



Program Bulletin

June 29, 1999

Program Bulletin #99-11

To: CHFA Approved Lenders and Loan Servicers

TERMINATION OR CANCELLATION OF MORTGAGE INSURANCE FOR CONVENTIONAL MORTGAGES (THE HOMEOWNERS' PROTECTION ACT OF 1998)

The Homeowners Protection Act (Act) of 1998 provides for the termination of mortgage insurance and borrower-initiated cancellations for certain mortgages closed on or after July 29, 1999. The Act does not apply to borrowers with government loans (FHA, VA, Guaranteed Rural Housing loans). Therefore, effective July 29, 1999, CHFA is revising its mortgage insurance termination policy to conform to the provisions of the Act on all conventional insured mortgages closed before July 29, 1999, as well as to any conventional mortgages closed on or after July 29, 1999.

CHFA is also offering borrower-initiated cancellation based on the current (new) appraised value of the property. When receiving a request for cancellation established by appraised value, the Servicer must first determine a borrower's eligibility under the Act (including CHFA's policy) prior to ordering an appraisal. The Servicer must select a California licensed appraiser and receive the results directly from the appraiser. The Servicer shall not charge CHFA but may pass on the appraisal fee to the borrower.

In all cases, when mortgage insurance has been canceled, Servicers must advise borrower/s and indicate that no further escrow deposits for mortgage insurance premiums will be due. They must then rebate any unearned mortgage insurance premium received from the mortgage insurer to the borrower/s and advise CHFA's Servicing Administrator in writing within thirty (30) of the mortgage insurance cancellation.

If CHFA's requirements for cancellation are not satisfied, the Servicer must notify the borrower/s that the request for cancellation has been denied and provide the grounds for the denial (including the results of any appraisal). This notice must be provided within thirty (30) days after the later of (1) the date on which the Servicer received the borrower's request for cancellation or (2) the date on which the Servicer received the appraisal.

All eligibility requirements as specified in the Act (such as the definition of an acceptable payment history) are incorporated into and are a pre-condition to CHFA's cancellation options. Servicers shall terminate or cancel mortgage insurance for those mortgages in compliance with the provisions of the Act and shall not use any criteria for such terminations or cancellations that are different

from those of the Act, except as specified herein by CHFA.

The provisions of the act are provided in the Mortgage Bankers Association (800) 793-MBAA and America's Community Bankers (202) 857-3119, "Implementation Guide to PMI Cancellation" books and Fannie Mae's Announcement 99-06 dated May 27, 1999 (except as modified by this bulletin). Please refer to them for information about implementing the requirement of the Act.

Annual Disclosure

The Act requires the Servicer to make annual disclosures to all borrowers of conventional loans whether closed before, on, or after July 29, 1999. The Servicer must also provide an address and telephone number that the borrower may use when contacting the Servicer to obtain information about cancellation of the mortgage insurance. The Servicer is directed to use its own name, address and telephone number, not CHFA's, when making disclosure under the Act. The Servicer's annual disclosure must not imply that any particular borrower has already satisfied the conditions necessary for termination or cancellation or that the borrower has an absolute right to termination or cancellation. The Servicer may also choose to disclose that the borrower may have to pay certain fees, such as those for obtaining an appraisal, before a request for cancellation of the mortgage insurance can be considered. CHFA will not accept a broker's price opinion.

Conventional Loan Origination with 20% Equity; Underwriting Procedure

Conventional loans with a loan-to-value ratio of 80% or less and not requiring mortgage insurance, if closing on or after July 29, 1999, will be underwritten by the California Housing Loan Insurance Fund (CaHLIF), as CHFA's designated underwriter. For these loans, CHFA Lenders will be required to continue to submit a separate credit loan file (as currently required) to CaHLIF, as CHFA's contract underwriter, in addition to the standard compliance loan file submitted for CHFA eligibility requirements.

The current underwriting standards will remain unchanged as employed by CaHLIF for those loans expected to close on or after July 29, 1999.

CHFA CONTACT

Questions by Servicers regarding CHFA's PMI cancellation policy should be directed to CHFA, Single Family Program, Attention: Clint Ingle, Portfolio Manager. For conventional loan origination policy with 20% equity or more, contact Gerald Smart, Loan Production and Special Programs Manager, 1121 L Street, 7th Floor, Sacramento, CA 95814; or by phone (916) 324-8088; or by fax: (916) 324-6589.