$12,000
- Total Claim Settlement \$30,000

<b>SMI Proceeds</b>	<b>MPF Realized Loss/(Gain)</b>	<b>SMI Claim Loss/(Gain)</b>
22) SMI Claim Proceeds	\$ 30,000	\$ 30,000

Due to the uncertainty of when the DPO proceeds may be paid to the servicers by the mortgage insurance companies, in addition to the loss claim processing steps, servicers must also:

- assign the DPO to the MPF Provider, if allowed by the mortgage insurance company, per the mortgage insurance company's requirements;
- Track, manage and retain records of the receipt and payout of both assigned and unassigned DPO proceeds;
- notify their MPF Bank upon the receipt of the DPO proceeds; and
- Send all DPO related information and documentation in its possession to any sub-Servicer or Servicer it uses.

Servicers that are servicing mortgages delivered under conventional MPF portfolio products should establish policies and procedures covering these activities.

Servicers are also reminded that when the Form SG332 is submitted to the master servicer, the servicer must include all necessary documentation, including that sent to or received from any mortgage insurance company, to support each line item expense (debit) and line item receipt (credit) completed on the form, including but not limited to:

- Servicer's expenses; copies of all documents sent, to the appropriate statements, vouchers, receipts, canceled checks, etc.; and
- Funds received; copies of the appropriate mortgage insurance explanation of benefits (EOB) forms, claims forms, statements, payment checks, etc.

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## **Additional Revisions**

**Origination Guide Chapter 12** – Because we added a new section to Chapter 12, “12.2.3 Mortgage Insurance Claim Settlement”, Origination Guide Chapter 12 has been renamed to reflect the inclusion of mortgage insurance claim settlement guidelines. The title of Chapter 12 is now “Mortgage Insurance Coverage, Warranties and Claim Settlement”.

**Servicing Guide Chapters 105.7.7, 105.8.1, 107.4.5.1 and 107.5.3** – Added clarifying language regarding the requirement that the final Calculation of Realized Loss (Form SG332) is to be submitted no later than the fifth (5th) Business Day of the month following the reporting month.

We will work together with servicers on the management of realized loss (gain) claims subject to mortgage insurance settlements with upfront cash proceeds and DPO proceeds and keep them informed as these settlement arrangements progress. Servicers will be contacted regarding already submitted realized loss (gain) claims subject to cash and DPO settlements where the form SG332 claim was submitted using the full amount of the mortgage insurance proceeds. Also, the policies regarding the application of the received DPO proceeds under the MPF portfolio product loss structures are in development. Servicers will be notified through a PFI Notice when these policies are finalized.

### **Origination and Servicing Guide Revisions:**

The following Origination Guide changes can be found on the AllRegs<sup>®</sup> and eMPF<sup>®</sup> websites. Links to these sites are on fhlbmpf.com or may be accessed directly at <http://www.allregs.com/fhlbmpf/>.

- Origination Guide
  - Chapter 12 - Changed text is highlighted in AllRegs
- Servicing Guide
  - Chapter 103 – Changed text is highlighted in AllRegs
  - Chapter 105 - Changed text is highlighted in AllRegs
  - Chapter 106 - Changed text is highlighted in AllRegs
  - Chapter 107 - Changed text is highlighted in AllRegs
  - Form SG332 - Changed text is highlighted in AllRegs

**If you have any questions about these changes, please contact your MPF Bank Representative.**