



COMMONWEALTH OF
PUERTO RICO

Puerto Rico Housing Finance
Authority
SUBSIDIARY OF THE GOVERNMENT DEVELOPMENT BANK
FOR PUERTO RICO

**DIRECTIVE LETTER NUMBER 2014-003
ACT 87 INSURED MORTGAGES**

**TO ESTABLISH THE CRITERIA FOR EVALUATION AND APPROVAL OF
MORTGAGE SERVICERS FOR ACT 87 INSURED MORTGAGES**

WHEREAS, Act 87 of June 25, 1965, as amended, (“Act 87”) was enacted as a means to increment the inventory of safe sanitary housing in Puerto Rico as well as promote the construction and housing industries of the Commonwealth, by authorizing the Puerto Rico Housing Finance Authority (PRHFA) to insure, jointly or by itself, payments of any mortgage loans issued to finance the construction, rehabilitation and acquisition of such low to moderate income housing, in accordance with those terms and conditions as the PRHFA may see fit.

WHEREAS, Act 87’s Mortgage Reserve Fund is implemented by and through Regulation Number 7699 dated May 22nd, 2009, as amended (“Reg. 7699”). Institutions are approved as insured mortgagees pursuant to Article 4 of Reg. 7699.

WHEREAS, pursuant to Article 4 of Reg. 7699, an entity that requests approval as an insured mortgagee must have an acceptable operational component to service the insured mortgages. However, Article 5 excludes this requirement if the requesting entity makes arrangements to have the mortgages serviced by a PRHFA approved servicer and meets the remaining Article 4 eligibility requirements. Furthermore, Article 31 of Reg. 7699 provides that any subsequent transfer of an insured mortgage’s servicing rights must be previously approved by PRHFA, unless the servicing entity has been approved as an insured mortgagee in accordance with Article 4 and 5 of Reg. 7699.

WHEREAS, Reg. 7699 does not provide specific evaluation criteria to approve servicers or the subsequent transfer of servicing rights of insured mortgages.

WHEREAS, given the fact that Act 87 serves an important government interest of the utmost prominence and provides an additional means of promoting commercial banking to enable more liquidity in the market, PRHFA finds it necessary and proper to prescribe the following evaluation criteria that allows interested servicers and insured creditors alike, to have a clear and concise understanding of the standards for approval and the approval process itself.



NOW THEREFORE, in accordance with Article 5 and 31 of **Reg. 7699**, the PRHFA sets forth the following evaluation criteria in order to approve interested entities as Act 87 mortgage servicers. Applicants must fulfill the following eligibility requirements and demonstrate the ability to service mortgage loans in the Puerto Rican market:

I. Scope of Service, Eligibility and Application Package.

A. Scope of Service:

The prospective servicer must demonstrate the ability to service mortgages in accordance with generally accepted standards of the servicing industry and in accordance with state and federal law. The general and expected scope of service that the applicant must be capable of performing is as follows:

- Perform collection of all payments called under the terms and provisions of the mortgage loan in accordance with federal and local laws.
- Perform proper application of all sums collected.
- Maintain adequate books and records of all sums collected.
- Establish escrow accounts for the payment of taxes and insurances.
- Servicer shall endeavor to obtain the necessary funds or policies from the mortgagor for any mortgage loan to which escrow account deposits have theretofore been waived or suspended.
- Manage insurance requirements related to hazard, flood, and Act 87 mortgage insurance premiums.
- Perform collection of delinquent accounts to minimize the mortgagee's and insurer's losses in accordance with all applicable federal and local laws.
- Collection shall include all management, accounting, assessments and regulatory duties of a single family mortgage loan servicer.
- Implement loss mitigation strategies, as delegated by the mortgage creditor.
- Engage in efficient foreclosure process in compliance with local, state, and federal laws. Servicer must handle properties and evictions in a safely, timely and efficient manner, including proper preservation and protection of such properties as delegated by the insured creditor.
- Servicer must have the management information system (MIS) capabilities required to export data on a monthly basis to the PRHFA's Act 87 operational program, also known as SMA.

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B. Eligibility:

To be approved by PRHFA as an Act 87 servicer, the applicant must, at a minimum:

1. Be duly organized, validly existing, properly licensed (in good standing), or otherwise authorized to conduct its business in each of the jurisdictions in which it services residential mortgages.
2. Have as one of its principal business purposes the servicing of residential mortgages, and at least a proven record of 24 continuous months of operating history servicing real mortgage portfolios (running dummy or simulated portfolios will not count as operating history).
3. Have adequate facilities and staff experienced in servicing mortgages.
4. The applicant must have a local officer in Puerto Rico in charge of foreclosures. The local officer must possess legal knowledge of local laws and regulations related to foreclosures and a minimum of 5 years' experience in the Puerto Rican market.
5. The applicant must have at least one local office in Puerto Rico, with qualified personnel trained to receive and or provide information to clients.
6. Meet a minimum net worth and liquidity requirement of at least \$1 million and holdings of at least \$250,000.00 in cash and/or marketable securities, respectively.
7. Have an errors and omissions policy in effect with such coverage amounts as PRHFA requires, and agree to modify them as necessary to meet PRHFA requirements.
8. Have internal audit and management control systems to evaluate and monitor the overall quality of performance.

C. Application Package:

Each Potential Servicer must provide:


1. A Company profile with a description of its operations, including the length of time they have been in business in the mortgage servicing industry and its experience in the administration of single family mortgage loans in Puerto Rico. The profile must address the demonstrated ability to service mortgages in consideration of the general Scope of Service described in Subsection I (A) and the Eligibility Requirements in Subsection I (B).
2. Evidence of good standing in each of the jurisdictions in which the applicant services mortgages.

3. Articles of incorporation or the pertinent operating documents of the applicant entity.
4. Resumes of the executive officers in charge of providing the services, including the resume of the local officer in charge of foreclosures discussed in Subsection I (B).
5. List of clients.
6. Last two (2) years of Audited Financial Statements.
7. A written commitment to participate in the training sessions discussed below, and a list of the officers that will attend.

II. Training.

Once the applicant's general eligibility criteria has been assessed, the applicant must designate the appropriate personnel to participate in and complete a training session that addresses the claim's process and the monthly data export requirements. The PRHFA will issue final approval once the applicant completes this training and its MIS capabilities have been properly assessed.

III. Approval Process.

 The Application Package must be submitted personally at PRHFA's offices and addressed to the Director of Underwriting, Subsidy and Secondary Market. PRHFA will assess the package and notify its preliminary approval within 60 days after submittal. After PRHFA's preliminary approval, PRHFA will schedule a training session with the applicant. Once applicant has completed the training session, PRHFA will issue a final approval.

If the applicant does not meet PRHFA's eligibility requirements, PRHFA will issue a rejection letter specifically stating the reasons for denial. The applicant will have an opportunity to request revision of any determination and will be afforded said opportunity in accordance to PRHFA's Administrative Proceedings regulation.

By responding to these requirements and requesting approval as a Reg. 87 servicer, respondents acknowledge and consent to the following conditions relative to the approval process. PRHFA is not bound to accept any request for approval that does not meet PRHFA's requirements. Without limitation and in addition to other rights reserved by PRHFA, PRHFA reserves and holds, at its sole discretion, the following rights and options:

1. To accept or reject any and all requests, in whole or in part.

2. In certain cases, additional information or documentation may be requested to supplement the original application for evaluation purposes.
3. To conduct further investigations with respect to the qualifications and experience of each potential servicer.
4. To waive any defect or technicality in any application for approval package received.
5. To refuse any application request from any Servicer that submits a nonconforming, non-responsive, incomplete, inadequate or conditional application for approval package.
6. To take any action enhancing the process for qualification of Servicer, or the subject matter of this Document, that would be in the best interests of PRHFA.
7. To investigate the technical and financial qualifications of Servicers using any other available sources in addition to those included in the application for approval package.
8. PRHFA may reject any application that does not include a response and/or comments to all sections included in this Document.



IV. Nondisclosure Agreement

Throughout the approval process, potential servicers will gain access to information considered confidential by the PRHFA. Potential servicers must submit, along with the approval package, a nondisclosure agreement in the form approved by PRHFA.

Potential servicers and PRHFA understand that these proposals are confidential until the selection process is completed. In order for PRHFA to treat specific documents, or any other information (financial statements) pertaining to a potential Servicer's business as confidential, the Potential Servicer should appropriately mark the relevant documents as such at the top and bottom and must be submitted in a separate sealed envelope identified as "CONFIDENTIAL".

Approved on this 16 day of May, 2014.



José A. Sierra Morales
Executive Director