



Homeownership Program Bulletin

May 28, 2004

Program Bulletin #2004-15

To: CalHFA Approved Lenders and Servicers

PAYOFF DEMANDS ON CALHFA SUBORDINATE LOANS

A. Background. All CalHFA subordinate loans are “silent seconds” on which there are no monthly payments, interest is deferred and payoff is not required until maturity, sale of the property, or refinance of the first mortgage, whichever occurs first. Consequently, all CalHFA subordinate loans are serviced by CalHFA’s in-house loan servicing department.

B. Problem. CalHFA is experiencing problems with Servicers submitting zero balance demands, executing requests for reconveyance (or a substitution of trustee and reconveyance), and executing subordination agreements on CalHFA subordinate loans when the Servicers receive requests for payoff demands or for subordination agreements on the CalHFA first mortgage loan. As a result, CalHFA borrowers, subsequent owners and lenders (as well as their title insurers) are angered and confused when they learn of an encumbrance they thought had been cleared.

C. Policy Change. Effective the date of this bulletin, any Servicer who submits a zero demand, a request for reconveyance, or substitution of trustee and reconveyance, and/or subordination agreement in regard to a CalHFA subordinate loan, will be required to purchase that loan from CalHFA. In addition, the Servicer will be responsible for any costs and fees incurred by CalHFA as a result of, and must indemnify and defend CalHFA against any claims, demands, actions, and proceedings that result from the Servicer’s actions in regard to the CalHFA subordinate loan.

For questions about this bulletin, contact CalHFA, Loan Servicing Department, by phone 916.323.2022; by fax 916.324.1050; by email at servicing@calhfa.ca.gov and you can always visit CalHFA’s web site at: www.calhfa.ca.gov