



Advantage MPP



INFORMATIONAL BULLETIN

MPP BULLETIN

06-20

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2020

Delegated Authority for Forbearance Resolution Plans

*Please contact our
MPP Department at
1-800-274-4636 with
questions.*

Delegated Authority for COVID-19 Forbearance Resolution Plans

Loans that have been afforded a payment forbearance as a result of a COVID-19 related financial impact will require an established method of repayment. This Bulletin provides delegated authority for servicers to establish forbearance resolution plans with borrowers, the review process, and approved resolution methods under such delegated authority for FHLBank Indianapolis conventional loans.

Note - For FHA loans, servicers should follow prescribed FHA guidelines.

DELEGATED AUTHORITY

This delegated authority is limited to the resolution of authorized COVID-19 forbearances only. Under this delegated authority, the servicer may proceed with a review and implementation of a workout plan without the need to submit a package to FHLBank Indianapolis for review and approval. Before entering into any forbearance resolution plan, the servicer must confirm approval with the mortgage insurer or supplemental mortgage insurer, if applicable.

The following criteria must be met in order to enter into a final resolution agreement with delegated authority:

- The loan must be no more than 30 days delinquent at the time of the first suspended payment in the forbearance plan.
- At the expiration of the forbearance period, the borrower must have resumed regular monthly payments and have made at least two consecutive payments during the months they are due.

If the loan does not meet the above listed criteria, delegated authority to the servicer for entering into a forbearance resolution plan is not permitted. For borrowers seeking a loss mitigation plan that falls outside the criteria for delegated authority, the servicer must refer to the loss mitigation options within the MPP guide which includes submitting the complete hardship package to Advantage MPP for review and approval.

REVIEW PROCESS

At approximately 30 days prior to the expiration of the forbearance period, the servicer must begin efforts to contact the borrower to collect the below listed information for review. Per the above criteria, the borrower must begin making their regularly scheduled payments after the expiration of the forbearance period. The 60-day timeframe during which the borrower has resumed making regular payments affords the time for the servicer and borrower to work together to create a suitable plan for repayment of the forbore payments.

The amount of repayment to cure the suspended payments must NOT include any late charges or other fees assessed by the servicer. Once the approved forbearance period has expired, late charges may be assessed on late payments going forward at the servicer's discretion.

The following items must be collected and reviewed for plan suitability as well as any other information the servicer determines to be relevant to evaluate plan suitability:

- Letter signed by the borrowers explaining their recovered financial situation and their ability to resume monthly payments. The borrowers should detail any differences in their current income and expenses from their income and expenses prior to the COVID-19 financial impact.
- Current financial statement (monthly income vs monthly expenses)
- Proof of income (most recent paystubs, SSI statement, etc.)
- Two most recent bank statements from each available account

If a borrower is unable to resume making payments, they should be evaluated for additional incremental forbearance (not to exceed 60-day increments). If the initial forbearance is extended, the servicer must notify Advantage MPP of the afforded extension. The total forbearance must not exceed 210 days. If the borrower will be unable to resume regular monthly payments after 210 days of forbearance, the loan should be presented to Advantage MPP for review and possible further extension.

PAYMENT FORBEARANCE RESOLUTION OPTIONS

Borrowers must be reviewed for the repayment options in the following order:

- 1- Reinstatement in full
- 2- Repayment plan
- 3- Modification

1. *Reinstatement in full*

Demand and receipt of an amount equal to the total P&I (or PITI if applicable) of the suspended payments. The application of such funds must be sufficient to bring the loan current. Full reinstatement must be presented to all borrowers as the initial repayment option.

If a full reinstatement is not a suitable option for the borrower, a repayment plan option must then be pursued.

2. *Repayment plan*

A structured plan consisting of a full payment plus an additional amount each month over a specified period of time to fully repay the suspended payments. The term of the repayment plan must be constructed to bring the loan current as quickly as possible while also maintaining affordability for the borrowers. The total term of the repayment plan must not exceed 12 months.

When establishing a payment plan, the servicer must not adjust the contractual due date (due date under the Note) unless a full P&I payment is being applied. *Servicers must apply the funds in full P&I amounts only when advancing the contractual due date.* Any partial payment must be held in a suspense account and applied to the loan when sufficient funds are received to apply a full payment.

Late fees must not be assessed for the suspended payments, but servicers may assess late fees for late payments under the repayment plan at the servicer's discretion.

Servicers must not report the borrowers as delinquent to the credit bureaus for the suspended payments but may report them as delinquent as necessary for any repayment plan payments that are 30 days or more delinquent.

If the loan is escrowed for taxes and insurance, the servicer may opt to structure the plan to include repayment of the P&I payments only. This would allow the borrower to stay current on ongoing escrow payments while reducing the amount of debt included in the repayment schedule. The escrow portion of the suspended payments may be included in the next escrow analysis and any shortage may be spread over a period of 12 to 24 months. All structured repayment plans must be in writing and be signed by the servicer and the borrowers.

If a repayment plan is not suitable due to the borrowers' financial situation, they may be reviewed for a modification.

3. *Modification*

The modification will consist of capitalizing the amount equal to the total interest of the suspended payments as well as out-of-pocket expenses advanced by the servicer to complete the modification. Examples of these expenses may include title costs, recording costs, etc. Advances for escrowed items, such as taxes and insurance, should not be included in the capitalization. No additional servicing fee or processing fee may be assessed by the servicer for the purpose of these modifications. If legitimate out-of-pocket advances are legally unrecoverable from the borrower, a claim for those expenses may be filed with Advantage MPP for reimbursement consideration. The claim form may be found on our public website and expenses may be itemized in section 16. (Do not claim principal or interest).

If a borrower opts for a modification it must be made clear to the borrower that this option will result in additional interest being paid over the life of the loan. Because the interest is based on the principal balance of the loan and because the principal balance will be increased with the capitalization of the debt, the net result will be an increase of overall interest paid. The reinstatement in full and the repayment plan do not result in an increase in the principal balance and, therefore, do not result in additional interest being incurred.

Servicers are responsible for ensuring that the loan modification is legally enforceable, does not jeopardize any of the rights under the Note and Mortgage, and retains the existing first lien position of the loan.

If a modification is chosen, the servicer must present the following options to the borrowers so they can choose the option that best suits their needs. The servicer is responsible for clearly presenting the details of each option to the borrowers for their consideration.

Modification Options:

1. Capitalization of the above specified debt into the principal balance of the loan, extension of the term equal to the number of suspended payments, and re-amortization to reach a new monthly P&I amount.
2. Capitalization of the above specified debt into the principal balance of the loan and re-amortization of the loan with an extension of the term by as many months as necessary to keep the P&I payments from increasing. Term not to exceed 360 months.
3. Capitalization of the above specified debt into the principal balance of the loan *without* re-amortization of the monthly P&I. The monthly P&I payment will remain the same as the monthly P&I amount at the time the forbearance was granted.
 - If this modification option is chosen, it must be made clear to the borrower that the capitalization of the debt into the principal balance without an adjustment of the term and the monthly P&I will result in a larger payment being required at the time of loan maturity.

Note – No delegated authority is granted for the adjustment of interest rates.

REPORTING

Reporting of all loans placed on a forbearance must occur monthly per MPP Bulletin 04-20. All forbearance reporting should be emailed to defaultreporting@fhlibi.com. Once a forbearance resolution has been determined, the type of resolution must be identified within the monthly reporting. Any additional information regarding terms (term of repayment plan or modification type) would also reduce the number of follow-up inquiries.

Once the resolution has been completed, the completion date must also be included in the reporting. Completion of a forbearance resolution would occur once the loan has been brought current via reinstatement, a completed repayment plan or a completed loan modification.

After the loan has been reported with a completion date, the servicer may cease reporting of the subject loan on the monthly forbearance report.

MODIFICATION DOCUMENTS

If a loan modification is completed, the servicer must submit a copy of the fully executed modification as well as an itemization of any capitalized amount to Advantage MPP via email to the reporting inbox at defaultreporting@fhlbi.com. Once the modification is received by Advantage MPP, the adjustment of terms will be noted and system adjustments will be recorded. Advantage MPP will report any change in terms directly to the master servicer.

CREDIT REPORTING

During the course of the approved forbearance as well as the forbearance resolution plan, the servicer must refrain from reporting derogatory information to the credit bureaus. This may be achieved by suspending reporting or reporting the loan as current.

COMPLIANCE

Servicers are responsible for ensuring all actions taken comply with all applicable legal and regulatory requirements, regulatory guidance, MPP Bulletins, and the MPP Guide. FHLBank Indianapolis reserves the right to review all actions and reporting in connection herewith.

This situation is fluid; Advantage MPP staff will continue to monitor and provide updates as this situation evolves. As always, please contact our staff with any questions related to this bulletin.

FHLBank Indianapolis periodically issues Informational Bulletins to provide program updates and information to approved Mortgage Purchase Program (MPP) sellers, including: MPP Guide revisions and changes; operational guidance or clarifications; and notices/reminders of industry issues that may affect sellers.

The Informational Bulletins are coded so that users can easily identify the issue and year of bulletin publication. For example, "Bulletin 04-20" indicates the fourth Informational Bulletin issued in 2020.

Please retain these bulletins in the back of your MPP Guide for easy reference. Bulletins can also be found posted on the MPP Materials page online.