

NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY
SINGLE FAMILY MORTGAGE PROGRAM
SERVICING GUIDE

Revised: December 2, 2013

TABLE OF CONTENTS

| I. GENERAL | Page |
|--|-------------|
| 1.101 Definitions | 1 |
| 1.102 Mortgage Servicing Agreement..... | 4 |
| 1.103 Amendments..... | 4 |
| 1.104 Eligible Servicers..... | 4 |
| 1.105 Servicing Facilities | 6 |
| 1.106 Transfer of Servicing | 6 |
| 1.107 Transfer of Servicing Fee..... | 7 |
| 1.108 Tax Compliance | 7 |
| 1.109 Mortgage Loan File | 7 |
| 1.110 Reports | 7 |
| 1.111 Default Reporting | 8 |
| 1.112 Annual Reporting Requirements..... | 8 |
| 1.113 Hazard Insurance Requirements | 8 |
| 1.114 Insurance Loss Settlements..... | 10 |
| 1.115 Possession Of Hazard Insurance Policies | 11 |
| 1.116 Flood Insurance | 12 |
| 1.117 Insurance Coverage Varying From Requirements | 12 |
| 1.118 Escrows..... | 12 |
| 1.119 Servicer To Satisfy MI Requirements..... | 13 |
| 1.120 Sub-Servicing Not Permitted..... | 16 |
| 1.121 Owner Occupancy/ <u>Hardship</u> | 16 |
| 1.122 Assumptions..... | 16 |
| 1.123 Repurchases..... | 17 |
| | |
| II. MORTGAGE LOAN SERVICING: DELINQUENT ACCOUNTS | |
| 2.101 Guidelines For Dealing With Delinquencies..... | 19 |
| 2.102 Late Charges..... | 20 |
| 2.103 Loss Mitigation..... | 20 |
| (a) Liquidation Agreement..... | 22 |
| (b) Special Forbearance Agreement..... | 22 |
| (c) Modification Agreement..... | 22 |
| (d) Partial Claim..... | 24 |
| (e) Short Sale..... | 25 |
| (f) Hardship Assumption..... | 26 |
| (g) Change of Ownership: Assumptions – Special Programs..... | 27 |
| (h) Assumptions: Special Requirements: HOPE LOANS..... | 27 |
| (i) Deed-in-Lieu of Foreclosure..... | 28 |
| (j) Pre-foreclosure Sale..... | 29 |

| | | |
|-------|---|----|
| 2.104 | Notice of Lien; Probate Proceeding, Etc | 29 |
| 2.105 | Request For Partial Release, Easements, Waivers Consents And Condemnations | 29 |
| 2.106 | Bankruptcy..... | 30 |
| 2.107 | Institution Of Foreclosure..... | 33 |
| 2.108 | Action During Foreclosure | 34 |
| 2.109 | Offer Of Payment During Foreclosure..... | 35 |
| 2.110 | Properties In Foreclosure; Disposition REOs..... | 35 |
| 2.111 | Charge-off..... | 37 |
| 2.112 | Sales Subject to Existing Mortgage Loan | 38 |
| 2.113 | Property Inspections | 38 |

III. MORTGAGE LOAN SERVICING: GENERAL

| | | |
|-------|---|----|
| 3.101 | Fidelity Coverage; Direct Surety Bonds; And Errors And Omissions | 41 |
| 3.102 | Conflicts Of Interest; Servicer's Access To Privileged Information Concerning Mortgagor's Accounts | 43 |
| 3.103 | Changes In Servicer's Organization; Bankruptcy | 44 |
| 3.104 | Compliance..... | 44 |

IV.MORTGAGE LOAN SERVICING - SPECIAL PROGRAMS

| | | |
|-------|--|----|
| 4.101 | Program Description | 46 |
| 4.102 | Change of Ownership - Assumptions..... | 46 |
| 4.103 | Submission Packages..... | 47 |
| 4.104 | Special Requirements - HOPE LOANS..... | 47 |

V. HMFA FORMS & EXHIBITS

HMFA #108, Request For Reimbursement

HMFA #172, Collective Delinquency Report

HMFA #173, Individual Loan Servicing Report

HMFA #173A, Default Recommendation

HMFA #174, Foreclosure Report

HMFA #175, Bankruptcy Report

HMFA #177, Notice of Assumption

HMFA #178, Report of Hazard Insurance Loss Exceeding \$15,000

HMFA #180 Request For MI Deletion

HMFA #181 Letter of Authorization For Custodial Account For Taxes & Insurance

HMFA #182 Letter of Authorization For Custodial Account For Principal & Interest

HMFA #185, Transfer of Servicing, Request for Approval

HMFA #520, Notice to Mortgagor

Letter of Owner-Occupancy of Principal Residence

HMFA #201 Application for Permission Not to Owner Occupy

Maximum Servicing Limits Per Bond Series

I. GENERAL

This Servicing Guide is applicable to all Mortgage Programs of the New Jersey Housing and Mortgage Finance Agency (the "Agency") unless the Agency shall specifically indicate otherwise for a particular loan program. This has been updated to include guidance for the Agency's Sub-Servicers as well as Servicers. In general, with the exception of guidelines specific to the pre-Bond Series 38 servicers, where the term "Servicer" is used the guidance will apply equally to sub-servicers.

1.101 Definitions

The following terms shall, for all purposes of the Servicer's Guide, have the following meanings:

Accounting Guide: The guide, as it may be amended from time to time by the Agency, containing the accounting rules governing the Seller's Guide and the Servicer's Guide.

Agency: The New Jersey Housing and Mortgage Finance Agency, sometimes herein called the "HMFA."

Bonds: Debt issued by the Agency pursuant to its Mortgage Revenue Bond authority that is secured by mortgage loans under the Agency's various programs.

Bond Series: Bonds that are issued by the Agency from time to time pursuant to a General Resolution of the Agency and a Series Resolution that specifies terms that are applicable to the bonds in that series and the Mortgage Loans purchased with the proceeds of that series of bonds.

Co-Maker/Co-Signer: An individual who signs the Mortgage Note with the Mortgagor and is equally responsible with her/him for the terms of the Mortgage Loan but does not have an interest in the property.

Eligible Property: A residential building located in the State of New Jersey which is (i) an existing Single Family Dwelling; (ii) a newly constructed Single Family Dwelling which has never been occupied; (iii) a 2-4 family dwelling that has been used as a residence for the previous five years; (iv) a 2 family dwelling located in a Target Area that will be used for residential purposes (need not meet the five year requirement). A building or condominium unit shall not qualify as an Eligible Property if any portion is used or intended to be used for non-residential purposes unless a waiver has been granted in advance. A building in which the mortgagor cannot legally occupy a unit within sixty days of closing shall not qualify as an eligible property.

Escrows: Payments required to be made under the terms of a Mortgage Loan by the Mortgagor and to be paid into an escrow account to cover expenses which shall include, but not be limited to, all taxes and special assessments, as well as hazard (including Condominium HO-6 as required, see Hazard Insurance requirements) and flood insurance premiums, and mortgage insurance premiums. Non escrow loans are not permitted for any Agency programs.

FHA: Federal Housing Administration.

FHLMC: Federal Home Loan Mortgage Corporation (Freddie Mac).

FNMA: Federal National Mortgage Association (Fannie Mae).

HBP: Home Buyers Program. The residential mortgage loan purchase program to be financed from time to time by the issuance from the Agency of its Bonds.

HMP: Home Mortgage Program.

HPA: Homeowners Protection Act of 1999

MI: A mortgage insurer licensed to do business in the state and qualified to provide insurance on mortgage loans purchased by FNMA/FHLMC. All companies used in the mortgage programs must be approved by the Agency and, if applicable, the Bond Insurer and have a claims paying rating satisfactory to the rating agencies.

Mortgage Insurance Certificate (MIC): FHA insurance evidenced by the FHA Mortgage Insurance Certificate.

Mortgage Loan: A long term loan evidenced by a promissory note or bond which is secured by a first mortgage lien on real estate on which there is located an Eligible Property, subject only to liens of taxes or assessments which are not delinquent, building restrictions or other restrictive covenants or conditions, leases or tenancies whereby rents or profits are reserved to the owner, joint driveways, sewer rights, party wall, rights-of-way or other easements or encroachments, provided that none of the foregoing, in the opinion of the Agency, materially affect the security for the Mortgage Loan.

Mortgage Purchase Agreement: That agreement between the Agency and the Seller under which the Agency agrees to purchase from the Seller Mortgage Loans in accordance with the Seller's Guide and applicable Term Sheet.

Mortgage Servicing Agreement: The agreement between the Agency and Servicer under which the Servicer agrees to service Mortgage Loans, originated with the proceeds of Bond Series prior to Bond Series 38, purchased by the Agency in connection with the Mortgage Program.

Mortgagor: The person or persons who executed the mortgage instrument securing a Mortgage Loan together with the maker or makers of the note evidencing said Mortgage Loan (if any such person is not a maker of the note), all of whom shall be natural persons. The term "Mortgagor" shall also include natural persons who have assumed the obligations of a Mortgagor. The term Mortgagor does not include a co-signer who does not have an interest in the dwelling. Mortgagors shall meet the requirements of the Code.

Recapture: Loans closed with tax exempt bond financing, after December 31, 1990, are

subject to a repayment of the interest savings to the IRS if a property is sold or refinanced within the first nine (9) years after closing. The maximum recapture amount is 6.25% of the original loan amount or 50% of the net appreciation.

RECD or RHS: Rural Economic and Community Development Service (also known as The Rural Housing Service), a provider of loan guarantees.

Seller: A mortgage lender which has entered into a Mortgage Purchase Agreement with the Agency.

Seller's Guide: The Agency policy and procedures guide for participating lenders, as it may be amended from time to time by the Agency, containing the rules governing the delivery of Mortgage Loans purchased by the Agency from the Seller under the Mortgage Purchase Agreement. The Seller's Guide includes all provisions of the Accounting Guide by reference.

Seller/Servicer: A mortgage lender who has entered into a Mortgage Purchase Agreement and a Mortgage Servicing Agreement with the Agency.

SFHRB: Single Family Housing Revenue Bonds.

TOS: Transfer of Servicing Fee due the Agency for all transfers of 150 or more loans.

VA: Veteran's Administration.

1.102 Mortgage Servicing Agreement and Mortgage Sub-Servicing Agreement.

The Mortgage Servicing Agreement between the Agency and the Servicer sets forth the agreement of Servicer to service the Agency's Mortgage Loans in accordance with the Mortgage Servicing Agreement and this Servicing Guide.

The Mortgage Servicing Agreement pertains to servicing of all Agency loans for which servicing has not been service released to the Agency prior to Bond Series 38. Effective with Bond Series 38, all loans purchased by the Agency are on a service release basis only.

The Mortgage Sub-Servicing Agreement between the Agency and its sub-servicer sets forth the master/sub-servicer agreement for the sub-servicing of loans whose servicing rights are owned by the Agency. The terms and conditions of the Sub-Servicing Agreement along with this Servicing Guide shall govern.

1.103 Amendments.

This Servicer's Guide may be amended or supplemented by the Agency from time to time by issuance of changed pages, such amendments or supplements to be effective 5 business days after the date of mailing thereof.

1.104 Eligible Servicers/Sub-Servicers.

(a) The Servicer is a corporation duly organized and validly existing and in good standing under the laws of the jurisdiction under which it was organized and is existing and has the power and authority, corporate and other, to own its properties and carry on its business as now being conducted and is duly qualified to do such business in the State of New Jersey and wherever such qualification is required.

(b) The Servicer is not under any cease and desist order or other order of a similar nature, temporary or permanent, of any Federal or State authority, nor are there any proceedings presently in progress or to its knowledge contemplated which would, if successful, lead to the issuance of any such order. The Servicer is not subject to any Bankruptcy or insolvency proceedings, either voluntary or involuntary, and is not aware of any such proceedings that may be contemplated. Servicer shall notify the Agency of any changes that would make the foregoing statements inaccurate at any time during the term of the Mortgage Purchase Agreement.

(c) The Servicer is and shall be at all times while servicing Mortgage Loans:

- (1) An approved Seller and Servicer of mortgage loans to and for FHLMC and/or FNMA; and/or
- (2) A "Supervised Lender" as classified by the VA Under Section 500 (d) of the Servicemen's Readjustment Act; and/or
- (3) A FHA approved mortgagee; and

- (4) Service a minimum of \$250 million of single family mortgage loans; and
- (5) Demonstrate satisfactory delinquency ratios (current and 36 months previous) that are acceptable to the Agency or Bond Insurer or credit enhancement provider to which the Agency is bound.

If the Servicer is a bank or trust company, savings bank, mortgage company, national banking institution or savings and loan association, it must maintain an office in the State of New Jersey and be able to demonstrate to the Agency and the Bond Insurer that it is in compliance with the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) and any amendments or successor legislation to FIRREA or other acts of government that may be promulgated from time to time by any federal, state or quasi-governmental agency having appropriate jurisdiction.

If the Servicer is a mortgage banker and is owned by or affiliated with an entity that is a bank or trust company, savings bank, national banking institution or savings and loan association, then the Servicer must demonstrate to the Agency and the Bond Insurer that its owner or affiliated entity is in compliance with the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) and any amendment or successor legislation to FIRREA or other acts, without limitation, that may be promulgated from time to time by any federal, state or quasi-governmental agency having appropriate jurisdiction.

The Servicer's current financial statements must be acceptable to the Agency and the Bond Insurer. The total dollar amount of servicing that is performed by any Servicer may be limited in accordance with the terms of the Bonds or Bond Insurer requirements.

If at any time during the course of participating in the Agency programs, an Eligible Servicer fails to meet the above criteria, it must notify the Agency immediately. The Agency will be permitted to take any and all appropriate actions that are consistent with the terms of the Mortgage Servicing Agreement including requiring compliance or termination of this Agreement. Failure to immediately notify the Agency pursuant to this paragraph **shall be grounds for immediate termination**.

The Agency, with the consent of the Bond Insurer or other credit enhancer, if applicable, may waive or modify certain of the above criteria. However, all Eligible Servicers must meet and, at all times while participating in Agency bond programs, be in compliance with requirements of this Section.

1.105 Servicing Facilities

Servicer must maintain servicing facilities that are staffed with trained personnel to adequately service mortgages in accordance with standards normally employed by private institutional mortgage investors, as determined at the Agency's sole discretion. Servicer's personnel shall be familiar with all regulations and requirements affecting mortgages serviced for the Agency including, but not limited to, those issued by MI Companies and

any governmental agencies insuring or guaranteeing any mortgage loan being serviced. Out of state customer relations offices must be accessible by toll free telephone number. Unless a waiver is given, Servicers must be capable of electronic communication compatible with the Agency's Mortgage management reporting systems. The Servicer must designate and assign a knowledgeable employee to be the principal contact to the Agency for matters relating to customer services.

HMFA shall provide Servicer with written notice of any breach of any term of this contract. Servicer shall have a period of sixty (60) days, or that period of time agreed upon between the Servicer and HMFA, to cure said breach to the satisfaction of HMFA.

1.106 Transfer of Servicing (Inapplicable to Sub-Servicers)

Servicing may be sold or transferred to an Agency approved Seller/Servicer subject to approval by the Agency in advance of the transfer and in accordance with the Agency's Transfer of Servicing (TOS) Regulations. Merger, acquisition, and sale are addressed in the TOS regulation. Servicer must request approval of the transfer by the Agency at least 90 days prior to the transfer of servicing by filing Form #185 (attached) with the Agency. The transfer will be completed following approval by the Agency; payment of the transfer fee, if applicable; and resolution of any outstanding issues relative to the loans being transferred.

Servicers that are not current Sellers are not permitted to accept transfer of existing Agency servicing. It is the Seller's responsibility to ensure that the proposed servicing arrangement is approved by the Agency and, if applicable, the Bond Insurer.

The Servicer shall maintain a servicing portfolio of at least 150 Agency loans. [three year rule deleted]

Unless a waiver is given by the Agency any Servicer that has not participated as a Seller for a period of seven (7) years immediately past shall be required to transfer its Agency Servicing Portfolio back to the Agency.

1.107 Transfer of Servicing Fee

As governed by the Agency's Regulations, N.J.A.C. 5:80-21.1 *et seq.*, a servicing fee equal to three (3) months servicing shall be paid to the Agency following the Agency's approval of such transfer. This fee applies to all transfers of 150 loans or greater. Sub-Servicers may not transfer servicing.

1.108 Tax Compliance

The Servicer shall provide borrowers with all tax information and reports customarily provided by Servicers. The Servicer shall be aware of all provisions of the Internal Revenue Code affecting the servicing of Agency loans.

All property taxes shall be paid by the mortgagor's escrow account. Any penalties, interest and fees due to late payment of taxes are the responsibility of the Servicer. The

Servicer shall not release or use a specific mortgagor's tax and insurance escrow funds for any purpose other than paying taxes or insurance premiums or other costs for which the escrow has been specifically established.

1.109 Mortgage Loan File

Servicer shall maintain an individual credit and servicing file (collectively the "Servicing File") for each Mortgage Loan which shall contain all documents delivered by the Agency or the participating lender at the time of loan purchase and such other credit files as may follow to be held by Servicer, as set forth in the Seller's Guide, as well as all legal notices, correspondence, forms, reports and results of conversations relating to the Mortgage Loan. []The Servicing File need not contain form collection letters and form notices to Mortgagor, provided Servicer possesses an adequate record of collection efforts, including the dates of mailing of such letters and notices.

Each file shall be clearly marked to indicate the Agency's interest in the Mortgage Loan and the loan number assigned to it by the Agency shall be affixed on the file and at the upper right-hand corner of each original document. The Mortgage, Mortgage Note, MI/FHA Certificate, RECD or VA guarantee or Loan Guaranty Certificate will be forwarded to a FNMA approved document custodian or may be retained by the Servicer if the Servicer is a FNMA approved document custodian.

Servicer shall contract with a FNMA approved document custodian to maintain physical possession of the Collateral File, track and pursue delivery of "trailing documents" and prepare regular exception reports of missing documents. The Collateral File will at a minimum contain the original mortgage note; recorded original mortgage; MI/FHA Certificate, RECD or VA Guarantee, or Loan Guarantee Certificate; Assignment of Mortgage and original title policy. The Agency must be contractually empowered as a third party or signatory to the custodian services contract to have access to the Collateral File and any reports produced by the document custodian. In the alternative, the Agency may contract directly for custodial services and direct that the Servicer forward Collateral files to the Agency's document custodian. The Custodian or Servicer will provided a Missing Document Report every Quarter, ending February, May, August and November. Also a reconciliation procedure for the Collateral File will need to be established and approved by the Agency.

1.110 Reports

Servicer shall render all reports regarding servicing of any Mortgage Loan at the time and in the form requested by the Agency. Every report and all correspondence regarding a particular mortgage must reference the Agency eleven or six digit loan number. Any errors, differences or corrections must be immediately brought to the Agency's attention.

1.111 Default Reporting

(a) Delinquency Reporting

Within 5 business days of the last day of the month, the Servicer shall furnish the

Agency with a Collective Delinquency Report, HMFA #172, along with the applicable HMFA #173, Individual Loan Servicing Report and HMFA #173A Default Recommendation.

The Individual Loan Servicing Report and Default Recommendation Report must be accurately prepared and updated each month, until the account is reinstated or other approved servicing actions are taken, including foreclosure action and loss mitigation. Default servicing actions are recommended by marking the appropriate box on the HMFA #173 and HMFA 173A. Servicing Actions for which claims will be made must be supported by HMFA #173. The HMFA #173 must be accurately completed or it will be returned to the Servicer. The eleven digit HMFA account number must be on this form.

(b) Foreclosure and Bankruptcy Reporting

Once the Agency has approved a Servicer's recommendation for foreclosure of a Mortgage Loan, each loan should be updated monthly on the Foreclosure Report, HMFA #174 or Bankruptcy Report, HMFA #175. These reports must be accurately completed and received by the Agency no later than the 5th business day of the following month. Copies of pleading and/or correspondence may be sent along with these reports for reference by the Agency.

1.112 Annual Reporting Requirements

The Servicer shall furnish to the Agency, within ninety (90) days after the end of the Servicer's fiscal year, financial statements with an auditor's report relating to the Servicer's financial statements and mortgage loan operations. The following documentation (if applicable) must also accompany this submission:

- Proof of good standing status with FNMA
- Proof of good standing status with FHLMC
- Proof of good standing status with HUD/FHA ("Qualified Status")
- Proof of good standing status with VA ("Supervised Lender")
- Proof of current fidelity bond policy
- Proof of current surety bond policy
- Proof that the Servicer's current total loan portfolio meets the Agency minimum standard of \$250 million
- Proof of the current total loan portfolio delinquency rate
- Organization chart specifying the mortgage servicing department

1.113 Hazard Insurance Requirements

The property securing each Mortgage Loan must be covered by hazard insurance meeting the following requirements:

(a) Scope and Amount of Coverage

Insurance coverage in the following kinds and amounts is required at all times while the Mortgage Loan is being serviced including during foreclosure and post

foreclosure until the Agency's insurance takes effect:

1. Fire and Extended Coverage Insurance shall be required in an amount at least equal to the requirements set forth in (i) and (ii) below. The amount of coverage shall be sufficient, except for deductibles as permitted below, so that in the event of any damage or loss to the property, coverage by the insurance shall provide the greater of (i) compensation equal to the full amount of the damage or loss or (ii) compensation to the mortgagee under the Mortgage Loan equal to the full amount of the unpaid balance of the Mortgage Loan.
2. Where Servicer is aware that the property is exposed to any appreciable hazard against which Fire and Extended Coverage does not afford protection, Servicer shall advise the Agency of the nature of such hazard and the additional insurance coverage, if any, Servicer has obtained against such hazard.
3. Insurance policies shall be sufficient in amount and include a scope of coverage to meet the requirements of the mortgage insurer. However, the amount of coverage that the mortgagor is required to purchase may not exceed the replacement value of the mortgaged premises.
4. Unless a higher maximum deductible amount is required by State law, the maximum allowable deductible for is the higher of \$1,000 or 1% of the face amount of the policy. The deductible clause may apply to either fire, extended coverage, or both.
5. Condominium projects must be covered by blanket multi-peril, public liability and flood insurance policies as would normally be required by private institutional investors. Annual renewal policies should be maintained in the borrower's file.

In addition, projects of 5 or more units must maintain fidelity bond coverage for the association of owners.

6. Condominium units will be subject to expanded Hazard Insurance requirements for loans closed after April 1, 1992. In addition to the Master Policy carried by the Homeowner's Association, borrowers must secure coverage for all unit elements present at the time of purchase which are covered by the mortgage as part of the unit, but not covered by the master policy. Such elements include interior walls, floor and ceiling coverings; fixtures; appliances; cabinets; and any other elements specifically defined in the condominium documents as the unit owner's responsibility.

Coverage can be secured as part of a Homeowner's Policy (HO-6). This policy should clearly indicate coverage provided for mortgaged property separately from personal property.

The amount of coverage required must be sufficient to restore the interior of the unit to its condition at the time of purchase. The minimum acceptable coverage is \$50,000 with a \$1,000 deductible unless documentation can be provided which places the cost of restoring the interior portion of the unit at a lower value.

The cost of additional insurance is to be included when calculating the monthly housing expense ratio. In addition, lenders must require that the first year premium is paid at the time of closing and escrow the appropriate funds at closing.

(b) Minimum Financial Rating of Carrier; No Assessments; Other Requirements

Each hazard insurance policy must be written by a hazard insurance carrier which falls into a financial category, as designated in Best's Key Rating Guides, of B+ or better, Class IV or better or Demotech, Inc. Financial Rating of A (exceptional). (The Agency will normally make an exception upon specific request where the insured is an assigned risk.) Each carrier must be specifically licensed or authorized by law to transact business in the State.

(c) Policies Unacceptable

Policies are unacceptable where; (i) under the terms of the carrier's charter, bylaws or policy, contributions or assessments may be made against the Agency or the Agency's designee; or (ii) contributions or assessments may be made against the owner of the property which could become a lien on the property superior to the lien of the mortgage; or (iii) by the terms of carrier's charter, bylaws or policy, loss payments are contingent upon action by the carrier's Board of Directors, policyholders, or members; or (iv) the policy includes any limiting clauses (other than insurance conditions) which could prevent the Agency or the owner of the property from collecting insurance proceeds.

(d) Mortgagee Clause; Endorsement

All policies of hazard insurance must contain or have attached the standard mortgagee clause customarily used in the area in which the property is located, naming the Agency as an insured. The policy must provide that the insurance carrier shall notify the Agency at least ten days in advance of the effective date of any cancellation of the policy.

It is the Servicer's responsibility to review each insurance policy for proper endorsement and coverage level. The Servicer must review all notices of policy changes and transfer and require proper endorsement and coverage in order to fully protect the Agency's interest as first mortgagee. The Servicer must cause all insurance drafts, notices, policies, invoices and other documents to be delivered directly to Servicer, regardless of the manner in which the insurance policy is endorsed. Although Servicer shall cause the Agency to be named as first mortgagee, Servicer must cause Servicer's address to be used in the endorsement in lieu of the address of the Agency.

1.114 Insurance Loss Settlements

The Agency shall be named as payee on insurance loss drafts. Servicer shall be given a power of attorney to endorse drafts on behalf of the Agency in amounts which do not exceed \$15,000. Upon endorsement by HMFA or Servicer of such drafts, Servicer shall place all insurance proceeds in an unapplied account pending application. If proceeds are applied to restoration, any excess proceeds shall be applied against the Mortgage Loan debt unless other disposition has been approved by the Agency.

(a) Amount of Loss \$15,000 or Less

Servicer is not required to submit an HMFA #178 report to the Agency on the disposition of proceeds of losses \$15,000 or less, unless Servicer recommends application of the proceeds against the Mortgage Loan debt. Servicer shall determine that the loss has been repaired to at least its original condition. After the property has been repaired, and provided there is no delinquency or other servicing problem, Servicer shall disburse the proceeds. Servicer shall exercise prudent judgement in determining whether a physical inspection of the property should be made prior to the release of the draft.

(b) Amount of Loss Exceeding \$15,000

Servicer is required to submit a report to the Agency advising of the nature and extent of any loss in excess of \$15,000 immediately upon learning of it. As soon as possible, Servicer shall recommend a disposition of the proceeds on HMFA #178 indicating the proposed nature and cost of repairs. Partial disbursement or a draw plan may be utilized, provided that physical inspection is made to ensure that the work has been satisfactorily completed and is at least of equal value to the amount of funds to be disbursed on each draw.

Whenever a total or near total loss is sustained, the Servicer shall make a detailed recommendation regarding the disposition of insurance proceeds. The Agency will then authorize a servicing action. Servicer shall adhere to all applicable laws regarding application of insurance proceeds, all MI requirements, and prudent practices concerning notification, inspection and approval. Servicer shall take any action necessary to protect the priority of the mortgage including, but not limited to, obtaining waivers of materialmen or mechanics' liens.

1.115 Possession of Hazard Insurance Policies

Under the Servicing Agreement, Servicer agrees to indemnify the Agency for any loss suffered by the Agency as a result of failure to maintain, with respect to each mortgaged property, hazard insurance meeting the requirements set forth in the Seller's Guide. However, where such insurance is unobtainable, except at a premium rate of which is more than two times the rate applicable to the Mortgage Loan when made, Servicer shall not be required to indemnify the Agency for such loss provided: (i) Servicer has documented attempts by Servicer or Mortgagor to obtain such insurance from all sources customary in the area and advised the Agency of such attempts at the time coverage is sought; (ii) any procedures required by the MI to protect the Agency's interest as an owner of a Mortgage Loan have been satisfied; and (iii) Servicer continues its efforts to obtain such insurance, including New Jersey Underwriting Association Insurance.

Servicer shall always maintain possession of the original or scanned copy of the current hazard insurance policies and endorsements thereto. Permission is also given to carry mortgage impairment insurance providing protection against the risks of not maintaining hazard insurance policies and endorsements. Any such mortgage impairment policy must meet the following minimum requirements:

- (a)** Be underwritten by an insurance carrier which falls into a financial category, as

designated in Best's Key Rating Guides of B+ or better, Class IV or better, or a Demotech, Inc. Financial Stability Rating of A (exceptional) and is specifically licensed or authorized by law to transact business within the State.

- (b) Provide coverage for the Agency as mortgagee in addition to the interest of the Servicer and/or mortgagor.
- (c) Provide for at least a 180 day prior written notice to Servicer and the Agency of the carrier's intention to cancel or not renew.
- (d) Be approved by a regulatory authority to which Servicer is subject, if such approval is required. It shall be the responsibility of Servicer to assure that the mortgage impairment policy meets all applicable requirements. Servicer is responsible for maintaining possession of all insurance policies for Mortgage Loans not covered by a mortgage impairment policy. Servicer's obligation to indemnify the Agency shall in no way be limited to coverage under a mortgage impairment policy.

Exception to the indemnification of the Agency on hazard insurance matters will be reviewed on a case-by-case basis.

1.116 Flood Insurance

Mortgage loans shall be in compliance with the provisions of the National Flood Insurance Reform Act of 1994. If at any time it is determined that the property being financed is located in a special flood hazard area, the borrower shall be required by the Servicer to obtain flood insurance.

1.117 Insurance Coverage Varying From Requirements

Insurance coverage which does not meet the foregoing requirements will be considered on a case-by-case basis by the Agency upon request by Servicer. The Agency may require such additional coverage as it may deem necessary in connection with any case or group of cases.

1.118 Escrows

Servicer shall collect Escrows to the extent permitted by the Real Estate Settlement Procedures Act, as amended, along with the monthly installment of interest and principal. Servicer shall at all times comply with escrow accounting procedures under the Real Estate Settlement Procedures Act (RESPA). The Escrows shall be held in trust for the benefit of the Agency and Mortgagors in an account in a bank or trust company, savings bank, national banking association or savings and loan association (which may be the Servicer) and must be insured to the fullest extent legally possible by the Federal Deposit Insurance Corporation. Servicer shall execute HMFA Form #181, Letter of Authorization For Custodial Account For Taxes & Insurance, and HMFA Form #182, Letter of Authorization For Custodial Account For Principal & Interest, and shall assure that the Agency should at all times have immediate access to such funds. Servicer shall maintain adequate records of proof of payment of all taxes, insurance premiums and other Escrow expenses. The Agency requires a two month cushion using the

disbursement date of the escrow item.

Servicer shall as often as required by law and at least annually compute the required Escrow payments on the basis of assessments and bills and reasonable estimates thereof. Escrow analysis should be done after the final tax bill is issued by the municipality. If the amount of Escrows held by the Servicer, together with the future monthly installments of Escrows payable prior to the date of taxes, insurance premiums and other Escrow expenses exceed the amount required to pay such charges as they fall due, the excess shall be either promptly repaid to Mortgagor if there is no default under the terms of the Mortgage loan. Interest payable to Mortgagor for Escrows or any other funds held by Servicer, whether due to contractual agreement or operation of law, shall be paid by Servicer, at Servicer's sole expense.

When Escrows collected from Mortgagor are insufficient to pay taxes, insurance premiums and other Escrow expenses, when due, Servicer should attempt to obtain the necessary additional deposit from Mortgagor before the latest date on which such items may be paid. This includes increased premiums on the insurance policies, real estate taxes and added assessments. If Mortgagor fails to remit the amount of deficiency or if there is insufficient time to obtain such amount, Servicer shall pay from its own funds any items when due, and should reflect a deficit balance in Mortgagor's Escrow account. All penalties or liens assessed due to the late payment of escrow expenses shall be paid by the Servicer and not deducted from the Mortgagors Escrow accounts.

Whenever Servicer makes/has made advances with respect to any Mortgage Loan that is not in foreclosure, to pay taxes, insurance premiums and other Escrow expenses, the Servicer, after diligent attempts to secure payments from the mortgagor, may request that the Agency reimburse the Servicer each time such advances with respect to such Mortgage Loan have accumulated to an aggregate amount of \$1,000. Any such advances which have not been so reimbursed shall be reimbursed by the Agency out of the proceeds of foreclosure, assignment or other final disposition of the Mortgage Loan, if applicable. The Servicer shall contact the Agency with regard to any Mortgage Loan for which Escrow advances are made that are sufficiently large to warrant relief to the Mortgagor. All escrow payments are to be made on a timely basis. Interest and/or penalties, due to Servicer's negligence, are to be paid at the Servicer's sole expense. Under no circumstances are property preservation expenses or late fees to be paid from the escrow account.

Mortgagors may not pay their own taxes and insurance. Non-escrow loans are **NOT** permitted for any Agency first mortgage programs.

1.119 Servicer to Satisfy MI Requirements

Under the Servicing Agreement, Servicer is obligated to satisfy and comply with all requirements of the MI with respect to Mortgage loans serviced for the Agency. See schedule below which summarizes required coverage. Coverage may be canceled only with written approval of the Agency. Each Mortgage Loan, regardless of loan to value ratio, must continually remain eligible under the Agency's applicable mortgage pool

insurance policies, if applicable. Refer to Section (d) Homeowners Protection Act of 1998 for all loans closed after July 29, 1999.

Only the lower of the purchase price or the original appraised value may be used when determining the current loan to value percentage for purposes of MI cancellation. Borrowers must be current for each of the past 24 months and not have declared bankruptcy within the past 24 months. Borrowers must also be occupying the mortgaged premises.

The Agency will require repurchase or reinstatement of MI, FHA, VA or RECD coverage if such coverage is canceled due to the Servicer's negligence or failure to comply with the Guide.

If MI cancellation is requested by the Mortgagor, a completed HMFA form #180, Request for PMI Deletion, is to be submitted to the mortgage servicing officer.

Mortgage Insurance

(a) Mortgage Insurance Required by Bond Series as Follows:

| Bond Series | MI Requirements | LTV |
|---|-----------------------------------|---|
| NLP-1 and 2 (Bond Series 001-002) | 22%-1 family 25%-2 to 4 family | greater than 80% greater than 70% |
| NLP-3 (Bond Series 003) | 30% | greater than 80% |
| NLP-4 (Bond Series 004) | | 100% life of loan |
| SMP-1 to 5 (Bond Series 005-009) | 30% | greater than 80% |
| HMP (all issues) (Bond Series 010-019) | 35% | life of loan |
| HBP (Bond Series 020- closeout) | 25% | between 80.01% to 90% |
| | 30% | between 90.01% to 95% |
| | 30% | between 95.01% to 97% - Term 25 years or less. |
| | 35% | between 95.01% to 97% - Term greater than 25 years but not more than 30. |
| | 40% | between 97.01% to 100% |
| SFHRB (Bond Series 0 - 0 thru March 30, 2007) | same as HBP | same as HBP |
| SFHRB (Bond Series 0 starting April 1, 2007) | | |
| | 12% | between 80.01% to 85% |

| | |
|-----|---|
| 25% | between 85.01% to 90% |
| 30% | between 90.01% to 95% |
| 30% | between 95.01% to 97% - Term 25 years or less. |
| 35% | between 95.01% to 97% - Term greater than 25 years but not more than 30. |
| 40% | between 97.01% to 100% |

(b) **Mortgage Insurance is required on all Home Mortgage Program loans** (Bond Series 010 thru 019) regardless of loan-to-value ratio. The coverage required is 35% and must remain in force for the full term of the mortgage loan.

(c) **Full Force and Effect**

As of the closing date and continuously thereafter, such insurance must be in full force and effect, the benefits of such mortgage insurance must run to the Agency and nothing must have been done or omitted to impair the rights of the Agency thereunder.

(d) **Homeowners Protection Act of 1998 (HPA)**

Each Servicer is expected to take full responsibility for strict compliance to the HPA. Should any discrepancies arise for non-compliance, Servicers will be required to repurchase the loan and be liable for any fines or penalties. The following is an outline of the HPA:

- Applies only to loans closed after July 29, 1999
- Applies only to single family dwellings (2, 3 and 4 unit properties are exempt)
- Does not apply to loans that are insured by FHA or guaranteed by VA or RECD
- Original LTV ratios are based upon the mortgage amount divided by the lesser of the original purchase price or original appraised value
- Loans must be current with a good payment history as defined by the Act
- Borrower can request cancellation when original value ratio reaches 80% provided there has been a good payment history as defined by the Act. These requests must be submitted in writing to the Agency for approval
- As required by the Act, termination is automatic when the original value ratio reaches 78%, using original amortization schedule provided at loan closing, providing borrower's payment history is current pursuant to the Act
- Final termination is at mid-point of the loan's amortization period, regardless of original value ratios, but borrower must be current on payments, including escrows, late fees or unreimbursed advances

Loans closed prior to July 29, 1999 are not subject to the HPA and cancellation of private mortgage insurance will be at the discretion of the Agency, consistent with the provisions noted above in Sections (a), (b) and (c).

Currently, the Agency does not accept an appraisal based on appreciated value of the property. Requests for PMI cancellations will not be approved unless the ratio has dropped below 80%. **Written notification is required for all PMI**

deletions.

For loans issued under the Agency's At Home Downtown Program the MI coverage or FHA-MIP will not be deleted regardless of the current Loan to Value (LTV). These loans are out-side of the Homeowners Protection Act of 1998.

(e) Canceling FHA's Annual Mortgage Insurance Premiums

In the past, some FHA borrowers have paid annual mortgage insurance premiums throughout the life of their mortgages. Effective for all loans closed on or after January 1, 2001, FHA's annual mortgage insurance premiums will be automatically canceled under the following conditions:

- For mortgages with terms more than 15 years, the annual mortgage insurance premiums will be canceled when the loan to value ratio reaches 78 percent, **provided** the mortgagor has paid the annual mortgage insurance premiums for at least five years.
- For mortgages with terms 15 years and less and with loan to value ratios 90 percent and greater, the annual mortgage insurance premiums will be canceled when the loan to value ratio reaches 78 percent, irrespective of the length of time the mortgagor has paid the annual mortgage premiums.
- Mortgages with terms 15 years and less and with loan to value ratios of 89.99 percent and less will not be charged annual mortgage insurance premiums.

Although the annual mortgage insurance premiums will be canceled as described, the contract of insurance will remain in force for the loan's full term. This mortgage insurance premium cancellation provision only applies to loans in the MMI fund.

FHA will determine when a borrower has reached the 78% loan to value ratio based on the lower of the sales price or appraised value at origination. New appraised values will not be considered. For example, if the lower of the sales price or the appraised value at origination was \$100,000, when the loan amount reaches \$78,000, FHA will no longer collect annual mortgage insurance premiums on the loan. However, in cases where the loan payments have been accelerated or modified, cancellation can be based on the actual amortization of the loan as provided to HUD by the servicing mortgagee.

1.120 Subservicing Not Permitted for Traditional Servicers

Subservicing or partial subservicing is not permitted unless the subservicing agent is wholly owned by the Servicer or a common parent entity and 1) the Servicer will remain fully responsible for all obligations under this Guide and the Mortgage Servicing Agreement and 2) all subservicing correspondence with the mortgagor will indicate that the Servicer is the real party at interest.

Examples of subservicing are customer servicer default management, or investor accounting that is performed by a third party.

Subservicing is grounds for termination of the Mortgage Servicer's Agreement.

Sub-servicers under contract directly with the Agency as the Master Servicer may not sub-contract any servicing obligations without the Agency's consent except as may be permitted in the Sub-Servicing agreement.

1.121 Owner Occupancy

All mortgaged properties must be owner occupied for the life of the Mortgage Loan. Servicers are required to monitor the occupancy status of all Mortgage Loans at least annually for the first three years and randomly thereafter. Verification may be achieved by letter, review of checks, addresses, telephone contact or other reasonable methods. Servicer shall notify the Agency in writing upon learning of, or if it has reason to believe, that the property is not owner occupied and of any circumstances that would be helpful to the Agency in determining whether to authorize acceleration of the mortgage. Servicers are also required, upon learning that Mortgagor is no longer occupying the mortgaged premises, to send the Mortgagor a letter outlining a ruling issued by the IRS regarding the deduction of mortgage interest. (Refer to attached sample.)

Mortgagors with a credible hardship may apply to the Agency for permission to temporarily not occupy their mortgaged property. The hardship must meet two elements. First, there must be a substantial reason, acceptable to the Agency, why the mortgagor is no longer able to reside in the mortgaged property. Examples of reasons are that the household size has outgrown the number of bedrooms, or there has been a financial hardship, or there has been an illness or job change that requires the mortgagor to move to another location. Second, there must be an inability to sell or refinance the mortgaged property without incurring financial loss. Permission will be granted for one-year periods after which the mortgagor will be required to reapply for extension of the temporary non-occupancy authorization from the Agency.

1.122 Assumptions

The obligation to make payments due on any Mortgage Loan shall not be assumable unless written approval is received from the Agency. Each Mortgage shall contain a provision giving the Agency the right to accelerate the maturity of the Mortgage Loan upon transfer of ownership of the mortgaged property. Mortgage Loans may be assumed only if the assuming Mortgagor complies with the residence requirement, first time homebuyer requirement, income requirements and purchase price limitations. On Mortgage Loans originally closed after December 31, 1990 and assumed prior to year nine (9) Recapture Provision apply to both the original Mortgagor and the assuming Mortgagor.

1.123 Repurchases *

Servicers may be required to repurchase a mortgage if the Agency determines that servicing deficiencies have had a materially adverse effect on the value of the loan. No fees or reimbursements will be paid to the Servicer if the Servicer is required to repurchase a loan from the Agency for any reason. Non-compliance to any repurchase demands may impact servicing contract renewals.

* No reimbursements or expenses on any properties will be made until all outstanding

repurchases have been satisfied.

II. MORTGAGE LOAN SERVICING: DELINQUENT ACCOUNTS

2.101 Guidelines For Dealing With Delinquencies

Servicer shall take such action with respect to delinquencies as it would take with respect to Mortgage Loans serviced for others or held in its own account.

Servicer's personnel must be sufficiently skilled in financial counseling and mortgage loan servicing techniques to assist Mortgagors in bringing their mortgages current and protecting their equity and credit rating, while protecting the interests of the Agency. The purpose of all collection efforts is to bring the account current in the shortest period of time. Discussions with Mortgagors should include a determination of the cause of the delinquency, as well as an attempt to obtain a definite commitment from Mortgagor to bring the account current. If the account cannot be brought current immediately, and Mortgagor's circumstances and past record justify it, Servicer should attempt to cure the delinquency in the shortest period possible by employing relief provisions discussed in Section 2.103 below.

Servicers should treat each delinquency individually. The collection effort should be based on Servicer' knowledge of Mortgagor's credit history, employment situation, individual circumstances, property, and the extent of the delinquency. Servicer is expected to use notices, letters, telegrams, telephone and face-to-face contacts and other responsible collection techniques employed by prudent mortgage loan servicers. Special attention should be given to 30 day accounts to attempt to cure the default prior to the 31st day of delinquency. Servicer is encouraged to vary its collection techniques to fit individual circumstances and to avoid establishing a fixed routine, which may become ineffective for dealing with Mortgagors who are repeatedly delinquent. Servicer should recognize that efficient servicing of a delinquent mortgage relies heavily on personal contact, both on the telephone and face-to-face with Mortgagor. Form letters and notices, while having a place in any servicing program, generally are not as effective as personal contact and should not be used exclusively. Servicer should also attempt to make personal contact with each borrower who has been (or could be) assessed a late charge by the end of the applicable month. The Servicer must maintain records of all collection efforts and make records available for HMFA inspection upon request. The Servicer's records must demonstrate dates of letter and notices, dates of personal and telephone contact, reasons for default, forbearance terms, documentation of property inspections.

Collection techniques shall be in adherence to all federal and state Fair Debt Collection Acts. Servicer is responsible for satisfying all applicable MI requirements.

Property inspections are to be initiated upon the 45th day of delinquency and every 25-35 days thereafter if efforts to reach the mortgagor have been unsuccessful contact will be defined as verbal or a face-to-face interview producing a promise to pay. If the loan remains delinquent an inspection will be required within 30 days of the initial contact.

If the Servicer fails to make inspections when required and the property is later found to be vacant and vandalized, the Agency will take the position that the damage resulted

from the Servicer's failure to preserve and protect the property.

Servicer should notify the Agency immediately, in writing, if the Mortgagor of a condominium unit is delinquent in meeting any obligation under the condominium documents. If a condominium is found vacant, the Servicer shall notify the condominium association of the vacancy in writing. Servicers are not to pay any condominium or townhouse association fees during delinquency, foreclosure or bankruptcy

Continued participation in the Agency's programs is contingent upon Servicer's maintaining delinquency ratios and servicing procedures which are acceptable to the Agency. The Agency expects Servicer to maintain delinquency ratios on mortgages in which the Agency has an interest at a level below or comparable with other Agency Servicers servicing mortgages of the same type. HMFA shall provide Servicer with written notice of any breach of any term of this contract. Servicer shall have a period of sixty (60) days, or that period of time agreed upon between the Servicer and HMFA, to cure said breach to the satisfaction of HMFA.

2.102 Late Charges

Servicer shall only collect late payment charges to the extent expressly provided for in the Mortgage Loan instruments, and as permitted by law, but in no event shall Servicer impose any late payment charge with respect to any payment received within 15 days after the payment is due, nor in an amount in excess of four percent (4%) of the payment which is late. Late charges may not be collected by charging Mortgagor's Escrow account, deducting from a regular monthly payment or adding to the outstanding principal balance of the Mortgage Loan. Servicer shall be entitled to retain late charges received as additional servicing compensation, provided, however, that no part of any funds received with respect to a foreclosed Mortgage Loan shall be applied to late charges by Servicer and retained by Servicer as part of servicing compensation, notwithstanding any provision in the Mortgage Loan to the contrary. Servicer may waive late payment charges on behalf of the Agency when such waiver is of assistance to Servicer in bringing the Mortgage Loan current. In the event that late charges are deemed unlawful by any court of competent jurisdiction, the Servicer shall not be entitled to collect any such fees or claim any damages against the Agency for lost income and will be required to remit any fees deemed to have been impermissible under the laws of the State of New Jersey.

2.103 Loss Mitigation

The Agency grants Servicer broad discretion to extend appropriate relief to Mortgagors who encounter hardship and who are cooperative and have proper regard for their obligations. Servicers should be readily available to Mortgagors to offer skilled financial counseling and advice. Servicers should make personal contact with delinquent Mortgagor as soon as possible in order to achieve a solution that will bring the Mortgage Loan current.

It is expected that Servicers will be fully familiar with the various forms of relief to Mortgagors provided for herein, and will employ such relief wherever appropriate rather than recommending termination of the Mortgage Loan. However, no such relief should

be granted to any Mortgagor unless there is a reasonable expectation that the relief granted will result in bringing and maintaining the Mortgage Loan current.

Prior to granting relief as herein provided, Servicer should inspect the property and ascertain that the reason for the default and the attitude and circumstances of Mortgagor justify the relief to be granted. Servicer is responsible for satisfying all applicable MI requirements with respect to the relief granted. Servicer is responsible for collection from Mortgagor of any recording or similar costs incidental to the granting of relief. Where relief is appropriate, the Servicer should determine the type of relief to be granted and notify the Agency in writing prior to initiating a workout plan.

The Agency's execution of a Modification Agreement or Special Forbearance Relief Agreement (or any other documents related to any matter whatsoever) which Servicer prepares or has prepared, shall not require independent review by the Agency as to legal adequacy, which is the Servicer's responsibility.

The purpose of loss mitigation is:

1. To assist borrowers who are experiencing financial hardships, either temporary or permanent
2. To preserve homeownership, turning non-performing loans back into performing ones, and
3. To minimize losses to HMFA

Eligible loans:

All at-risk mortgages are eligible for workouts

- FHA insured
- VA insured
- All conventional loans, including USDA-RHS

Assessing the borrower's hardship:

Each loss mitigation case should be judged on its own merits. General hardship exists when the borrower has the following involuntary action:

- Unemployment
- Substantial cut in pay
- Owner deceased
- Ill family member
- Divorce
- Property loss
- Other

The following documentation is needed to establish an involuntary reduction of income:

| Situation | Submit copies of the following documentation: |
|--|---|
| Unemployment | <ul style="list-style-type: none"> • Termination notice from borrower's employer • At least one month of unemployment checks • Unemployment notice or filing documents |
| Mandatory pay reduction | <ul style="list-style-type: none"> • Two pay stubs showing previous pay • Two pay stubs showing new pay • Employer notification |
| Unemployment following previous job loss | <ul style="list-style-type: none"> • Documentation evidencing job loss • Pay stub from previous job to show old salary • Previous year's tax return |

| | |
|---|---|
| | <ul style="list-style-type: none"> • Current pay stub |
| Death of borrower or primary wage owner | Death certificate |
| Decline in business earnings for self-employed borrower | <ul style="list-style-type: none"> • Year-to-date profit and loss statement • Previous year's profit and loss statement • Previous year's tax return • Signed contracts from clients for work in progress or work scheduled (if applicable) |
| Incarceration of spouse or co-borrower | Legal documents proving incarceration |
| Permanent or short-term disability | <ul style="list-style-type: none"> • Disability application • Doctor's certificate of disability • Insurance notification • Proof of monthly insurance benefits or government assistance (if applicable) |
| Serious illness of a household member | <ul style="list-style-type: none"> • Medical bills • Doctor's certificate or letter • Insurance forms • Proof of monthly insurance benefits or government assistance (if applicable) |

When reviewing the borrower's hardship, calculation of income is critical to determine the appropriate workout plan. The borrower's financial information should be provided in enough detail to have a reasonable understanding of the ability to maintain the proposed workout plan.

Mortgage Insurance Companies:

Each mortgage insurer has its own policies and procedures. Loss mitigation representatives must be knowledgeable of each insurer's procedures and seek resolution with lien holders and mortgage insurers. Most MIs have the following programs available:

- Counseling
- Temporary relief
- Modifications
- Capitalization
- Repayment plans
- Partial claims
- Forbearance plans
- Assumptions
- Pre-foreclosure sales / short sales
- Deeds in lieu
- Charge off

(a) Liquidation Agreement.

Servicer is authorized in its discretion to enter into a written liquidation agreement which shall provide that the total delinquency will be repaid (commencing immediately) within the shortest period of time practicable, and in any case not to exceed twelve months from the date of execution.

Regular Mortgage Loan payments and the term of the Mortgage Loan shall not be affected. Servicer shall report to the Agency the terms of the Liquidation Agreement and a copy of the executed agreement must be forwarded to the Agency.

(b) **Special Forbearance Relief Agreement**

A "Special Forbearance Relief Agreement" is a written agreement to reduce or suspend regular payments for a forbearance period up to 12 months, after which regular payments are required to be resumed. The term of the Mortgage Loan shall not be affected.

The Agency's prior approval of a Special Forbearance Relief Agreement is required. Servicer shall obtain any necessary approval of the mortgage insurer prior to executing a Special Forbearance Relief Agreement. After approval of the terms by the Agency, Servicer shall prepare the agreement, have it executed by all parties and forward a copy of the completed agreement to the Agency.

If Mortgagor fails to comply with Mortgagor's obligations under the Special Forbearance Relief Agreement, Servicer shall, before the failure has continued for 30 days, either: (i) recommend new workout alternatives; (ii) recommend a modification of the Mortgage Loan; or (iii) recommend foreclosure or acceptance of a Deed in Lieu, Pre-Foreclosure Sale. (See Sections (i) and (j)).

(c) **Mortgage Loan Modifications for Loans without FHA, VA or USDA Guarantees**

A modification or extension of a mortgage loan shall be recommended by the servicer when a borrower has a legitimate and verifiable hardship. A hardship will consist of the loss of partial income such as part time income or income of one of the borrowers, or reduction of income. Modifications will only be considered on a primary residence loan. The modification will be a written agreement that permanently changes one or more of the original terms of the note.

Hardships:

- Hardships must be permanent or long term decrease in income or increase in expenses.
- Documentation demonstrating the hardship, as set forth below.

Modification requests will require a full documentation of the hardship, income, debt and assets of the borrower(s) in order to make a sound underwriting decision. In the process, the agency will consider capitalizing mortgage expenses to the unpaid principal balance including interest arrearages, escrow arrearages, escrow advances and any fees that may encumber lien position. The amount capitalized may not exceed agency directed maximum Loan to Value which will be based on market conditions. NJHMFA(the Agency) must maintain first lien position.

All modification requests must be approved by The Agency. The modification request must be submitted to the Agency with full documentation for a decision. The servicer will obtain any mortgage insurance approvals prior to submission to the Agency for approval.

The modification package must contain the following items:

- Modification application;
- Two years income tax returns;
- Most recent income information (1 month pay stubs/ income information);
- Three months most recent bank statements;
- Recent credit report.
- Title will be required if the new loan amount exceeds the original loan amount or if the maturity date exceeds original maturity.

Approved modifications must meet all standard documentation requirements and comply with all state and federal laws. Disclosures will be delivered by the servicer based on state and federal requirements and in a timely manner. The servicer will obtain required signatures of all borrowers within a 30 day period following approval. All modifications will be recorded at the county. Any required subordinations will be obtained and recorded by the servicer. A copy of the fully executed modification agreement and all disclosures will be provided to the agency for its records. The servicer will provide copies to interested parties as required.

Eligibility Requirements for modification under this program:

- Loan origination date must be at least 12 months prior to consideration for modification;
- Loan must be at least 90 days delinquent but not more than 720 days delinquent;
- Must be a first lien mortgage;
- Loan must continue to be a first lien mortgage;
- Subsequent loans must be subordinated if capitalization exceeds original loan amount;
- Loan must not have been modified in the past 12 months;
- Loans cannot be modified more than two times;
- Must have a successful 3 month trial modification period;
- Must be approved by Mortgage insurance company if applicable;
- Must not be guaranteed by FHA, VA or Rural Housing;
- New P&I must be lower than original P&I payment;

Allowable capitalization:

- Interest arrearages
- Escrow arrearages (taxes, homeowners insurance, MI payments)
- Escrow deficiencies

The goal is to reach an affordable housing ratio of 35% Housing debt to Income (HDTI) while keeping total debt to income (TDTI) at 50% or lower. If the borrower has only housing debt, a HDTI ratio of 40% will be considered.

Process to reach target ratios:

1. Extend term and maturity up to 480 months from original loan date.
2. Reduce rate in steps by ¼% each to a minimum rate of 2%.
3. Principal forbearance of up to 20% of original loan amount. No interest will be charged on this amount. The principal will continue to be a lien on the property in the event of sale or pay-off.

Loans serviced for NJHMFA and guaranteed by FHA, VA , or USDA are to be modified based on the individual guidelines created by and for such loans.

All Modifications MUST be approved by the Agency.

(d) Partial Claims

The Servicer, representing HMFA, negotiates with the borrower and MI company to advance funds representing the delinquent balance. All MI conditions must be met, together with any additional conditions set by HMFA.

(Reinstatement of account through a partial claim advance can not be completed until Servicer is in receipt of HMFA written approval.)

Partial claims should be used when:

- Borrower has sustained a temporary financial hardship
- Borrower has temporary unemployment or curtailed income
- Borrower can afford the monthly payment
- Loan is at least three (3) months in default

And

- The loan is at least twelve (12) months old
- HMFA has first lien status
- There is less than 25% equity in the property

The following documentation is needed when requesting approval of a partial claim: *

- Standard package used for MI insurers (with any additional information requested by HMFA)
- Hardship letter from borrower
- Complete financial package (including financial statement (FNMA-1020) and the last two years tax returns
- Borrower's current credit report
- Broker's Price Opinion
- MI approval letter
- Copy of MI claim

* FHA insured loans are exempt from HMFA pre-claim approval

(e) Short Sale

A short sale is the sale of the property for less than the total debt amount to avoid foreclosure. All short sales must be approved by HMFA. A short sale should be used when:

- Borrower has financial hardship that is long-term or permanent
- Short sale is in adherence to MI guidelines and is the most cost effective method to prevent a REO

And review of the existing mortgage indicates the following:

- The loan is at least twelve (12) months old
- HMFA maintains first lien status
- Condominium payments are current
- Water and sewer payments are current
- Debt to value ratio is within MI guidelines (BPO)
(If there is no MI coverage, the mortgage must be ninety (90) days delinquent and the indebtedness must be 115% or greater of the “as is” sales price.)

And the borrower must:

- Waive reimbursement of any escrow and refunds of prepaid items
- Assign any insurance claim proceeds to servicing agent of HMFA

- Understand that (upon review of financial hardship) a mortgagor contribution may be required from the MI company or, in cases of shortfall after MI contribution, HMFA will request mortgagor contribution over the net sales proceeds.

The mortgagor contribution figures are pro-rated as follows: The original payoff amount is divided by the net HMFA loss; the loss percentage is then multiplied by the loss to determine the contribution request amount.

The following documentation is needed when requesting approval of a short sale:

- Standard MI package per MI guidelines (HMFA may request additional information)
- Hardship letter from borrower
- Copy of Sales Contract
- Copy of BPO (appraisal on HMFA request)
- Copy of adjuster’s report (on HMFA request)
- Complete financial package (including statement (FNMA-1020) and the last two (2) years tax returns)

Following completion, Servicer must remit HMFA Form #108 with the following:

- Servicer reimbursement of escrow advances
- Servicer request for compensation (allowable fee \$750)
- Escrow advance documentation
- Copy of HUD Settlement
- Settlement proceeds
- Copy of MI claim
- Copy of MI approval letter
- MI proceeds

(f) Hardship Assumption

A hardship assumption is advised when there is a stronger, more qualified buyer to assume the delinquent borrower's obligation on the loan. Under these circumstances, the borrower may or may not be released from liability. The following documentation is needed when requesting approval of a hardship assumption:

- Standard MI package per MI guidelines (HMFA may request additional information)
- Hardship letter from borrower
- Copy of Sales Contract
- Copy of BPO
- Proof of status of condominium association dues
- Applicant fee of \$400 or 1% of unpaid principal balance (not to exceed \$900.), if requested

Additional specifications are as follows:

- All requests must adhere to MI guidelines
- All requests must meet MI and HMFA underwriting guidelines
- All delinquent items, including taxes, insurance and fees must be brought current
- No payments will be made to borrower until all funds due are received and credited
- All assumptions are subject to HMFA underwriting standards and approvals pursuant to bond issue specifications, first-time homebuyer requirements, income and purchase price limits.
- Settlement must occur within thirty (30) days of approval

Following completion, Servicer must remit the following:

- Copy of Settlement Statement
- Copy of executed Assumption Agreement
- Copy of deed
- Contribution fee (if applicable)
- MI approval letter

(g) Change of Ownership – Assumptions: Special Programs

The Agency has financed loans under various special programs that required no down payment. These loans were processed and closed at 100% loan to value, therefore, they did not have private mortgage insurance.

When a request for an Assumption is received, the Servicer must follow the guidelines as outlined in Section 1.122. All loans with loan to value ratios that are at 80% or above, will require the Servicer to obtain private mortgage insurance as outlined in Section 1.119 of this Servicer's Guide.

All requests for Assumptions must be approved by the Agency. Each request will be analyzed on a case-by-case basis. The Agency reserves the right to approve and/or reject loans based on each loan circumstance

(h) Assumptions: Special Requirements - HOPE LOANS

Request for Assumption or Release of Liability for HOPE Loans that are not two (2) years old must have written consent from the employer who signed the guaranty.

HOPE loans assumed by another employee of the Guarantor will not require mortgage insurance if the loan to value is less than 80% or the guarantor agrees in writing to continue the original Guaranty for the remainder of the Guaranty period. HOPE loans assumed by a non-employee must be insured by private mortgage insurance in accordance with Section 1.119 of the Servicer's Guide, if the loan to value is greater than 80%.

Section 143(i)(2) of the Internal Revenue Code provides that a Mortgage Loan financed with the proceeds of a Qualified Mortgage Bond may be assumed only if the assuming mortgagor complies with the principal residence requirement, prior ownership limitation, mortgagor income requirement and purchase price limitations. The determination of whether such requirements are satisfied is based upon the facts as they exist at the time of the assumption, as if the loan is being made for the first time. Requests for approval of assumptions should be accompanied by a Notice of Assumption Report, HMFA #177.

All mortgage assumptions, including FHA and VA loans, require prior written approval from the Agency. The Agency will underwrite all assumption requests and must be provided with a complete underwriting file, except that an appraisal is not required. In all cases the assuming mortgagor must qualify for the mortgage under the Agency's current program and underwriting guidelines. The Servicer must also submit evidence of any required approval from the MI (including any conditions for approval that the MI has specified). If prior written approval is not obtained, the Agency will require the Servicer to repurchase the loan.

Recapture

Recapture rules apply to the assumption of a loan originated on or after January 1, 1991. Loans originated prior to January 1, 1991 will not be subject to recapture requirements. Servicer will be required to issue HMFA# 520, Notice to Mortgagor, at time of Assumption.

(i) Deed in Lieu of Foreclosure

A Deed in Lieu of Foreclosure is when the borrower voluntarily conveys clear title of the property to HMFA or the MI insurer to release the borrower from debt to avoid foreclosure. This should be used when:

- The borrower has financial hardship this is long-term or permanent
- The borrower is cooperative
- Warranty Deed is available
- Mortgage payments are three (3) months delinquent
- The property has been on the market for ninety (90) days
- This remedy is in adherence to MI guidelines and is the most effective means of minimizing the loss to HMFA

And review of the existing mortgage indicates the following:

- The loan is at least twelve (12) months old

- HMFA maintains first lien status
- Condominium payments are current
- Water and sewer payments are current
- Debt to value ratio is within MI guidelines (BPO)
(If there is no MI coverage, the mortgage must be ninety (90) days delinquent; Warranty Deed acceptance only; and property must be vacant and broom-swept.)
- Property must be conveyed with clear title (no other liens or encumbrances filed against the property)

The following documentation is needed when requesting approval of a deed in lieu:

- Standard MI package per MI guidelines (HMFA may request additional information)
- Hardship letter from borrower
- Copy of Sales Contract
- Copy of BPO (appraisal on HMFA request)
- Copy of adjuster's report (on HMFA request)
- Complete financial package (including statement (FNMA-1020) and two (2) years 1040 statements)
- Warranty Deed
- Clear title (naming applicable title holder as insured for the total debt amount)
- Proof that the premises is vacant and broom-swept

And the borrower must:

- Waive reimbursement of any escrow and refunds of prepaid items
- Assign any insurance claim proceeds to servicing agent of HMFA
- Understand that (upon review of financial hardship) a mortgagor contribution may be required from the MI company or, in cases of shortfall after MI contribution, HMFA will request mortgagor contribution over the net sales proceeds.

The mortgagor contribution figures are pro-rated as follows: The original payoff amount is divided by the net HMFA loss; the loss percentage is then multiplied by the loss to determine the contribution request amount.

Following completion, Servicer must remit HMFA Form #108 with the following:

- Servicer reimbursement of escrow advances
- Servicer request for compensation (allowable fee \$275)
- Escrow advance documentation
- Copy of MI claim
- Copy of MI approval letter
- MI proceeds
- Title policy naming HMFA as insured for total debt amount (conventional MI insured and uninsured loans)
- Original recorded Warranty Deed (conventional MI insured and uninsured loans)

Title must be recorded within sixty (60) days of HMFA and/or MI approval. All Deeds in Lieu must have prior HMFA approval.

(j) Preforeclosure Sale:

Settlement of a mortgage default where the borrower allows the Servicer to sell the property securing the mortgage rather than foreclose on it.

The Servicer should identify potential candidates for a Preforeclosure sale by the 90th day of delinquency to discuss all the foreclosure prevention methods. The following documentation is needed when requesting approval of a preforeclosure sale:

- Completed HMFA Form #173A
- Borrower hardship letter
- MI approval
- Contract of Sale
- Brokers Price Opinion
- Complete financial package
- Appraisal (on Agency request)

Preforeclosure Sales will be accepted upon written approval by appropriate mortgage insurance company (if applicable) to ensure the Agency is "made whole," unless otherwise approved in writing by the Agency. All Agency Preforeclosures must have written approval. If foreclosure litigation has not begun, the Servicer shall not delay the initiation of foreclosure proceedings

HMFA will pay the Servicer \$750 for each completed preforeclosure sale. In addition, up to \$100 will be reimbursed for each Broker's Price Opinion.

If the mortgage insurer denies the preforeclosure sale or offers to settle for a sum less than the "whole" amount, or other servicing remedy, the Servicer shall advise the Agency.

2.104 Notice of Lien, Probate Proceedings, etc.

Servicer shall promptly notify the Agency upon becoming aware that any lien prior to the mortgage securing any Mortgage Loan has attached or will attach. Notice shall promptly be given to the Agency of any insolvency proceedings in which any Mortgagor is seeking relief (Section 1.111 Default Reporting), or the death of any Mortgagor or guarantor, of the sale, transfer or vacancy of the property or the occurrence of waste, deterioration or lack of repair of the property or of the occurrence of any other default under the terms of the Mortgage Loan as to which Servicer has knowledge.

In the event that the Agency directs Servicer to protect the Agency's interest in any such proceeding, Servicer shall take such actions as it deems to be prudent and the Agency shall reimburse Servicer for reasonable fees and expenses, including reasonable attorney's fees, incurred by Servicer. Accurate records of the aforesaid matters shall be maintained by Servicer.

2.105 Request For Partial Release, Easement, Waivers, Consent and Condemnations

Application for partial release of real property, easements, the waiver of any right under a mortgage, consent to substantial alterations, removal, demolition, taking or division of

property and other matters relating to changes affecting the Mortgage Loan or the property shall require specific approval of the Agency. Servicer shall furnish detailed information, including, but not limited to, supporting appraisals, blue prints, plats, sketches and legal instruments and shall recommend action. If approval of FHA, VA, RECD or MI is required, it should be obtained first together with the consent of co-makers, guarantors and other obligators, as applicable.

Servicer shall have the responsibility to see that the instruments used in connection with changes affecting Mortgage Loans or mortgaged properties are in proper form and that all requirements under applicable law are met. Application against the Mortgage Loan of any proceeds from a release, easement, or other modification, or from a taking by eminent domain, shall be set forth in the mortgage file as instructed by the Agency.

If necessary, Servicer shall inform the tax authority of the releases of real property and request a division of any taxes levied or to be levied.

A conformed copy of the instrument used to complete the transaction shall be sent to the FHA, VA, RECD, or MI as appropriate by Servicer.

With respect to a Mortgage Loan insured by a mortgage insurer, Servicer shall notify the mortgage insurer immediately upon learning of any planned or impending taking of a property securing a mortgage by eminent domain. Servicer should take all steps necessary to prevent loss of insurance benefits by reason of eminent domain. Generally, the Agency requires that funds paid to the Mortgagor due to condemnation or release of mortgage shall be applied to the principal balance of the Mortgage Loan, however, the terms of the mortgage shall govern.

2.106 Bankruptcy

The commencement of a bankruptcy case results in an “automatic stay” against all creditor action to collect a debt or action that might interfere with the administration of the debtor’s estate. This means that any action to collect on a debt incurred before the filing of the bankruptcy petition, to take possession of the collateral, or to further the creditor’s position can be considered a violation of the automatic stay. Therefore, the Servicer must suspend any and all debt collection efforts (including foreclosure proceedings) as soon as it is notified that a bankruptcy has been filed (unless its legal counsel expressly advises that certain collection efforts may be continued).

The Servicer is expected to take all actions that are necessary to protect our interests (assisted by appropriate legal counsel) in a timely manner. When choosing a bankruptcy attorney, it is critical that the Servicer select highly qualified, experienced attorneys to ensure successful management of the case. Servicer is to notify the Agency upon notification of bankruptcy status by filing HMFA Form #175, Bankruptcy Report and to include copies of Proof of Claim filings and other legal notices prepared by the attorney representing the Agency.

The most common bankruptcies a borrower can file are either a Chapter 7 bankruptcy or a Chapter 13 bankruptcy. Other types of bankruptcies differ significantly from these and require different management. They should be reported immediately to the Agency for further guidance and instruction. The Agency’s fee structure for Bankruptcy action is

limited to \$650 for each filing. This is inclusive of Filing Claims, attorney fees and costs and the first Meeting of Creditors. Additional fees and costs must be approved by the Agency prior to any action.

In a Chapter 7 bankruptcy, the court appoints a trustee to liquidate all of the nonexempt assets in which the debtor has equity. The debtor surrenders those assets to the trustee and ultimately receives a discharge from personal liability for the debt. The trustee collects, liquidates, and distributes the assets to the various creditors based on their statutory priority. In the case of managing a current mortgage in a Chapter 7 bankruptcy, it is the Servicer's responsibility to take appropriate action to ensure that no pleadings are filed or other actions taken that would adversely affect HMFA's security interest in the property. When a borrower files for a Chapter 7 bankruptcy, the Servicer generally should not send a referral package to an attorney unless the mortgage is sixty (60) days or more delinquent. The Servicer will be responsible for handling Chapter 7 bankruptcies until they become sixty (60) days delinquent, at which time they should be promptly referred to its bankruptcy attorney. If the debtor intends to retain possession of the property, the Servicer should attempt to enter into a Reaffirmation Agreement with the debtor to preserve the Agency's deficiency rights (a copy of this Agreement is to be sent to the Agency immediately). The payment status must be monitored to ensure that it is immediately referred to an attorney if it should become sixty (60) days delinquent.

In a Chapter 13 bankruptcy, the debtor attempts to reorganize financial affairs by proposing a repayment arrangement over a specified period of time for all debts that were owed prior to the bankruptcy petition being filed. The debtor also agrees to make all payments that come due after the filing of the petition. A court-appointed trustee supervises the bankruptcy by monitoring all aspects of the case and by collecting and disbursing plan payments to the creditors. The Servicer must assess the feasibility of the borrower's reorganization plan and request relief from the automatic stay and/or dismissal of the case if the plan is not feasible or the debtor fails to make the mortgage payments as provided in the plan. The case can also be dismissed if the debtor is unable to make the pre-petition payments required by the reorganization plan. If the borrower becomes sixty (60) days delinquent in making either the pre- or post-petition payments, the attorney should be advised to seek relief from the automatic stay or a dismissal of the case in accordance with bankruptcy rules and practices.

The debtor is required to file the following pleadings within fifteen (15) days after filing for bankruptcy:

- Schedule of Assets and Liabilities
- Statement of Affairs

Because this information can assist in assessing the ultimate outcome of the case, the attorney (or, in the case of Chapter 7 filings for current mortgages, the Servicer) should immediately request a copy of these documents. A Proof of Claim must be filed within the deadline established by the Court.

Once the Servicer receives notice that a borrower has declared bankruptcy, the following information should be obtained:

- Bankruptcy case number
- Date of filing
- Chapter under which the bankruptcy was filed
- The court that has jurisdiction over the case

- The name of the presiding judge and trustee
- Stamped front page of the filed bankruptcy, or the Notice of Commencement

If the Servicer is listed as a creditor in the bankruptcy petition, a copy of the Notice of Commencement should be received shortly after the filing. The Notice should include several important dates, including:

- Date and time for the initial meeting of creditors
- Date by which all claims must be filed
- Date for the hearing on confirmation of a borrower's reorganization plan
- Deadline for objecting to the discharge of a debt or the confirmation of a reorganization plan

The Servicer should record all dates and deadlines so that appropriate follow-ups are scheduled to assure that actions are taken in a timely manner.

The Servicer must maintain individual files for each case that is involved in bankruptcy proceedings, regardless of whether the mortgage is current or delinquent. This file should include the following:

- Copy of the borrower's petition for bankruptcy
- Notice of Commencement
- Proof of claim
- Notice of Objection
- Any reorganization plans
- All pleadings and notices
- Any new appraisals obtained in connection with the bankruptcy
- Any correspondence with the borrower's attorney
- Reaffirmation Agreement (if applicable)

The Servicer must supply the bankruptcy attorney with all the legal documents necessary to conduct the proceedings and all relevant information about the status of the property, the borrower, the mortgage, and the bankruptcy filing. Any additional information that is relevant to the case should also be forwarded to the attorney, including:

- Current and prior bankruptcy filings involving the borrower or subject property, including plans, pleadings, schedules and proofs of claims
- Loss mitigation activities
- Loan collection history
- Any previous or current foreclosure status information
- All information regarding the value of the security property

Accurate records of all payments received from the borrower before, during, and after the bankruptcy process must be maintained to ensure that both pre-petition and post-petition payments are made on time and are properly accounted for in accordance with our standard servicing requirements, the borrower's contractual obligations, and the rules of the bankruptcy court.

The Servicer should remove the mortgage from bankruptcy status only after the automatic stay is terminated, the case is dismissed, or the borrower receives a discharge and the trustee abandons all interest in the security property. When the automatic stay is terminated or the case is dismissed for a delinquent mortgage, a breach letter should be

sent to the borrower (if not sent previously) and the mortgage should be referred to an attorney to initiate (or resume) foreclosure proceedings, still keeping in mind the possibility of arranging some loss mitigation alternative.

2.107 Institution of Foreclosure

By the 90th day following the due date of the earliest unpaid installment, Servicer shall recommend appropriate servicing action based on the particular circumstances of each Mortgage Loan. Servicer should not recommend foreclosure until every reasonable effort has been made to arrive at a solution to the delinquency, as provided above. However, once Servicer determines that no other course of action will cure the default, the Servicer should promptly recommend foreclosure, and should include in the report recommending foreclosure a brief servicing history to date and a statement of the reasons for recommending foreclosure on form HMFA #173, and #173A Default Recommendation. Servicer shall actively continue all efforts to cure the default until written approval of the foreclosure has been received from the Agency. The HMFA #173 and #173A must be accurately completed to recommend foreclosure to the Agency. All incomplete forms will be returned to the Servicer and the Servicer will be held responsible for any losses due to delays.

Servicers must comply with The Fair Foreclosure Act, P.L. 1995 ch. 244 and all Mortgage insurance guidelines with regard to completing the notice of default and instituting foreclosure litigation within the regulations set forth by the Mortgage insurer. The commencement of foreclosure litigation in a judicial state (New Jersey is a judicial state) is the filing of the foreclosure complaint with the Superior Court clerk's office.

Servicer shall select the foreclosure counsel on behalf of the Agency subject to the Agency's approval. Servicer is responsible for the quality and actions of their chosen counsel. All legal fees relating to foreclosure are to be paid by Servicer and all reasonable and customary legal fees will be reimbursed by the Agency upon completion of the proceedings if not collected from Mortgagor.

The fees charged by legal counsel for FHA and Conventional insured properties should not exceed the allowable FNMA fee for a "routine legal action and only reasonable amounts for contested foreclosures, contested evictions, contested bankruptcies and required probate procedures, etc." For VA and USDA-RHS guaranteed properties, the Agency will reimburse servicer of the "allowable fees" approved by the Secretaries of Veterans Affairs & Rural Housing Administration as periodically amended.

The fees are effective for actions initiated on or after 02-01-2003. Actions initiated prior to 02-01-2003 will be reimbursed in accordance with the fee schedule in effect on the date of initiation.

All bills must be itemized. No excessive fees or costs will be reimbursed by the Agency. Attorneys fees in excess of the fees stated above are not reimbursable.

In certain situations, including contested foreclosures, the Servicer must request, in writing, additional attorney's fees or costs in advance. Only additional fees approved in writing by the Agency will be reimbursed to the Servicer.

Servicer should prepare and forward with the recommendation to foreclosure any necessary papers for execution and, if necessary, should request that the Agency, or its custodian, send the Servicer the Mortgage Loan Note, Mortgage, Assignment of Mortgage, and title policy. Servicer shall be responsible for the safe storage of any Mortgage Loan documents sent to Servicer and shall return them to the Agency promptly upon discontinuance of foreclosure. Once a loan has been approved for foreclosure by the Agency, the loan must be reported on the HMFA #174, Monthly Foreclosure Status Report, no later than the following month.

2.108 Action During Foreclosure

Servicer shall take such action as is appropriate during foreclosure to maintain and protect the mortgaged property. Since the property is now an added risk, the Servicer should notify the hazard insurance carrier so that the Agency's mortgage loan is not exposed to loss.

Once a loan has been approved for foreclosure, the Servicer must schedule the property for monthly property inspections. Upon discovering that a property has become vacant, Servicer shall immediately conduct an inspection that shall include entry to the home and assess the condition of the property. Servicer shall notify the Agency in writing of the occupancy status and of any damage to the property that is not attributable to normal wear and tear (Form #178 may be used for this purpose). Servicer is responsible for the timely maintenance, protection and preservation of the vacant property.

The Servicer shall, on a monthly basis, report to the Agency the progress of all loans in foreclosure and/or bankruptcy, including the dates that pleadings were filed, unusual expenses incurred, explanations for delays, inspection results and any protective action taken, (See Section 1.111 on Default Reporting). The Servicer shall forward, or shall be responsible for having their legal counsel forward copies of all legal pleadings and relevant correspondence to the Agency

The Servicer shall immediately notify the Agency of a scheduled Sheriff's Sale (Form #174) or other written notice. The Servicer shall issue bidding instructions concerning Conventional & VA No Bid Loans to its employee, agent or legal counsel attending the Sheriff's sale, unless otherwise directed. All Mortgage Loan bidding instructions must be consistent with the regulations set forth by the mortgage insurer. If a Sheriff's sale is adjourned, it will be necessary to advise the Agency by telephone of this adjournment and the reason for the adjournment. When the Sheriff's sale is held, the Agency must be notified verbally and in writing immediately upon learning the results of the sale.

If the loan is insured by FHA or VA, the deed should be recorded in the appropriate insurer's name unless otherwise directed. A copy of all conveyance, claims and/or correspondence concerning same shall be sent to the Agency immediately. The Agency must be named as mortgagee/payee on all claims filed on behalf of the Agency. The Agency's Trenton address shall be used for claims and claims correspondence.

All third party sale proceeds and all other claim payments must be paid directly to the Agency at the Trenton address. Copies of all pleadings, correspondence, claims, attorney and sheriff breakdowns not previously submitted must be included with the check. The Servicer may not deduct the escrow advances/expenses from the claim/sale funds.

The HMFA #108, Request for Reimbursement, must be completely filled out and copies of all payment ledgers and expense documentation must be included. The expenses claimed must be readily identifiable along with all supporting documentation. Incomplete or incorrect HMFA #108s will be returned to the Servicer unpaid.

No claims will be paid on any FHA conveyances, or third party sales of REO properties until all money due to the Agency has been received. Claims will be paid on FHA assignments after receipt of all funds from FHA.

At the option of the Agency, the Agency may assign a Mortgage Loan to a Servicer who shall, at the discretion of the Agency, conduct all foreclosure or similar proceedings in its own name and thereafter assign or convey any title, equity, rights or funds acquired by such foreclosure or proceedings as directed by the Agency.

If the Agency shall so direct, the Servicer shall relinquish servicing of a Mortgage Loan in default and resume servicing when requested by the Agency.

The Agency agrees to reimburse the Servicer for reasonable out-of-pocket expenses including reasonable attorney's fees as set forth by the Agency and for any advances made by the Servicer authorized by the Agency in prosecution of foreclosure proceedings and protection of the mortgaged property during foreclosure. All foreclosure related payment requests must be accompanied by a complete HMFA #108, Request for Reimbursement. Interim payment requests will not be honored unless warranted by unusual circumstances.

2.109 Offer of Payment During Foreclosure

When during foreclosure a Mortgagor offers payment of the full delinquency, including advances, legal and other foreclosure costs and expenses, Servicer shall ascertain the amount of all foreclosure costs and expenses that have been incurred, and proceed in accordance with the Fair Foreclosure Act, P.L. 1995 ch. 244. In such an event, Servicer shall take action to prevent additional foreclosure costs and expenses from being incurred and apply funds (exclusive of foreclosure costs and expenses) to Mortgagor's account, and pay the foreclosure costs and expenses. Servicer shall report all details of the transaction to the Agency.

Subject to the Fair Foreclosure Act, when during foreclosure Mortgagor offers to pay an amount less than the full delinquency (including, but not limited to, advances and legal costs), Servicer will ascertain the amount of foreclosure costs and expenses that have been or will be incurred if the offer is accepted. Servicer may decline without the Agency's concurrence, but shall obtain the Agency's approval prior to accepting. Servicer's recommendation shall include a recommendation whether the foreclosure action should be suspended or should be dismissed and how the remaining delinquency will be cured.

2.110 Properties In Foreclosure; Disposition REOs

Servicer shall be responsible for the maintenance and security of properties to the fullest extent possible. Servicer shall make regular inspections of the condition and occupancy

of each property on a monthly basis and take protective action when necessary. All properties MUST be secured, winterized, boarded (if necessary) and cleaned of debris before keys are forwarded to the Agency. Damage that occurs to the property as a result of improper maintenance by the Servicer, will become the responsibility of the Servicer. The Servicer will be responsible for the repair costs or losses that the Agency may have because of the damage. Servicer shall assist the Agency in marketing these properties upon the Agency's request.

Servicer shall notify the insurance carrier of changes in occupancy and ownership. Any accidents or incidents occurring on the property must be immediately reported to the Agency, in writing, by the Servicer.

Servicer is responsible for taxes, insurance, MI, water and sewer, and inspections during the following time period:

- (a) Property is vacant on day of sale: Servicer shall pay all items due for sixty (60) days after the Sheriff's sale;
- (b) Property is occupied by Mortgagor at time of sale: Servicer shall obtain eviction of borrowers and pay all items due until completion of an eviction.
- (c) If Mortgagor files bankruptcy after Sheriff's sale - Servicer shall keep all items current until such time as the action is dismissed and property is vacant.
- (d) Property is occupied by Tenant at the time of sale: Servicer shall pay all items due for 60 days after the sale. Please advise the Foreclosure Attorney **not** to evict the tenant **nor** to collect rent from the tenant. These procedures will be handled by the Agency's Asset Manager.

Servicer shall remit the following to the Agency as soon as possible:

- Original recorded Sheriff's Deed
- Copy of Certificate of Regularity
- Title Policy showing Agency as owner of record with clear title and insured for the total indebtedness
- Keys to property
- Receipts for property taxes paid
- Copy of claim for benefits to insurer
- Copy of Order Vacating Automatic Stay (if Bankruptcy was filed)
- Request for Reimbursement (HMFA Form #108).

Please note that the Agency is exempt from real estate taxes the calendar year, beginning January 1, following the sheriff's sale. Any taxes that are paid during that time period will result in a curtailment on the HMFA#108 form. It will be the responsibility of the Servicer to obtain a refund from the tax collector for the curtailed taxes. You may contact the Agency for guidance regarding this procedure.

In case of Conventional Mortgage Loans insured by a mortgage insurer, Servicer shall

make timely application for the benefits of such insurance and ascertain whether the property is to be conveyed to the Mortgage insurer or the claim otherwise settled. Servicer shall work closely with the mortgage insurer and take all action necessary to obtain for the Agency the benefits of such insurance. Copies of all notices relating to a claim for benefits sent to the mortgage insurer must be simultaneously sent to the Agency. Copies of responses from the mortgage insurer must be forwarded to the Agency immediately along with recommendations of actions to be taken, if necessary.

Upon receipt of payment from the mortgage insurer, Servicer shall remit same to the Agency in its entirety. Servicer shall not take their escrow advances from the insurance funds before the remittance of these funds to the Agency. Servicer shall file a supplemental claim for benefits to the mortgage insurer for any disbursements that were paid after the original claim for benefits was filed by the Servicer.

Servicer shall file a Request for Reimbursement (HMFA Form #108) to the Agency when claim for benefits is filed with mortgage insurer. Servicer shall attach to this form copies of receipts for all disbursements, copies of payment histories from date of default, and copy of claim for benefits to insurer. Reimbursement for these advances will not be remitted to the Servicer until settlement funds are received by the Agency from the mortgage insurance company.

Reimbursement of escrow disbursements (HMFA Form #108) must be received by the Agency no later than sixty (60) days after the Agency receives the MI claim payment, or in the case of an uninsured loan, within sixty (60) days from the date of the Sheriff's sale or eviction date. Any supplemental reimbursement requests must be received no later than thirty (30) days after the Agency receives the MI claim payment or, in the case of an uninsured loan, within thirty (30) days from the date the Servicer receives the final #108 payment from the Agency. **Please note, the Agency will only reimburse Servicers if their requests are received within the time frame noted above and no later than six (6) months following the date of the Sheriff's sale. Once the Agency has sold the REO property and closed the file, no further reimbursements will be made to the Servicer, regardless of the circumstances.**

Servicer's Request for Reimbursement will be **curtailed** when attorney's fees exceed the maximum allowable fees as set forth in Section 2.107 and for adjustments, disallowed charges and curtailments from FHA, VA and MI insurers

2.111 Charge Off:

A charge off discontinues efforts to collect on a mortgage debt that is believed to be uncollectable. The lien is not released. The charge off prevents properties of little value from being an added liability to the REO portfolio. A charge off should be used when:

- The property has been, or will be, condemned
- The net repair estimates far exceed the value of the property
- There is a need for hazardous waste removal which increases liability

The Servicer must document:

- Further loss mitigation efforts are inappropriate
- The municipality has issued a condemnation order
- Professional experts opinions that advise of loss

- Government's intent to enforce right of eminent domain

The following documentation is needed when requesting approval of a charge off:

- Copy of Appraisal
- Copy of Adjuster Report
- Declaration of uninsurable losses (if applicable)
- Mortgagor's credit report
- Mortgagor's financial disclosure (FNMA-1020) (if applicable)
- Complete repair estimate
- Applicable documentation from DEP or private waste management company

The following information must be submitted following a charge off:

- Completed HMFA Form #108
- Servicer reimbursement of escrow advances
- Escrow advance documentation
- Copy of MI claim
- Copy of MI approval letter
- MI proceeds

2.112 Sales Subject to Existing Mortgage Loan

Servicer shall use its best efforts to learn of the sale or transfer of a mortgaged property or any other event giving rise to the right of acceleration.

2.113 Property Inspections

Servicer must inspect each mortgaged property foreclosure at least once every month. The scope of the inspection must cover the maintenance of the property and the general condition of the neighborhood and the occupancy status of the property. The Servicer is responsible for the selection and quality of the inspector/maintenance company.

Entry to the dwelling is not necessary during a routine property inspection unless the property is vacant. The inspector should pay special attention to items that are in disrepair and can ultimately affect the value of the property. In the event there are items found to be in disrepair, the Servicer should contact the Mortgagor in writing, advising him/her of the suggested repairs that should be made. A record of the property inspection must be contained in the Servicer's Mortgage Loan file.

In the event a loan is 45 days or more in default, the Servicer shall order a field inspection each month until the loan is reinstated.

The field inspector should be instructed to determine the occupancy status of the mortgaged property and the names of tenants, if the property is not owner occupied. The inspector should provide the Mortgagor with the name and telephone number of a contact at the Servicer's office.

Inspections are not required if:

- A. Loan is in bankruptcy and all post and prepetition payments are current.
- B. Loan is on a payment plan and current with payments.
- C. Loan is on Forbearance plan and current with payments.

III. MORTGAGE SERVICING: GENERAL

3.101 Fidelity Coverage; Direct Surety Bonds; and Errors and Omissions

Each Servicer must maintain in effect at all times and at Servicer's expense a Fidelity Bond (or Direct Surety Bond) and an Errors and Omissions Policy issued by a company which falls into a financial category, as designated in Best's Key Rating Guides, A+, A or A-, Class VI or better and is specifically licensed or authorized by law to transact business in the State, and on a policy form acceptable to the Agency covering all officers, employees and other persons duly authorized by Servicer to act on behalf of Servicer for the Agency. Such coverage may be in the form of individual bonds, or a blanket bond, covering all such persons and insuring Servicer, or the Agency as applicable, against loss arising from dishonest, criminal, fraudulent or negligent acts and errors and omissions of such persons.

No provision of this Section requiring Servicer to maintain bond or insurance coverage shall operate to diminish, restrict or otherwise limit Servicer's responsibilities and obligations as set forth in the Mortgage Servicing Agreement.

(a) Amount of Coverage Required

1. Fidelity Coverage or Direct Surety Bond

Each Servicer shall maintain Fidelity Coverage or furnish Direct Surety Bond on policy forms normally used by Servicers of the same class as Servicer, in a minimum amount equal to a percentage of its total servicing portfolio (i.e., mortgages serviced for itself and all other investors) in accordance with the following formula:

| Total Servicing Portfolio | Minimum Coverage |
|---------------------------|------------------|
| \$100,000,000 or less | \$300,000 |
| of the next \$400,000,000 | .15% |
| of the next \$500,000,000 | .125% |
| in excess of billion | .1% |

Servicers required to maintain fidelity coverage by Federal or State governments or by government sponsored Agencies shall maintain the higher amount of coverage where there is a discrepancy between the amount required under this Section and that required by such other entities. A deductible clause in the amount of \$100,000 or 5% of the face amount of its total portfolio for Fidelity or its Agency portfolio for Direct Surety coverage, whichever is less, is permissible.

2. Errors and Omissions Coverage

The errors and omissions policy must, at least, protect the Servicer against negligence, errors and omissions in:

- Maintaining hazard and flood insurance that meets our requirements
- Maintaining FHA insurance, VA guaranty, RECD loan guaranty or conventional mortgage insurance

- Determining whether properties are located in Special Flood Hazard Areas;
- Paying real estate taxes and any special assessments; and
- Complying with reporting requirements of FHA, VA, RECD and MIs.

The policy must cover all mortgages serviced by the Servicer and be written on a "per occurrence" basis. The minimum amount of coverage per occurrence must equal the greater of \$1,000,000, for all categories except paying real estate taxes and any special assessments.

The minimum coverage for paying real estate taxes and special assessments is \$100,000. A deductible clause in the amount of \$100,000 or 5% whichever is less, is permissible.

(b) Standard Provisions

Each fidelity bond or errors and omissions insurance policy must include the following provisions (whenever they can be obtained):

The Agency must be named as a "loss payee" on drafts the insurer issues to pay for covered loss that the Agency incurs. The Agency must have the right to file a claim directly with the insurer if the Servicer fails to file a claim for a covered loss that the Agency incurs; and

The Agency must be notified at least 30 days before the insurer cancels, reduces, declines to renew, or imposes a restrictive modification to the Servicer's coverage for any reason other than a partial or full exhaustion of the insurer's limit of liability under the policy. The insurer must also agree to notify the Agency within ten days after it receives a Servicer's request to cancel or reduce any coverage.

Within 30 days after a Servicer obtains (or renews) its fidelity bond or its errors and omissions coverage, it should send an insurance broker statement of coverage and a copy of the insurance certificate to the Agency. The insurance certificate should indicate the insurer's name, the bond or policy number, the named insured, the type and amount of coverage, the effective date of the coverage, and the deductible amount. If the Servicer obtains an endorsement to the bond or policy or obtains additional coverage, it should also provide a copy of the endorsement or a description of the additional coverage, unless this information can be summarized substantively on the insurance certificate.

The Servicer must report certain events to the Agency within ten business days after they occur. Specific events that must be reported include:

the occurrence of a single fidelity bond or errors and omissions policy loss that exceeds \$100,000 -- even when no claim will be filed or when our interest will not be affected; and the receipt of a notice from the insurer regarding the intended cancellation, reduction, nonrenewal, or restrictive modification of the Servicer's fidelity bond or errors and omissions policy.

The Servicer must send the Agency a copy of the insurer's notice, describe in detail the reason for the insurer's action if it is not stated in the notice, and explain the efforts it has made to obtain replacement coverage or to otherwise satisfy the Agency's insurance requirements.

In addition, even if our funds are not involved, the Servicer must promptly advise the Agency of all cases of embezzlement or fraud in its organization even if no loss has been incurred. The Servicer's report should indicate the total amount of any loss regardless of whether a claim was filed with an insurer.

(c) Information and Reports

(1) Reports

Upon request the amount, kind and underwriter of Servicer's Fidelity or Direct Surety Bond and Errors and Omissions Policy shall be reported by Servicer to the Agency and adjustments in the amount of coverage may be required at that time.

(2) Cancellation of Coverage or Refusal to Renew

Servicer shall obtain the insurer's agreement to promptly notify the Agency if a Fidelity or Direct Surety Bond or Error and Omission Policy is canceled for any reason. Servicer shall promptly notify the Agency of any insurer's refusal to renew a Fidelity or Direct Surety Bond or Errors and Omissions Policy at the expiration of a premium period. Servicer shall also notify the Agency of any additional restrictive terms required by any insurer as a condition for renewal.

(3) Embezzlement, Fraud and Claims Against Underwriter or Surety

Servicer shall promptly report to the Agency all cases of embezzlement, fraud, criminal or dishonest acts related to its mortgage loan servicing activities by any employee, officer or agent of Servicer and claims made against any underwriter or surety.

(4) Agency Requirements

The Agency requires that each Servicer remit copies of all Errors and Omissions, Fidelity Bond and Surety Coverage to the Agency on an annual basis. If additional information is required, the Servicer will be notified in writing.

3.102 Conflicts of Interest; Servicer's Access to Privileged Information Concerning Mortgagor's Accounts

Through normal servicing activities, including the servicing of delinquencies, Servicers sometimes obtain privileged information concerning the Mortgagors and mortgaged properties. Such privileged information shall not be used by Servicer or by its officers, employees, agents or affiliates, in any way which can be construed to represent a conflict of interest or an unfair advantage to the user. All such information shall be used in a manner consistent with any applicable laws or regulations regarding disclosure of credit information.

Servicer shall not acquire and Servicer shall not permit, to its knowledge, its officers, employees, agents or affiliates to acquire any property which secures an Agency-owned mortgage, unless the Agency has informed Servicer in writing that it does not object to such acquisition.

3.103 **Changes in Servicer's Organization: Bankruptcy**

Servicer shall immediately notify the Agency of any contemplated major changes in its organization, including, but not limited to, resignation of management personnel, mergers or consolidations, changes of name or corporate charter or, if Servicer is a corporation with less than 100 stockholders, a change of ownership of one-third or more of the stock of Servicer or any parent corporation if Servicer is a wholly owned subsidiary of another corporation. Servicer shall immediately notify the Agency if Servicer shall voluntarily file a petition under the Federal Bankruptcy Acts or under any state bankruptcy or insolvency act or an answer in an involuntary proceeding admitting insolvency or inability to pay debts, or if Servicer shall fail within 60 days of the commencement of such proceedings to obtain a vacation or stay of involuntary proceedings brought for the reorganization, dissolution or liquidation of Servicer, or Servicer shall be adjudged a bankrupt, or if a trustee or receiver shall be appointed for Servicer or Servicer's property, or if Servicer shall make an assignment for the benefit of Servicer's creditors, or if Servicer shall be put on probation or its activities restricted in any manner whatsoever by any Agency of the Federal or State government.

3.104 **Compliance**

The Servicer shall at all times service Agency loans in strict compliance with all applicable laws including, but not limited to, the Internal Revenue Code and Regulations promulgated thereunder.

MORTGAGE SERVICING - SPECIAL PROGRAMS

4.101 **Program Description**

Properties under some or all of these programs are or may be subject to deed restrictions and/or equity sharing arrangements and as such the borrower has limited access to the equity in such properties. The servicer should monitor any pay-offs or 2nd lien notifications to advise the Agency of such actions.

HOPE: Home Ownership for Performing Employees

Eligible purchasers of homes may borrow up to 100% of the lesser of (a) the appraised fair market value or (b) the sales price and usual and reasonable financing costs. The employer of the eligible purchaser is required to give a guaranty to the Agency in an amount equal to twenty percent (20%) of the original principal amount of the applicable loan. The guaranty must be for a minimum of five years duration unless the purchaser leaves the employ of the employer in which event such guaranty must be for a minimum of two years commencing from the date of the Mortgage Loan. Payments under the employer guarantees are not Pledged Property under the General Resolution.

MOP: Mortgage Opportunities Program

To provide mortgages, without requiring a down payment and which also permits

financing of certain closing costs, to buyers of newly constructed units. Eligible purchasers of homes may borrow up to 100% of the lesser of (a) the appraised fair market value or (b) the sales price and usual and reasonable financing costs. Condominium projects are not eligible.

STATEWIDE: Statewide Affordable Housing Program

Under this program, borrowers may obtain mortgages to cover up to the lesser of (a) 70% of the appraised fair market value or (b) 100% of the sales price and usual and reasonable financing costs.

UPP: Urban Projects Program/UHORP: Urban Home Ownership Recovery Program, MONI and CHOICE loans

Eligible purchasers of homes may borrow up to 100% of the lesser of (a) the appraised fair market value or (b) the sales price and usual and reasonable financing costs. Properties must be an approved project located in an Agency designated Urban Target Area.

4.102 Change of Ownership - Assumption

The Agency has financed loans under various special programs that required no down payment. These loans were processed and closed at 100% loan to value, therefore, they did not have private mortgage insurance.

When a request for an Assumption is received, the Servicer must follow the guidelines as outlined in Section 2.103, f and g. All loans with loan to value ratios that are at 80% or above, will require the Servicer to obtain private mortgage insurance as outlined in Section 1.119 of this Servicer's Guide.

All requests for Assumptions must be approved by the Agency. Each request will be analyzed on a case-by-case basis. The Agency reserves the right to approve and/or reject loans based on each loan circumstance

4.103 Submission Package

All loan packages submitted must contain the following documentation:

1. Notice of Assumption, HMFA #177.
2. Residential Loan Application, FNMA #1003.
3. Verification of Employment, FNMA #1005.
4. Two (2) current pay stubs.
5. Two (2) months bank statements.
6. Three (3) years Federal Tax Returns.

Incomplete loan packages will delay the process and in some instances cause hardship to the Mortgagor.

4.104 Special Requirements - HOPE LOANS

Request for Assumption or Release of Liability for HOPE Loans that are not two (2) years old must have written consent from the employer who signed the guaranty.

HOPE loans assumed by another employee of the Guarantor will not require mortgage insurance if the loan to value is less than 80% or the guarantor agrees in writing to continue the original Guaranty for the remainder of the Guaranty period. HOPE loans assumed by a non-employee must be insured by private mortgage insurance in accordance with Section 1.119 of the Servicer's Guide, if the loan to value is greater than 80%.