

Enclosure 2

Background and Statement of Objectives

September 8, 2000

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Background

VA Servicing History

When a GI home loan is foreclosed, VA usually purchases the property from the former loan holder. The property is then marketed by VA to the general public. About 75% of these properties are sold with seller financing provided by VA. These types of loans, called vendee loans, include loans made to veterans, non-veterans, owner occupants, and investors. Some delinquent GI loans are acquired from lenders by VA prior to foreclosure – these are called refunded loans. Additionally, Native American Direct Loans (NADL) are held by VA, as are older, previously sold vendee loans that were repurchased under 38 CFR 36.4600; a small number of direct loans funded by VA under the Special Adapted Housing program; and older direct loans funded by VA under the GI Direct Home Loan program prior to nationwide availability of private lender funds. As a group, these loans constitute VA's loan portfolio. The loans were originated or acquired at 46 VA Regional Offices (ROs). The borrowers made payments directly to VA as the loan holder.

Until 1997, servicing of the portfolio of loans was the responsibility of the Loan Guaranty Division at each of the Regional Offices. VA provided full mortgage servicing, including customer service functions, tax payments, and insurance premium payments, for the portfolio of approximately 29,000 loans. Generally, accounting was a centralized function with monthly payment notices directing payments to a central lock-box.

VA's portfolio had declined over previous years because direct loans were seldom made to veterans under the GI Direct Home Loan program. In addition, most of the vendee loans are sold on a servicing released basis within six months of origination. Because of the reduction in VA's active portfolio being serviced through the 46 Regional Offices, it was determined the loans could be subserviced by a single private contractor at less cost to the Government.

Effective January 31, 1997, VA contracted with a commercial company for most of its portfolio loan servicing activities. The contract was for one year with four option years. The contract also requires that the servicer maintain records reflecting the status of all real estate owned (REOs) by VA. (These records have sometimes been referred to within VA as "non-loans".) The servicer is responsible for paying all real estate taxes, ground rents, and other recurring charges for REOs, in addition to providing flood zone determinations for each property. Under the current contract, approximately 29,000 loans and 15,000 REOs are being serviced.

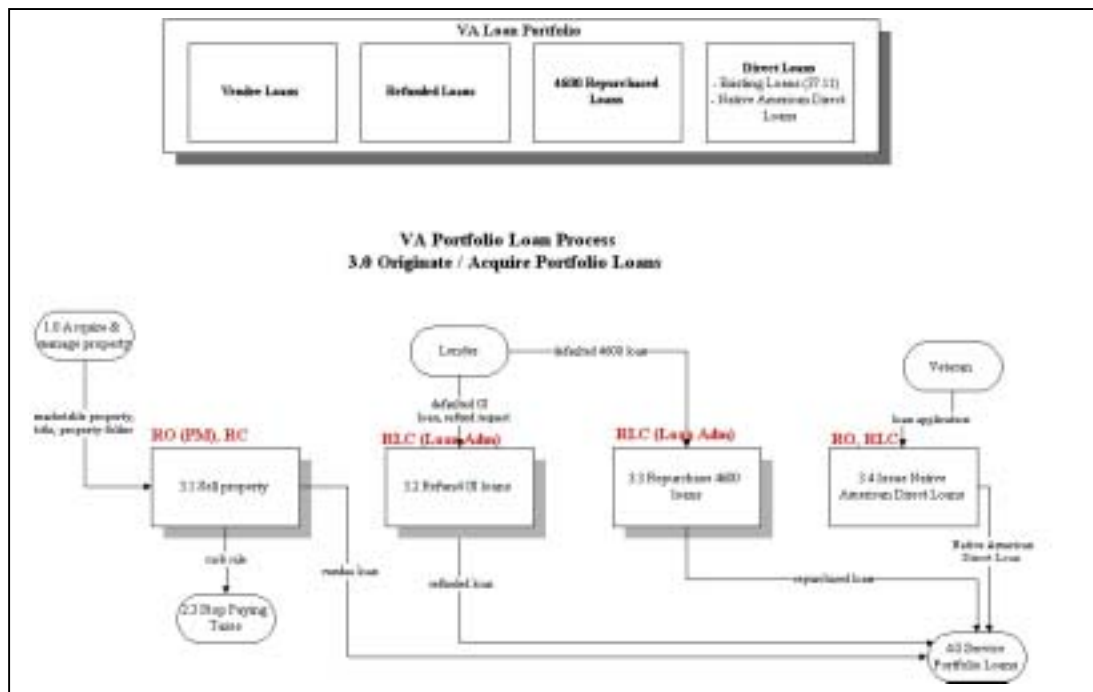
VA retains certain functions, such as custody of loan instruments, approval and completion of loan terminations, and preparation and execution of required loan documents (e.g., mortgage satisfactions or assignments, as well as warranty deeds for paid-in-full installment contract loans). The VA Portfolio Loan Oversight Unit (PLOU) was established at the Indianapolis, Indiana Regional Office to act as liaison with the contractor and to review loans referred to VA for termination.

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Current VA Portfolio Origination/Acquisition Process

This section describes VA's portfolio loan program procedures and presents process maps and narrative descriptions of the maps. The process maps are based on interviews with staff at VA Regional Offices (ROs), Regional Loan Centers (RLCs), Regional Counsel (RC), VA's Portfolio Loan Oversight Unit (PLOU), and the current Servicer.

The diagram below outlines VA's process for originating and acquiring various types of loans. Following the diagram is a brief description of each of the types of loans.



(Loan Type 1) Direct Loans - Typically created when VA issues loans directly to veterans on Native American Trust Land under the NADL Program. This loan type also includes a small number of direct loans funded by VA under the Special Adapted Housing program, and a declining number of older direct loans funded by VA under the GI Direct Home Loan program prior to the nationwide availability of private lender funding.

(Loan Types 3, 4, & 7) Vendee Loans - Created when VA directly funds a loan to finance the sale of an acquired property (REO).

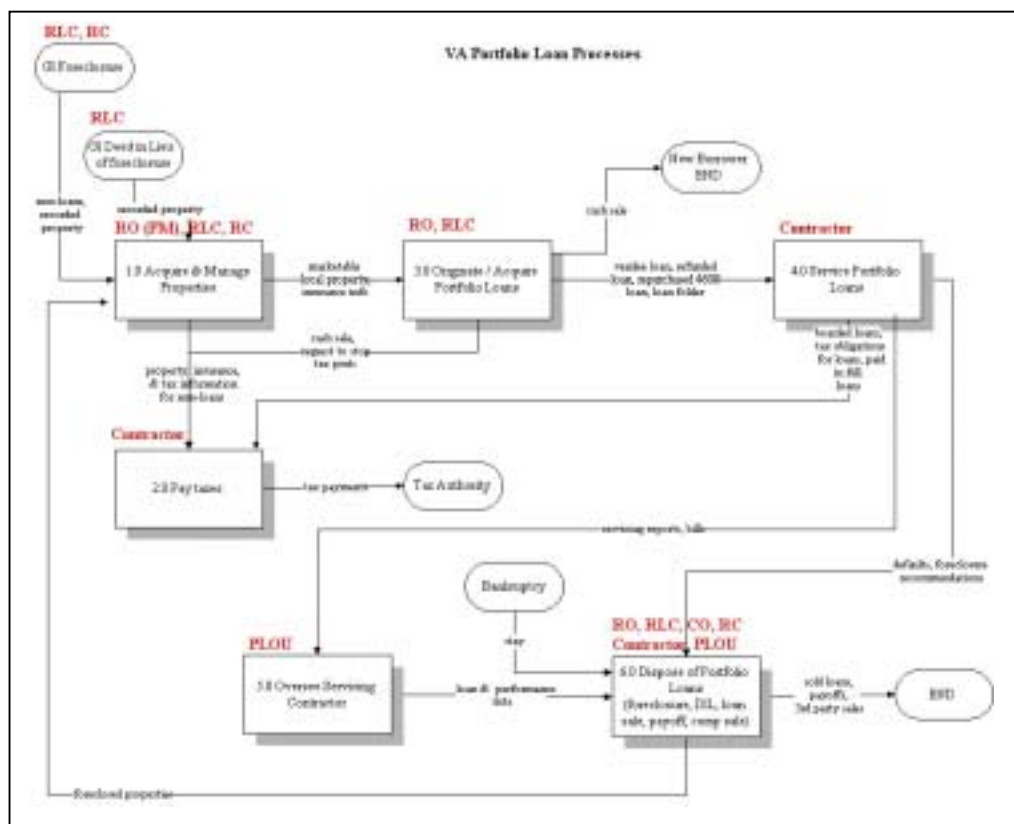
(Loan Type 4) 4600 Repurchased Loans - Created when VA repurchases a vendee loan previously sold to a private lender under the terms of 38 CFR 4600. (Vendee loans are no longer sold under the terms of this regulation.)

(Loan Types 5 & 8) Refunded Loans - Created when VA purchases a guaranteed loan from a private lender to help a veteran avoid foreclosure and the loss of his/her home.

VA's portfolio consists of loans secured by properties located in the continental United States, District of Columbia, Hawaiian Islands, Commonwealth of Puerto Rico (San Juan), and Commonwealth of the Northern Mariana Islands (Guam).

Overview of the Current Servicing Process

As shown in the following diagram of the VA processes, RLCs service delinquent GI loans, a primary input to the portfolio process. RLCs also perform the tasks to acquire refunded and repurchased loans, and originate direct loans. ROs sell acquired properties through the Property Management (PM) activities, thus originating vendee loans. Once loans are in the portfolio and properties are added to the PM inventory, the Servicer services individual loans and pays taxes on properties in the REO inventory. The Servicer services delinquent portfolio loans and refers them to PLOU for foreclosure approval and processing. PLOU services loans during foreclosure and RC forecloses portfolio loans. The PLOU and VA Central Office manage the overall portfolio.



The current Servicer has the responsibility of boarding new loans, collecting payments from borrowers, providing customer service, servicing delinquent loans, paying taxes, and paying insurance premiums and claims. One of the key aspects of the servicing

responsibilities is to establish and maintain REO records and pay taxes for REOs that originate from foreclosed and acquired properties, redeemed loans, and cash sale withdrawals. Another current key aspect of servicing VA's portfolio is partnering with PLOU to initiate the foreclosure process. All loans subject to foreclosure proceedings are referred to PLOU for approval and ongoing servicing of those loans once referred.

GSA FAS Contractor Guidelines

This VA effort will result in the award of a task order under GSA's Federal Supply Schedule (FSS) program for Financial Asset Services (FAS). It will provide loan servicing for approximately 29,000 loans and 15,000 REOs. As a result, all the terms and conditions of the offerors' current GSA contracts will apply, including all references to federal, state, and local laws and guidelines. It will be the offeror's responsibility to ensure it understands all of these requirements. In addition, it is the offeror's responsibility to know and comply with all current laws or regulations pertaining to this requirement (e.g., Treasury regulations, IRS reporting requirements, etc.).

In addition to all guidelines, procedures or circumstances that are addressed in the GSA FAS or current laws or regulations pertaining to this requirement, the servicer will, at a minimum, meet FNMA guidelines. If there are no laws, regulations, or guidelines, the servicer will follow generally accepted servicing customs and practices within the mortgage servicing industry. For unusual actions that are clearly not covered by any of the above, the servicer will consult with the Task Order Project Manager (TOPM).

Statement of Objectives

Vision

The purpose of this task order is to obtain loan servicing in support of VA's portfolio that will significantly improve loan guaranty operations and service to its customers. This effort is envisioned to provide VA with repeatable, defined, accurate, timely, and well managed processes that produce quality service and products that are affordable. This service will be implemented and sustained across all VA's operational elements.

Scope

The purpose of this delivery order is to provide the full range of loan servicing support. This includes such activities as customer management, paying taxes and insurance, default management, accounting, foreclosure, bankruptcy, etc., as well as future actions associated with loan servicing. This Statement of Objectives reflects current VA policies and practices, allowing offerors to propose and price a solution to known requirements. It is anticipated that specific loan servicing requirements and resulting objectives will change over the life of this order. This will result in VA modifying this order to incorporate in-scope changes.

VA's Objectives

VA expects to improve its current loan servicing operations through this task order in several ways. Primary among these is to increase the number and value of saleable loans. In addition, VA wants to be assured that all payments for such items as taxes and insurance are always paid on time. As part of these activities, the VA also has an objective to improve Information Technology data exchange, improving VA's access to information on an as needed basis and improving VA's ability to meet customer needs and to respond to auditors' requirements.

Complementing the effort to accomplish these three objectives, two other equally important goals of VA are: to increase the fiduciary controls and reports in such areas as daily reconciliations, application of cash, and Treasury guideline requirements; and to improve default management activity in such areas as pursuing and documenting all loss mitigation tasks and related borrower communication efforts up to termination of a loan. This includes taking special forbearance actions where appropriate for disabled veterans.

Consistent with the improved activity and interface with borrowers for default management, VA has an objective to improve overall customer service by increasing responsiveness and customer contact, and minimizing customer complaints.

As building blocks for these objectives, VA's objectives also include increasing the efficiency of all portfolio activities, the accuracy of loan servicing information, and the timeliness and flexibility of recurring and ad hoc reporting. In addition, a basic building block objective is to substantially improve loan file information, including accuracy, completeness, and currency.

Finally, VA has an objective to have active, verifiable quality control and audit procedures that will provide an accurate assessment of performance objectives, their measures, and how well they are indicating the quality of service being provided and being used to actually improve service to VA.

The following section's discussion provides additional information about the specific activities that support VA's loan servicing objectives and management activities

Technical and Management Considerations

This section outlines information that will help you prepare your response to VA's request for a task order proposal. It is intended to be used to help you understand VA's objectives when taken in conjunction with the other information you have been provided and/or will be available to you in VA's Library. This section contains specific information that applies to servicing activities, loan accounting, default management, Information Technology (IT) exchange and accessibility of information, customer service, and other related information that applies to how VA does business.

Servicing Activities

Servicer is expected to:

1. Take action to collect and properly apply all payments, as well as document all actions and communications with borrowers.
2. Provide timely recurring and ad hoc reports (data and/or narrative), revised/created as needed.
3. Board all loans (refunded, direct, repurchased, vendee) and REOs expeditiously, accurately, and timely. Provide an edit list of unresolved boarding errors to PLOU for resolution.
4. Conduct a cleanup audit to identify and advance payments for all delinquent real estate taxes, penalties, and interest on the entire portfolio (loans & REOs). VA will reimburse these advances at cost. This project is not to exceed 120 days from the initial assignment date. Progress reports are required.
5. For Taxes:
 - a Perform a "full tax service" (past to date) on all loans and REOs assigned on an ongoing basis (except those for which the Servicer has previously performed this service), not to exceed 30 days from date of assignment. Within 5 business days after REO assignments, Servicer will notify local taxing authorities that title is now vested in the Secretary of Veterans Affairs and to forward all tax assessments to the VA in care of the servicer.
 - b Pay all Real Estate taxes on time (any penalty & interest will be absorbed by the servicer). Servicer is expected to advance any escrow shortage and seek reimbursement from borrower. Servicer is to take advantage of all available discounts.
6. Provide flood certification to VAPM on REOs within 30 calendar days of assignment. Certifications must be in a format acceptable to VA.
7. Pay all hazard and flood insurance premiums on a timely basis. Late payment penalties and losses due to lack of coverage will be the responsibility of the servicer. Servicer is expected to force place lapsed coverage and to take those actions needed to protect VA's interest in the event of uninsured losses (e.g., natural disaster). Servicer is expected to advance any escrow shortage and seek reimbursement from the borrower. Exception: Do not pay premiums if a loan is in foreclosure and the

escrow balance is insufficient to cover premium. The servicer must advise borrower by certified and regular mail that coverage is lapsing.

8. Monitor and report disbursement of loss settlements.
9. Provide all information and loan files required to successfully process and complete VA loan trust sales.
10. Appear (at their expense) on behalf of VA as a witness for loan records when required.

Loan Accounting

Servicer is expected to:

1. Apply and reconcile all cash receipts on a daily basis.
2. Segregate loans by cohort/funds symbol.
3. Provide reports to VA for reconciling cash and for accounting purposes (e.g., aging Treasury Report on Receivables [TROR] (delinquency), application of cash to principal and interest, cash suspense, and loan sale reports).
4. Provide, for all loans in foreclosure, all information required by VA to determine its liabilities and contingent liabilities.
5. Comply with all VA information requirements for IRS and Treasury reporting (e.g., TROR, 1098, 1099, etc.).
6. Reconcile cash received and applied to portfolio as interest and/or principal with changes in portfolio status.
7. Maintain all financial records for the life of the contract plus two years.
8. Provide financial records in a format that **fully complies** with the Credit Reform Act. Loan modifications must be recorded in proper cohort year/fund with interfund reimbursements as required.
9. Provide financial records and reports that facilitate billings, reports, and audits.
10. Maintain suspense accounts as required and take active clearance action.

Default Management

Servicer is expected to:

1. Accept partial payments in accordance with 38 CFR 36.4315(b).
2. Actively pursue and document all collections, loss mitigation, and related communication efforts up to termination of the loan.
3. Provide additional forbearance consideration to disabled veterans with refunded loans, Native American loans, special adapted housing loans, and sales to former owners (e.g., any time Veteran's Entitlement eligibility has been used).
4. Conduct and fully document property inspections and preservation actions taken to protect the VA's interest up to loan termination. Prior approval from PLOU is required for preservation expenses in excess of VA's guidelines.

5. Upon notice of bankruptcy, take immediate and appropriate action to protect VA's interest. All actions taken must be fully documented:
 - a On all bankruptcies, servicer to file "Proof of Claim" and immediately refer the case to VA Regional Counsel.
 - b Servicer to monitor bankruptcy progress and coordinate with VA Regional Counsel for appropriate action (e.g., court appearance, file relief from stay).
 - c Servicer to track and report bankruptcy event timeline progress.
6. **Exception:** VA Regional Office in Honolulu (office of jurisdiction 59) will manage all defaults in Hawaii and the South Pacific (This includes approximately 250 current and defaulted loans).
7. Ensure that insolvency determinations are timely and correct. **Note:** On Native American loans, servicer must provide notice to the TOPM, who will advise on appropriate action (no NADL foreclosures to date).
8. In the area of foreclosures:
 - a Make timely referral and termination of non-judicial foreclosures.
 - b Make timely referral of judicial foreclosures to VA Regional Counsel.
 - c Ensure that foreclosure event timeline progress is tracked and reported (non-judicial and judicial).
 - d Make payment of all liquidation expenses only on non-judicial foreclosures and submit voucher for reimbursement after foreclosure is completed.
9. Compute bid amounts and provide appropriate paperwork following sales on direct and refunded loans (vendee bids are total debt only):
 - a Order appraisal at appropriate time (direct & refunded loans only unless required by state law).
 - b All liquidation appraisals must be reviewed by a VA approved individual under the general guidelines established for Staff Appraisal Reviewers (SAR) in VA's Lender Handbook (VA Pamphlet 26-7).
10. After portfolio loan foreclosure/termination:
 - a Advise VA Property Management of custody conveyance within two business days of completed foreclosure sale.
 - b Within five business days, notify local taxing authorities that title is now vested in the Secretary of Veterans Affairs and to forward all tax assessments to VA in care of the servicer.
 - c Notify VA eligibility centers of loan terminations and loss amounts involving veterans' eligibility.
 - d Disburse, properly apply, document, and report all foreclosure expenses and sale proceeds.

IT Exchange and Accessibility

1. Servicer is expected to provide the following:
 - a Sufficient training on appropriate servicer system(s) for VA personnel and its authorized agent(s) to access and query VA portfolio loan data.
 - b 24/7 access to servicer's VA database.
 - c Minimum of daily system updates (notes, data, and all relevant information).

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- ## Customer Service

- ### Other Related Information

1. Demonstrate that all actions taken protect VA's best interest.
2. Keep records satisfactory to VA pertaining to each loan. Records and related documentation are VA's property and, upon termination of this contract, will be delivered to VA or its designee at the servicer's expense. The servicer will retain data

for life of contract plus 2 years and is required to make all records (electronic, paper, etc.) available at servicer's office or a site selected by VA or its designee as requested (e.g., audit, PLOU, review, etc.).

3. Comply with all federal requirements for depositing cash [(e.g., 31 USC 3302(b) (cash deposits) and ITFM 6-8030 (over \$5,000, deposit same day; next day if received after banking hours), etc.]
4. Maintain flood status of the portfolio loans & REOs in accordance with PL 103-325.
5. Establish tax records with only the following tax information provided by VA on REOs:
 - former owner's name
 - property address
6. Advance payments for taxes (including penalty and interest) and file reimbursement vouchers with PLOU for taxes not the responsibility of the current borrower. If other lienable items are discovered, immediately notify VA Property Management.
7. Comply with all Real Estate Settlement Procedures Act (RESPA) provisions.
8. Perform a monthly reconciliation of escrow balances, with supporting documentation of servicing system records.
9. Maintain and provide, upon request, evidence of acceptable policies to ensure that VA's investments and assets are protected against risk through instruments such as, but not limited to:
 - Fidelity bond
 - Errors and omissions insurance policy
 - Cross default insurance policy
 - Adequate corporate line of credit for advances
10. Comply with the Fair Credit Reporting Act
11. Provide and exchange various information and data with non-governmental entities working on projects involving government interests (e.g., VA Trust Program, independent commercial accountants, etc.).
12. Be prepared, in the future, if the need arises to appear on behalf of VA in various judicial proceedings (e.g., bankruptcy proceedings and judicial foreclosures).
13. Provide adequate system security, privacy, backup, and disaster recovery for VA's automated database records, as well as maintain adequate security and control over VA's manual/hard copy loan records.
14. Segregate all funds and maintain separate records related to VA's portfolio. Separate accounts and reconciliations will be established and performed for all activity related to VA's portfolio.