



Junior Lien Servicing Manual

May 2015

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This information will be made available in alternative format upon request.

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Introduction

Mission Statement

Minnesota Housing finances and advances affordable housing opportunities for low- and moderate-income Minnesotans to enhance quality of life and foster strong communities.

Background

The Minnesota Housing Finance Agency (“Minnesota Housing”) was created in 1971 by the Minnesota Legislature.

Minnesota Housing offers programs that address Minnesota’s housing needs by providing financial and related technical assistance opportunities so that all Minnesotans have decent, safe, affordable housing and stronger communities.

Chapter 1 – Servicer Responsibilities and Warranties

1.01 Procedural Manual

This Procedural Manual, including subsequent changes, additions and exhibits, is a supplement to the Junior Lien Servicing Agreement (the “Agreement”) executed between the Servicer and Minnesota Housing. The Agreement is incorporated herein by reference and is a part hereof as if fully set forth herein.

Minnesota Housing reserves the right to:

- Alter or waive any of the requirements herein;
- Impose other and additional requirements; and
- Rescind or amend any or all materials effective as of the date of issue unless otherwise stated.

1.02 Evidence of Misconduct Referred to Attorney General

Minnesota Housing will refer any evidence of fraud, misrepresentation, or other misconduct in connection with the servicing of the junior lien portfolio to the Minnesota Attorney General’s office for appropriate legal action.

1.03 Termination of Agreement

Minnesota Housing may terminate the Agreement at any time and may preclude the Servicer’s future eligibility to contract with Minnesota Housing to service its junior lien portfolio for reasons including, but not limited to, nonconformance with:

- This Procedural Manual;
- The Agreement;
- The Federal Fair Housing Law and/or the Equal Credit Opportunity Act;
- Any federal or state laws or acts that protect the borrower’s rights with regard to obtaining financing for home improvement; and
- Other applicable state and federal laws, rules and regulations.

Minnesota Housing may at its option impose other remedies for Servicer nonperformance.

1.04 Representations and Warranties

The Servicer agrees to comply with all applicable federal, state, and local laws, ordinances, regulations and orders including, but not limited to, the following (and any applicable rules, regulations and orders there under):

- Minnesota Statute § 58.04, Subds. 2-4;

- Title VI of the Civil Rights Act of 1964;
- Title VII of the Civil Rights Act of 1968, as amended by the Housing and Community Development Act of 1974;
- Section 527 of the National Housing Act;
- The Equal Credit Opportunity Act;
- The Fair Credit Reporting Act;
- Executive Order 11063, Equal Opportunity in Housing, issued by the President of the United States on 11/20/62;
- Federal Fair Housing Act (Title VIII of the Civil Rights Act of 1968);
- Minnesota Human Rights Act (Minnesota Statutes Chapter 363A);
- Minnesota S.A.F.E. Mortgage Licensing Act of 2010 – Minnesota Statutes Chapters 58 and 58A;
- Data Privacy - Minnesota Statutes Chapter 13 and Minnesota Statutes Section 462A.065;
- Americans with Disabilities Act, 42 U.S.C.A. Section 12101;
- Fair and Accurate Credit Transactions Act;
- National Flood Insurance Act;
- Truth in Lending Act (Regulation Z);
- Home Mortgage Disclosure Act;
- Anti-Predatory Lending Act;
- USA Patriot Act;
- Bank Secrecy Act;
- Anti-Money Laundering and Office of Foreign Assets Control Policy;
- Internal Revenue Code of 1986, Section 6050H; and
- Real Estate Settlement and Procedures Act of 1974.

In addition to the warranties and representations noted above, the Servicer also certifies the following:

- The Servicer will maintain adequate internal management and audit control procedures to:
 - Assure the loans are serviced in accordance with sound servicing and accounting principles;
 - Guard against dishonest, fraudulent, or negligent acts; and

- Guard against errors and omissions by officers, employees, or other authorized persons.

The Servicer currently has and will continue to maintain servicing facilities that are staffed with trained personnel who are sufficiently knowledgeable to adequately service Minnesota Housing loans in accordance with industry accepted standards as determined at Minnesota Housing's sole discretion. The Servicer's personnel are familiar with all regulations and requirements affecting loans serviced for Minnesota Housing.

The Servicer will comply with all local, state, or federal laws and regulations, including but not limited to those relating to affirmative action, fair housing, equal credit opportunity, truth in lending, wrongful discrimination in residential lending, or the enforcement of any terms of the loan.

The Servicer will ensure all private information obtained in the course of servicing loans will not be used by the Servicer or by its officers, employees, agents, or affiliates in any way that can be construed to represent a conflict of interest or an unfair advantage to the user. All information must be used in a manner consistent with any applicable laws or regulations regarding disclosure of credit information. No property that secures a Minnesota Housing loan will be acquired by a Servicer or by its officers, employees, agents, or affiliates, unless Minnesota Housing informed the Servicer that it does not object to the acquisition.

1.05 Net Worth

The Servicer must maintain a net worth of at least \$1,000,000 plus a dollar amount equivalent to one-quarter of one percent (0.25%) of the outstanding principal balance of its total portfolio of loans serviced for Minnesota Housing.

1.06 Annual Reports

The Servicer must furnish to Minnesota Housing, within 90 days after the close of its fiscal year:

- A description of its junior lien loan servicing procedures, including processing of payments, record keeping, accounting, and delinquency collection methods.
- A detailed organizational chart showing the persons responsible for the junior lien loan servicing operation of the Servicer, as well as brief resumes of all members of management.
- A description of computer hardware and software used in servicing the loans.
- A copy of its annual financial statements and management letters. The annual financial statements must be prepared under generally accepted accounting principles, must be comparative with the previous year's reports, and must include:
 - an opinion of an independent certified public accountant;
 - a balance sheet;

- an income statement;
- a statement of retained earnings;
- a statement of cash flows; and
- all related notes.

If the Servicer's financial statements are consolidated with those of its parent or holding company, they must contain sufficient detail that will enable Minnesota Housing to review the Servicer's financial data separately from that of the other companies.

1.07 Servicer Indemnification

The Servicer must indemnify, defend and hold Minnesota Housing harmless against all losses, damages, judgments, or legal expenses that result from the Servicer's failure to perform its services and duties for the loans in accordance with the Agreement or this Procedural Manual.

If a claim is made or a suit or other proceeding is started against Minnesota Housing based on the Servicer's acts or omissions in servicing or in disposing of acquired properties, the Servicer's responsibility for indemnifying, defending and holding Minnesota Housing harmless must be met regardless of whether the suit, claim or proceeding has merit. However, the Servicer's obligation does not apply if Minnesota Housing gave the Servicer written instructions during a suit, claim or proceeding and Minnesota Housing suffers a loss because the Servicer follows Minnesota Housing's instructions.

1.08 Fidelity Bond Coverage; Errors and Omissions Coverage

The Servicer must maintain in effect, at all times, and at its expense, a fidelity bond and an errors and omissions insurance policy. These policies must insure the Servicer against losses resulting from dishonest or fraudulent acts committed by the Servicer's personnel, any employees of outside firms that provide data processing services for the Servicer, persons duly authorized to act on the Servicer's behalf. The fidelity bond also must protect against dishonest or fraudulent acts by the Servicer's principal owner. The Servicer must also obtain a direct surety bond to cover any officers (including its principal owner) if they cannot be covered by the fidelity bond.

The errors and omission insurance coverage must protect the Servicer against loss resulting from negligence, errors or omissions committed by the person required to be covered by the Servicer's fidelity insurance while performing their duties with respect to loans serviced by the Servicer.

Each fidelity bond or errors and omissions insurance policy must include the following provisions:

- Minnesota Housing is named as a loss payee on drafts the insurer issues to pay for covered losses incurred by Minnesota Housing;

- Minnesota Housing has the right to file a claim directly with the insurer if the Servicer fails to file a claim for a covered loss incurred by Minnesota Housing;
- Minnesota Housing will be notified at least 30 days before the insurer cancels, reduces, declines to renew, or imposes a restrictive modification to the lender’s coverage; and
- A provision that the insurer will notify Minnesota Housing within ten days after the insurer receives a Servicer’s request to cancel or reduce any coverage.

Minnesota Housing will accept coverage underwritten by an insurer that is rated A minus or better by the A.M. Best Company.

The Servicer must promptly report to Minnesota Housing all cases of embezzlement, fraud, criminal, or dishonest acts by any employee, officer, or agent of the Servicer and claims made against any required insurance or bond.

No provision of this section requiring the Servicer to maintain bond or insurance coverage must operate to diminish, restrict, or otherwise limit the Servicer’s responsibilities and obligations as set forth in the Agreement and this Procedural Manual.

1.09 Fidelity Coverage or Direct Surety Bond Limits

Coverage must be in a minimum amount equal to a percentage of the Servicer’s total servicing portfolio (i.e., loans serviced for self and others and not limited to loans serviced for Minnesota Housing) in accordance with the following formula:

Coverage Required	Mortgages Serviced
\$300,000	\$100,000,000 or less
+0.150% of the next \$400,000,00	
+0.125% of the next \$500,000,000	
+0.100% of any amount over \$1,000,000,000	

A deductible clause may be for any amount up to the greater of \$100,000 or 5% of the face amount of the bond.

1.10 Errors and Omissions Coverage Limits

Errors and omissions insurance coverage must be documented on policy forms commonly issued to institutions similar to the Servicer. The following are the minimum limits on the errors and omissions insurance coverage:

- \$2,000,000 per claim or event; and
- \$2,000,000 per aggregate.

A deductible clause may not exceed \$50,000 without the written approval of Minnesota Housing.

1.11 Changes in Servicer's Organization

The Servicer must immediately notify Minnesota Housing:

- of any contemplated major changes in its organization such as a resignation of management personnel, mergers, reorganization, or consolidations;
- of changes of names or addresses;
- of change of ownership of one-third or more of the stock of the Servicer or any parent entity, if the Servicer is a wholly owned subsidiary of another entity;
- If the Servicer must voluntarily file a petition under the Federal Bankruptcy Act or under any state bankruptcy or insolvency act;
- of an answer in an involuntary proceeding admitting insolvency or inability to pay debts; and
- If the Servicer must be put on probation or its activities restricted in any manner whatsoever by an agency of the federal or any state government.

1.12 Transfers of Servicing

The Servicer may not assign its Agreement or duties to another servicer without prior written consent of Minnesota Housing.

1.13 Delinquency Performance

The Servicer must manage all defaulted loan processes to minimize Minnesota Housing's losses and counsel the borrower(s) in methods to cure the default.

Minnesota Housing will establish benchmarks for loan delinquency rates, and may periodically adjust the benchmarks. The Servicer must manage all defaulted loan processes to maintain acceptable delinquency levels relative to the established benchmarks.

Chapter 2 – Servicer Performance

2.01 Performance Evaluation

The Servicer's performance will be evaluated in each of the following functional areas:

- Delinquency and Loss Performance
 - Delinquency rates relative to the established benchmarks
 - Loss experience
- Funds Remittance and Reporting Requirements
 - All payments and prepayments are applied timely and accurately. Application of funds conforms to Minnesota Housing's requirements.
 - Cash flow from operating accounts into custodial accounts is in accordance with Minnesota Housing's requirements.
 - Minnesota Housing is provided with required reports and statements in a timely manner.
- Regulatory and Policy Compliance Requirements
 - Modifications: Appropriately applied; comply with Minnesota Housing requirements.
 - Fees and Charges: Do not exceed prescribed limits; appropriate borrower notices given.
 - Transfer of Servicing: Timely notification to borrower(s), taxing authorities, and credit bureaus.
 - Loan Set-up: Timely set-up upon receipt of documents; accurate input of loan data.
 - Investor Reporting: Reconciliation and delinquency recap reports.
 - Maintenance of Eligibility: Financial position, FHA Title 1 servicing approval, and reporting.
- Customer Service Performance
 - Mortgagor-related telephone calls and written correspondence are answered within established time frames.
 - Complete and timely response to borrower(s) contacts and/or correspondence in compliance with Minnesota Housing's policy and state and federal law.

2.02 Remedies

When a Servicer's performance indicates improvement is necessary in any one area or a number of areas, it is the responsibility of the Servicer to take the necessary steps to correct the situation. Minnesota Housing will follow-up with the Servicer if it appears the Servicer is not addressing the problem.

There may be times when the Servicer's performance is alarming enough to require immediate action by Minnesota Housing. There are generally three instances when this is the case:

- Delinquency performance is significantly above the established benchmark average for two months.
- The Servicer did not remit funds as expected.
- The Servicer lost its FHA Title 1 servicing eligibility.

Minnesota Housing has two remedy processes, depending on the issues that need to be addressed.

2.03 Delinquency Performance Remedy

This remedy addresses situations where the Servicer's delinquency performance is significantly above the established benchmark average for two months.

- Minnesota Housing will issue a warning letter to the Servicer advising them of the portfolio's status.
 - The Servicer may be required to send collection histories for all loans 60 days or more delinquent or other specified documentation.
 - Minnesota Housing may review a sample of the collection histories for inconsistencies, poor procedures or other collection deficiencies and notify the Servicer of its findings.
- If the Servicer's performance does not improve, and/or meet acceptable levels for a third consecutive month, Minnesota Housing will require the Servicer to prepare an improvement plan. The improvement plan will provide specific details to meet the established benchmark within 60 days or other improvement as specified by Minnesota Housing.
- If the Servicer is unable to bring its delinquency rate to acceptable levels within six months of the initial improvement plan, Minnesota Housing may transfer the portfolio. If the Servicer demonstrates improving performance, Minnesota Housing may grant the Servicer additional time to manage the improvement effort.
- Minnesota Housing will deliver to the Servicer a 30-day notice, as required by the Agreement, stating the portfolio is to be transferred due to poor performance. The portfolio will be transferred to a different Servicer within 90 days or as soon thereafter as possible.

2.04 Critical Intervention Remedy

This remedy addresses situations in which the Servicer did not remit funds within the required timeframe or the Servicer lost its FHA servicing eligibility. Either occurrence indicates the Servicer is experiencing serious business or financial problems and Minnesota Housing must move quickly to preserve its portfolio.

- The Servicer is issued a warning letter within 24 hours of nonremittance of funds or notification of lost eligibility for FHA Title 1 servicing. The Servicer has three days to provide evidence of eligibility or remit the funds.
 - Upon Minnesota Housing’s failure to receive either notice of continue eligibility or the funds, within three days, Minnesota Housing will send the Service a 30-day letter notifying the Servicer that Minnesota Housing is transferring the portfolio.
 - Within five days of the non-remittance or notification of lost eligibility, Minnesota Housing will solicit other providers to service the at-risk portfolio.
 - Within 30 days of the solicitation, Minnesota Housing will choose a contingency Servicer.
 - The new Servicer may begin to collect data and loan files from the former Servicer within five days of selection.
 - Unless the Servicer remits the funds or regains eligibility prior to the expiration of the 30-day letter, the portfolio will be transferred 120 days from non-remittance or loss of eligibility or as soon thereafter as possible.
- If the Servicer remits the funds or regains FHA Title 1 servicing eligibility after the three day notice, but prior to the expiration of the 30-day letter, Minnesota Housing will put the Servicer on a Performance Watch.
 - Minnesota Housing will also continue with its solicitation process of a contingency Servicer.
 - If the Servicer remits all funds according to schedule and/or maintains eligibility as an FHA Title 1 servicer for six months, the Servicer will be taken off the Performance Watch.
 - The performance problem will be reviewed and may necessitate a more extensive review of the Servicer’s business processes and financial status.
- If during the Performance Watch, the same or a similar problem occurs, Minnesota Housing will immediately issue the 30-day letter and transfer the portfolio as soon after the expiration of the 30-day letter as possible.

Chapter 3 – General Servicing

3.01 Loan Servicing Types

Category	Program Name and Description
Amortized Loans	Fix-Up Fund (FUF) and Community Fix-Up Fund (CFUF)-Property improvement loans to increase the livability and energy efficiency.
	Home Energy (HE) – Property improvement loans to increase energy efficiency.
	Revolving– Property improvement loans to low and moderate income homeowners.
	Single Family Rental Rehab - Property improvement loans to residential rental property owners.
	Multifamily Rental Rehab - Property improvement loans to residential rental property owners.
	Foreclosure Prevention Assistance (FPAP) – One-time loans to individuals facing foreclosure.
	Deferred Loans (Forgivable)
HOME Rehab – Federally funded loans for property improvements to low-income homeowners.	
Disaster - incentive or equity replacement loans in federally declared disaster areas.	
Community Homeownership Impact Fund (Impact Fund) [fka Community Revitalization (CRV)] - Loans to assist communities to maintain and/or increase the supply of affordable housing.	
HOME Help - Federally funded loans for down payment and closing costs.	
American Dream Downpayment Initiative (ADDI) - Federally funded loans for down payment and closing costs.	

Sleeping Loans (Non-Forgivable)	Rehab – Property improvement loans to assist low-income homeowners.
	FPAP – Loans to individuals on a one-time basis who are facing foreclosure.
	Entry Cost Assistance (ECHO) - Loans for down payment and closing costs.
	Impact Fund - Loans to assist communities to maintain and/or increase the supply of affordable housing.
	Homeownership Opportunity (HOP) - Interest bearing, short term, financing for acquisition and rehabilitation of vacant properties.
	Maple Grove Land Trust– Interest free loans to a specific community.

3.02 Customer Service

The Servicer must maintain and make available to Minnesota Housing’s borrower(s) a toll free number for their use in obtaining information regarding the servicing of their loans.

- The Servicer must communicate the availability of the toll free number in all communications with the borrower(s).
- It is expected the Servicer will respond quickly and courteously to requests or concerns presented by Minnesota Housing staff, borrower(s) or other customers associated with loans or activities.

3.03 Loan Set Up

- Minnesota Housing will provide a report to the Servicer each week detailing loans purchased since the previous report. It will contain all information necessary for the Servicer to set the loan up in their system.
- For Impact Fund loans: Minnesota Housing will periodically provide a report as noted above for loan set up.
- For Multifamily Rental Rehab loans: Minnesota Housing will provide the Servicer with the loan package containing the information necessary for loan set up shortly after loan purchase.

3.04 Notices of Liens or Legal Actions

Minnesota Housing will forward legal notices to the Servicer. These will mainly consist of bankruptcy notifications and superior lien holder foreclosure notifications. The Servicer must take whatever action is necessary to protect Minnesota Housing’s interest.

Deferred and Sleeping Loans

Rarely would any action other than tracking be required. Minnesota Housing will not redeem the properties in the event of a superior lien holder foreclosure. Once the Servicer determines the Redemption Period is expired and Minnesota Housing's lien is extinguished, the loan must be moved to Non-Collectible status.

3.05 Returned Mail

The Servicer must investigate any borrower(s) notifications, including the maturity letter returned as undeliverable. If it is determined the borrower(s) is deceased or has moved from the property or there was a transfer of title, the Servicer must attempt to locate the borrower(s) or the estate and send collection letters advising the borrower(s) or the estate, they have defaulted on the terms of the loan and the loan must be repaid in full, including what possible collection efforts may ensue.

3.06 Bankruptcy Claims

The Servicer must have written procedures to effectively control and monitor bankruptcy proceedings. The procedures must cover bankruptcies filed under Chapter 7 and Chapter 13.

The Servicer's procedures must include, but are not limited to, the following:

- Requirements for filing a proof of claim, the circumstances under which it is required, how to prepare it, the time frame for filing, etc.
- Methods for determining acceptability of proposed repayment plans.
- Time limits for clearing the bankruptcy or receiving the first payment under a repayment plan and the action to take if the time limits are not met.
- Instructions on what action must be taken if the bankruptcy trustee files a no-asset report or the mortgagor intends to sell the property or abandons his or her interest.

The loan file must contain a copy of the following: notice of the first meeting of creditors, proof of claim, the Debtor's plan, pleadings, notices, etc. When the Servicer becomes aware a borrower(s) petitioned the court for a bankruptcy cram down, it must contact Minnesota Housing immediately.

3.07 Vacant or Abandoned Property

When an inspection reveals the property is vacant and may have been abandoned, the Servicer must try to locate the borrower(s) to determine the reason for the vacancy. If appropriate, the Servicer must contact the first mortgage lien holder so they may make arrangements to protect the property from vandalism and the elements.

3.08 Borrower Name and Address Changes

The Servicer will investigate any change in the name or address of the borrower(s). The Servicer must determine if the home was rented or the ownership interest changed without the

Servicer's or Minnesota Housing's prior notice or approval. In most cases, unauthorized transfers of title are a default of the terms of the mortgage and the Servicer must initiate collection efforts.

3.09 Paid In Full Processing

Through the execution of a limited Power of Attorney, the Servicer is granted the limited power to execute satisfactions of mortgages. The Servicer is responsible for the complete handling of loan payoffs, including the execution and delivery of satisfactions of mortgages, in full and complete compliance with any and all federal and state laws, rules and regulations. The note must be stamped paid in full and returned to the borrower(s).

Loans are deemed to be paid-in-full when the outstanding account balance is \$10 or less.

3.10 Mortgage File

The Servicer must maintain an individual file for each loan submitted by Minnesota Housing. Each file must be clearly marked to indicate Minnesota Housing's interest in the loan and the loan number assigned to it by Minnesota Housing. All documents retained by the Servicer remain the property of Minnesota Housing.

The file must include:

- all documents initially received by the servicer; and
- all legal notices, correspondence, forms, reports, and results of conversations relating to the loan.

The loan file need not contain form collection letters and form notices to borrower(s), provided Servicer possesses an adequate record of collection efforts including the dates of mailing for letters and notices.

3.11 Mortgage File Delivery

Loans are originated in the name of the lender and purchased by Minnesota Housing. Within five days of purchase, the lender is to provide the Servicer with:

- Original borrower application;
- Original note – endorsed to Minnesota Housing Finance Agency;
- Copy of the Contractor Warranty form, if applicable; and
- Copy of lender's certificate.

Within 180 days of loan Closing, on secured loans, the lender is to provide the Servicer with the recorded mortgage and assignment, or lien holder card (if mobile home).

Impact Fund Loans

- Impact Fund loans are originated in the name of the lender. Minnesota Housing will provide the Servicer with:
 - Original borrower application;
 - Original note – endorsed to Minnesota Housing Finance Agency;
 - Recorded mortgage; and
 - Recorded assignment of mortgage.

Multifamily Rental Rehab Loans

- Multifamily Rental Rehab loans are originated in the name of the lender and purchased by Minnesota Housing. Minnesota Housing will send the loan package to the Servicer, including the following:
 - Original borrower application;
 - Original note – endorsed to Minnesota Housing Finance Agency;
 - Copy of the Contractor Warranty form, if applicable; and
 - Copy of Servicer's report.

The recorded documents will be provided to the Servicer as soon as they are available.

3.12 Record Retention

The Servicer must secure the loan documents from accidental destruction and unauthorized personnel.

The Servicer must retain the original copies of any unrecorded loan documents that determine or change the loan terms, such as the loan note. The Servicer may convert other paper documentation to alternative storage media. All papers and/or documentation must be promptly reproduced by the Servicer at its expense for its servicing needs or on request from Minnesota Housing.

The Servicer must bear the entire cost of restoration or recreation of loan documents and records while in the possession of the Servicer.

After the loan is paid in full, sold, foreclosed or otherwise liquidated, all records must be maintained for a minimum of two years. After that time, the Servicer may destroy the originals and maintain the records in an alternative storage media. These records are to be kept for a minimum of an additional five years.

The Servicer may destroy any accounting records, including canceled checks and bank statements, after a period of two years from the date of termination or liquidation of the loan unless a greater period is customary in the jurisdiction in which the property address for the loan is located.

3.13 Access to Records

The Servicer agrees to deliver any file or bank statements requested by Minnesota Housing within two working days of receipt of the request.

3.14 Format of Stored Material

The Servicer must provide Minnesota Housing a complete list of the information stored for each loan and the format in which the information is stored.

The Servicer must notify Minnesota Housing immediately upon any change in the information stored or the storage format.

3.15 Duplicate Copies of Computer Records

The Servicer must maintain duplicate copies of all stored information at a secure site separate from the Servicer's facilities. The records must be updated weekly to reflect all transactions that occurred during the previous week, including a separate recording of each transaction for the previous week.

All duplicate copies are the property of Minnesota Housing, provided however that the Servicer must have access to the duplicate copies of records for those loans currently governed by the Agreement and this Procedural Manual.

The Servicer must make arrangements with the storage facility for unlimited access to the duplicate copies by the Commissioner and Deputy Commissioner and/or their designated agents of Minnesota Housing.

3.16 Subordinations

The Servicer is granted limited power to allow subordinations via the execution of a limited power of attorney.

- The Servicer is responsible for the complete handling of Subordinations, including the execution and delivery of the subordination document.
- No fees are to be assessed by the Servicer to provide subordinations on Minnesota Housing's behalf.
- The Servicer will retain all required documentation necessary for the approval/denial of subordination requests.

Refer to Appendix B for subordination requirements by loan category and program.

3.17 Required Subordination Documentation

- Lender request data sheet (collection of pertinent data on current loans along with pertinent data on proposed loan).
- Current title opinion or title policy - current defined as within 30 days.
- Current appraisal - current defined as within six months.
- Signed HUD-1 or loan commitment, if applicable.
- Itemization of home improvements by borrower(s), if applicable.
- Proof of stream-line refinance, if applicable. The title and appraisal requirements may be waived by the Servicer.

3.18 Subordination Reporting

The Servicer will supply Minnesota Housing, by the tenth calendar day of the following month, a report containing the following information:

- Loan number;
- Borrower(s) name;
- Loan type;
- Reason for the subordination request and the received, approved, and completed dates;
or
- Request denial date and reason; and
- Reason for exceeding the five business day turnaround time limit, if applicable.

3.19 Partial Releases

The Servicer is responsible for the complete handling of requests for:

- a partial release;
- release of personal property;
- easements;
- waiver of any right under a mortgage;
- consent to substantial alterations, removal, demolition, taking, or division of mortgaged property; and
- other matters relating to changes affecting the mortgage or the mortgaged property.

No fees are to be assessed by the Servicer for processing these requests on behalf of Minnesota Housing. The Servicer will retain all required documentation necessary for the approval/denial of these requests.

Minnesota Housing will not consent to the modification of the security for any mortgage if it would result in the deterioration of Minnesota Housing's security, be detrimental to bondholders, or violate any provision of the bond documents.

Loan-to-Value Ratio

The loan-to-value ratio may be no greater than before the partial release, easement etc. The principal balance must be reduced proportionately. On a case-by-case basis, this provision may be waived. If a waiver is required, the Servicer must contact Minnesota Housing Portfolio Management with the details.

The following information is required for review:

- A detailed market analysis or appraisal clearly indicating the value of the entire mortgaged property and the value of the property after the requested modification.
- Plat drawing, survey or acceptable alternative documentation clearly outlining the mortgaged property in its entirety and identifying the area of modification.
- The legal description of the easement or property to be released.
- The reason for the modification request.

3.20 Assumptions

In accordance with the provisions of the note, loans must be paid in full upon the sale or transfer of any borrower's interest in the property, and loans may not be assumed by third parties, whether incident to sale or otherwise, except in unusual circumstances, as determined by Minnesota Housing and with Minnesota Housing's prior written approval.

Chapter 4 - Specific Loan Servicing Requirements

Amortized Loans

4.01 Welcome Letter

The Servicer must send each new borrower(s) a welcome letter within ten business days of receiving the loan. The letter must include the name, address and toll free telephone number where the borrower(s) can receive information regarding the servicing of the loan.

4.02 First Payment

At the time of loan origination, the borrower(s) are instructed to make their payment directly to the Servicer.

4.03 Monthly Account Statements

The Servicer must provide each borrower(s) who is required to make payments either 12 monthly statements or a loan payment coupon book covering at least the first 12 monthly payments.

- The coupon book must be mailed to the borrower(s) within ten business days after the Servicer received the loan from Minnesota Housing.
 - If coupon books are used, the borrower(s) must receive books issued in subsequent years at least ten days prior to the anniversary date of the first payment.
 - If using monthly statements, the borrower(s) must receive the monthly statements at least ten days before each payment is due.

The Servicer must notify Minnesota Housing immediately if it anticipates this standard will not be met at any time.

Coupons or statements must:

- indicate the date each payment is due;
- the amount of each payment;
- the loan account number;
- the name and address of the borrower(s);
- include a statement the loan is due in full at the time the property is sold, transferred or leased and may not be assumed; and
- include the name, address and toll free telephone number where the borrower(s) can receive information regarding the servicing of the loan.

4.04 Annual Account Statements

At the beginning of each year, the Servicer must send the borrower(s) a statement of activity during the past year. This statement can be used to satisfy the Internal Revenue Service (IRS) requirement for notifying the borrower(s) of the total interest received from them and reported to the IRS for the preceding year.

The annual statement must be furnished to the borrower(s) by January 31st. The statement must include:

- The amount of interest the borrower(s) paid during the year.
- The unpaid principal balance of the loan at the end of the year.

Deferred and Sleeping Loans

4.05 Specialty Servicing Features

The following table provides specific details for meeting the required servicing features:

Category	Program Name	Welcome Letter	Periodic letter	Maturity Letter	Collection Efforts
Deferred Loans (Forgivable)	Rehab HOME Rehab Disaster Impact Fund	✓	✓	✓	✓
	ADDI				✓
	HOME Help	✓	✓		✓
Sleeping Loans (Non-Forgivable)	Rehab Impact Fund FPAP ECHO	✓	✓		✓
	HOP				
	Maple Grove Land Trust		✓		✓

4.06 Welcome Letter

The Servicer must send each new borrower(s) a welcome letter within ten business days of receiving the loan. The letter must include:

- The maturity date and conditions under which the loan becomes due and payable.
- The name, address and toll free telephone number where the borrower(s) can receive information regarding the servicing of the loan.

4.07 Periodic Letters

The Servicer must bi-annually send an information letter to the borrower(s). The periodic letter would include:

- The maturity date and conditions under which the loan becomes due and payable.
- The name, address and toll free telephone number where the borrower(s) can receive information regarding the servicing of the loan.

4.08 Maturity Letter

The Servicer must send a maturity letter to the borrower(s) between 60 and 90 calendar days prior to loan maturity. This letter would:

- include the maturity date; and
- request the borrower(s) to verify ownership of the property as their principal place of residence for the entire term of the mortgage by signing and returning the letter.

Once the signed maturity letter is returned by borrower(s), the loan is to be considered paid in full. The satisfaction of mortgage must be processed and the note stamped paid-in-full is returned to the borrower(s).

American Dream Downpayment Initiative (ADDI)

ADDI loans are forgiven at a rate of 20% per year, and are totally forgiven after five years. No Maturity Letter is to be sent. The satisfaction of mortgage must be processed and the note stamped paid-in-full is returned to the borrower(s).

4.09 Other – HOP

These are interest bearing loans with no monthly payments. They are short term, temporary financing for the acquisition and rehabilitation of vacant properties. A mortgage and assignment will be executed, but not recorded. The original mortgage and assignment will be sent to Minnesota Housing and would only be recorded if the loan defaults.

The life of these loans is as follows:

- Servicer sets up the loan;

- 180 day term;
- Extension fee of ½ of 1% to be applied on the 121st day (if not yet paid in full);
- Upon completion of repairs, lender sends any excess funds to Servicer for application to loan;
- Lender obtains payoff quote from the Servicer and sends the funds to Servicer;
- Servicer applies the funds to the loan and returns the note stamped paid in full to the borrower(s); and
- The Servicer will notify Minnesota Housing if the loan defaults.

Chapter 5 - Delinquent Loan Servicing

5.01 General Delinquent Servicing

The Servicer must establish procedures for servicing delinquent loans that follow the accepted standards used by prudent lenders. The Servicer's established procedures must include all of the following:

- An accounting system that immediately alerts the appropriate department a loan is delinquent.
- A collection department staff familiar with all FHA and Minnesota Housing procedural and reporting requirements.
- Counseling procedures to advise the borrower(s) on how to avoid or to cure delinquencies.
- Guidelines for the individual analysis of each delinquency.
- Instructions and adequate controls for sending delinquent notices, returning partial payments, maintaining collection histories, reporting delinquencies to credit bureaus, etc.
- Management review procedures to evaluate both the borrower's actions and the Servicer's collection efforts before a final decision is made to accept some form of repayment arrangement or to start liquidation or write-off proceedings.
- A method for tracking the Servicer's own delinquency and foreclosure ratios for all loans being serviced by Servicer.

The Servicer must manage all defaulted loan processes to maintain an acceptable delinquency rate relative to the established benchmarks.

The Servicer must analyze each delinquent account to determine:

- The reason for the default.
- Whether the reason is a temporary or permanent condition.
- The borrower's attitude toward the debt.

The Servicer must document all collection efforts in its permanent servicing files.

5.02 Credit Bureau Reporting

The Servicer is required to provide a full-file status report every month to each major credit repository for all loans with monthly payments.

The Servicer may use a cutoff date that allows time for payment corrections, returned checks and other adjustments to be processed. Statuses that must be reported include new origination, current, delinquent (30, 60, 90 days, etc.), foreclosed, and charged off. The Servicer must respond promptly to any inquiry of notice of dispute from a borrower(s) and is responsible for resolving any disputes about the information reported.

5.03 Delinquency Analysis

The Servicer must prepare a semi-annual report (January and July) outlining trends in delinquency with an analysis of possible reasons for these trends. The Servicer will also outline proposed actions for responding to adverse trends and will, if necessary, recommend changes in Minnesota Housing servicing policies needed to accomplish those actions. This report is to be sent to Minnesota Housing.

5.04 Review of Collection Activities

Minnesota Housing may periodically review the Servicer's loan collection activities.

5.05 Collection Activities

The Service must determine which approach will be the most effective based upon the borrower(s) circumstances and the various stages of the delinquency. Address a one-payment delinquency immediately. Make every effort to assist a borrower(s) experiencing temporary hardships, is cooperative, acting in good faith, and willing to work out a way to prevent or cure the delinquency.

The Servicer must use the following options:

- Borrower contact;
- Borrower counseling;
- Financial analysis;
- Temporary indulgence;
- Accepting partial payments; and
- Payment plans.

Borrower Contact

The Servicer must employ a variety of methods to contact borrower(s), including:

- Past due notices.
- Professional and courteous telephone calls; emphasize the importance of making payments as they come due. If the borrower has a legitimate reason for loan delinquency, try to get the borrower(s) commitment to bring the loan current as soon as possible. Discuss any appropriate types of relief available.

- Individually written letters may be a more effective collection technique than a form letter - certainly it emphasizes how serious a delinquency can be. Individual letters are the preferred approach after the 20th day of the delinquency.
- Determine whether face-to-face interviews with the borrower may be warranted before making a Recommendation/Advice of Action. These efforts must be consistent with industry practice and government regulations.

Borrower Counseling

The Servicer must be aware of any government programs that might assist borrower(s) to resolve the delinquency or of any counseling agencies that might help with debt management, and refer the borrower(s) to those agencies when it is appropriate.

NOTE: Collection and counseling efforts must comply with the requirements of applicable federal and state laws, including the Equal Credit Opportunity Act, Fair Debt Collection Practices Act, and Fair Credit Reporting Act.

Situations most likely to be resolved through counseling involve:

- poor debt management;
- lack of cash reserves for unanticipated expenses; or
- temporary reduction in income.

Minnesota Housing works with organizations around the state to provide counseling and financial assistance to Minnesotans. For information about counseling agencies specializing in delinquency and foreclosure counseling please see our website at www.mnhousing.gov.

Financial Analysis

A financial analysis form must be sent to any borrower(s) experiencing financial difficulties. The borrower(s) must be instructed to complete the form in its entirety and return it along with a copy of most recent paycheck stub or benefit letter, past two years Federal income tax returns and past two months bank statements.

Temporary Indulgence

Temporary indulgence may be granted only under special circumstances when the Servicer determines the borrower(s) will be financially able to bring the account current by paying the delinquent installments within 30 days.

Temporary indulgence may be appropriate when:

- A sale or rental of the property is pending.
- An insurance settlement is being negotiated.

- Assistance from a social agency is arranged, but funds have not been received.
- Additional time is needed to formalize a repayment plan under other relief provisions.
- The loan payments were lost in transit and need to be traced.

There is no need to inform Minnesota Housing of a grant of temporary indulgence.

Accepting Partial Payments

As a rule, a Servicer must accept partial payments. It must return partial payments when it believes this action will be an effective collection tool. However, Minnesota Housing does not want the Servicer to return partial payments routinely.

Payment Plans

The Servicer may consider a repayment plan when the delinquency resulted from a temporary hardship that no longer appears to be a problem.

For a delinquency with:

- less than three monthly payments, an oral agreement is sufficient; the Servicer must document the agreement in its servicing files.
- three monthly payments, a formal written repayment agreement must be signed by the borrower(s). The agreement must clearly state the dollar amount and due date of each additional payment and the date when the total delinquency must be cured.

Death and Probate - Unsecured Loans Only

The Servicer must obtain:

- a copy of the death certificate;
- a copy of the will or petition for probate, if applicable; and
- an inventory of the estate;
 - Probate Case Opened: The Servicer must file a proof of claim within four months of date of notice of informal appointment of the personal representative and notice to creditors. The Servicer must contact the personal representative regarding the Minnesota Housing loan.
 - Probate Case NOT Opened: The Servicer must file a notice of demand with the county probate office.

Military Indulgence

Military indulgence is available to mortgagors in the military services who qualify under the Soldier's and Sailor's Civil Relief Act of 1940 and the Servicemembers Civil Relief Act of 2003.

The Servicer is expected to be familiar with and act in accordance with the requirements of these Acts.

The relief begins when the mortgagor receives orders to report for active duty and ends a short time after separation from active duty.

The Servicer must:

- Reduce the interest rate on the Mortgage loan to 6% during the period of active duty
- Determine if additional forbearance measures are needed; or
- Determine the provisions that apply to foreclosure proceedings or extension of redemption periods.

The Servicer may accept the mortgagor's orders to report to full-time active duty as the only evidence of their eligibility to receive the reduced rate or other forbearance relief.

5.06 Loss Mitigation

The Servicer must always consider using loss mitigation tools prior to taking other action. Loss mitigation tools available include but are not necessarily limited to:

- Loan Modifications;
- Hardship Assumptions; and
- Forgiveness/Settlement.

Loan Modification

Modifications may extend the term of the mortgage, note or repayment agreement or provide for re-amortization of the outstanding debt. If an otherwise unviable modification can be made viable through the reduction of the interest rate, Minnesota Housing will consider approval on a case-by-case basis.

Modifications must be considered under the following circumstances:

- Borrower(s) income was affected permanently by an accident or illness; or
- Death of the principal wage earner in the family; or
- Borrower(s) income was reduced or eliminated for a temporary period of time; and
- Current income is still too low to keep the loan current; and
- Changing the terms would cure the present delinquency and/or avoid acquisition of the property; and
- Prior mortgage loan payments are current.

If the Servicer determines a modification is appropriate, based on a review of the supporting documentation, they must:

- Prepare the Loan Modification and Extension Agreement form, or similar document, and forward to the borrower(s) for signature.
- Revise the borrower(s) payment records to incorporate the modified loan balance, payments and term to reflect the modified installments.
- Order new coupons/monthly statements for the borrower(s) with the modified payment amount.

Hardship Assumption

Third parties may not assume loans except in unusual circumstances. Minnesota Housing must approve all hardship assumptions. See Chapter 3, Section 3.20 Assumptions.

The following conditions must exist:

- The financial situation of the borrower(s) was impacted by a serious hardship situation;
- The borrower(s) exhausted all avenues for selling the property for an amount sufficient to repay the Minnesota Housing loan;
- The failure to allow an assumption will result in extreme financial hardship to the borrower(s);
- The income and credit of the prospective buyer of the property is approved by the Servicer; and
- The loan is current at the time of the assumption.

If the Servicer determines a hardship assumption is appropriate, based on a review of the supporting documentation, they must:

- Coordinate the preparation and delivery of any documents to the borrower(s). The new borrower(s) will be required to sign a Minnesota Housing Assumption Agreement form (or similar form); or
- A loan note for Minnesota Housing's Home Improvement Loan Programs, if the loan is unsecured; and
- Adjust the Servicer's computer records to reflect the new borrower(s) information and order new coupons/monthly statements.

Forgiveness/Settlement

Selling Property

A loan may be partially or totally forgiven if the following conditions exist:

- The borrower(s) cannot sell their home for the full amount of the indebtedness;

- The financial situation of the borrower(s) was impacted by a serious hardship situation;
- No other workout situation is feasible; and
- There is no reasonable expectation that we will be able to collect the full payoff amount from the borrower(s) at the time of closing.

The borrower(s) is to apply any available funds from the sale of their property to the Minnesota Housing loan. The remaining balance is forgiven.

First Mortgagee to Take a Deed-in-Lieu

Minnesota Housing will consider releasing its lien if the following conditions are met:

- There is an obvious hardship that caused the default;
- All other collection avenues have been exhausted;
- Borrower exhausted all avenues for selling the property for an amount sufficient to repay the Minnesota Housing loan (property listed for sale at market value for three months or more without a reasonable sales offer);
- The property is presently listed with a Realtor; and
- The mortgagor can convey acceptable marketable title to first mortgage holder.

If the first mortgage is FHA insured, the Servicer must ask the first mortgage holder if the mortgagor is expected to receive \$500.00 consideration available to them from HUD. If so, the Servicer must request that Minnesota Housing receive the \$500.00 consideration in exchange for releasing the lien on the property.

Other Specific Circumstances

The borrower(s) demonstrates the financial ability to repay the remaining balance or a portion of the remaining balance in monthly installments, Minnesota Housing may:

- satisfy the current mortgage; and
- establish a repayment plan within the borrower's budget; and
- all borrower(s) would sign a promissory note.

The Servicer must prepare and deliver any documents.

If the borrower(s) is purchasing another home and there is a remaining balance, Minnesota Housing may:

- consider transferring the outstanding balance to the new property; and
- establish a repayment agreement; or

- Transfer the mortgage to the new property with the original time frames.

If the borrower(s) is forced to leave a property secured by a deferred loan prior to the end of the term of the mortgage for reasons beyond the borrower(s) control, the payoff may be prorated to the length of time the borrower(s) lived in the property. The prorating would be 10% forgiveness for each full year the borrower(s) lived in the property.

Deferred Mortgage Loans

The Servicer must advise the borrower(s) there may be possible tax consequences if any portion of the outstanding debt is forgiven and refer the borrower(s) to IRS Publication 544, Sales and Other Dispositions of Assets, particularly section 1 Gain or Loss – Foreclosures and Repossessions.

It is the Servicer's responsibility to coordinate the preparation and delivery of any documents to the borrower(s).

The Servicer will execute the Release of Lien and notify the credit bureaus the loan is paid in full. The loan must be removed from the Servicer's system as if paid in full.

In the case of a partial forgiveness, the Servicer is responsible for collecting the amount the borrower(s) agreed to pay. These funds must be submitted to Minnesota Housing using the same procedure as a full payoff.

5.07 Foreclosure Recommendations

It is rarely in Minnesota Housing's best economic interest to foreclose on its junior liens. The Servicer must explore the possibility of foreclosure by obtaining an Owner's and Encumbrances (O & E) report and Broker's Price Opinion (BPO) report only if the following conditions exist:

- Loan balance is greater than \$2,500.00;
- The borrower(s) are unable or unwilling to make the payments;
- No other workout solution is a viable option;
- No known environmental hazards affect the security of the property; and
- There is some existing indication there is enough value in the property to warrant a foreclosure action.

The Servicer may only recommend a foreclosure if the O & E and BPO reports verify:

- Minnesota Housing is in first position;
- The probable sales price of the property in an "as is" condition is at least \$20,000 more than the unpaid principal balance of our loan; and
- The property is situated in an area conducive for re-sale; or

- Minnesota Housing is in a lesser position; and
- The probable sales price of the property in an “as is” condition is at least \$20,000 more than the total of the unpaid principal balance of our loan and all superior liens; and
- The property is situated in an area conducive for resale.

5.08 Redeem First Mortgage

The Servicer may receive a written or verbal notice of foreclosure from the first mortgagee. The Servicer must explore the possibility of redeeming the first mortgage by obtaining an O & E and BPO reports only if all the following conditions exist:

- The senior mortgage holder started the foreclosure process;
- Loan balance is greater than \$2,500.00;
- The borrower(s) is unable or unwilling to make the payment;
- No other workout solution is a viable option;
- No known environmental hazards affect the security of the property; and
- There is some existing indication there is enough value in the property to warrant redeeming the property.

The Servicer may only recommend redemption of the first mortgage if the O & E and BPO reports verify:

- The probable sales price of the property in an “as is” condition is at least \$20,000 more than the total of the unpaid principal balance of Minnesota Housing’s loan, the cost of redemption, and any other superior liens; and
- The mortgaged property is situated in an area conducive for resale.

The Servicer must include the following supporting documentation:

- O & E Report;
- Market analysis or BPO;
- Picture of mortgaged property; and
- Senior lien holder’s statement of amount to redeem.

The Servicer must instruct its attorney to file an Intent to Redeem within the statutorily required period when Minnesota Housing’ written approval is received. The maximum allowable attorney fee is \$150.00.

The Servicer must:

- obtain an updated amount to redeem statement from the senior lien holder two weeks prior to the end of the redemption; and
- forward the amount to redeem statement to Minnesota Housing.

Minnesota Housing will:

- forward a check to the foreclosing attorney for the redemption amount; and
- notify the Servicer within one business day of the redemption.

The mortgaged property becomes Real Estate Owned (REO).

5.09 Loan Status Change

When the Servicer believes no further collection and loss mitigation efforts will result in curing the delinquency, and foreclosure is not a viable option the servicer must consider changing the loan status.

Inactive Loan Status

If there is either a valid, enforceable lien or promissory note on a loan, the loan should be moved to an Inactive Loan Status and remain on the trial balance. This will remove the loan from delinquency status.

Criteria for an inactive loan are as follows:

- Servicer is unable to collect; and
- Borrower situation remains unchanged; or
- Borrower is deceased and heirs are unwilling to satisfy amount; or
- Bankruptcy cram down reduced our promissory note on a secured loan; or
- Chapter 13 Bankruptcy filed on an unsecured loan.

Ongoing Collection Activity

The Servicer must:

- send out reminder notices to all borrower(s) every three months
- make telephone contact with all borrower(s) once a year; or
- follow-up with the bankruptcy trustee for loans with a Chapter 13 bankruptcy plan.

Revenue Recapture

The Servicer must recommend Revenue Recapture on any loan moved to an inactive status under the following conditions:

- there is a valid note;
- borrower(s) is not deceased; and
- borrower(s) did not file Chapter 7 or Chapter 13 bankruptcy.

Revenue Recapture claims includes interest through date of filing. Minnesota Housing will forward any funds received from Revenue Recapture to the Servicer for application to the loan.

If the full amount of the Revenue Recapture claim is received, write off any remaining balance. The loan is now considered paid in full.

Monies Received

The servicer must advise Minnesota Housing of any monies received that are not a result of Revenue Recapture. All funds are to be applied to the loan.

Bankruptcy

Any Chapter 7 or 13 Bankruptcy on a loan with an Inactive Loan Status must trigger notification to Minnesota Housing to remove the Revenue Recapture claim.

Non-Collectible Status

If the Servicer determines action was taken, and there is no possibility of collecting on the Note through Revenue Recapture, the loan should be moved to a Non-Collectible Status on the trial balance.

Examples of Actions:

- Bankruptcy action prohibits collecting on the Note and the loan is unsecured.
- A superior lien holder foreclosure extinguished Minnesota Housing's interest in a secured loan and bankruptcy action extinguished Minnesota Housing's ability to collect on the note.
- Borrower is deceased, loan is unsecured and there is no probate.
- Unsecured loans in project numbers 1735, 1736, and 1737 and the Servicer believes no further collection and/or loss mitigation efforts will result in curing the delinquency.

The Servicer must update the credit bureaus of the write-off.

5.10 Defaulted Loan Recommendation/Advice of Action

The Servicer must submit a Recommendation/Advice of Action form, along with supporting documentation, to Minnesota Housing for all recommendations/actions taken on curing delinquency as noted in this chapter. Written approval from Minnesota Housing is needed as noted below.

Defaulted Loan Circumstance	Servicer Response
Loss Mitigation	Advice of Action - Notification
Inactive Loan Status	Advice of Action - Notification
Non-Collectible	Advice of Action - Notification
Forgiveness/Settlement	Advice of Action - Notification
Foreclosure	Recommendation – Written Approval from Minnesota Housing
Redeem First Mortgage	Recommendation – Written Approval from Minnesota Housing

Submit O & E and/or BPO billings with your monthly servicing fee statements; include expenditure details.

Chapter 6 - Foreclosures/REO

6.01 Initiating Foreclosure

The Servicer is responsible for processing foreclosures in accordance with the provisions of the mortgage, state and federal laws, and Minnesota Housing's requirements.

The Servicer must select the attorney and:

- Determine the attorney has no financial or other relationship with any party to the foreclosure or sale of the property;
- Notify the attorney that all papers, documents and funds held in connection with a legal action must be returned to Minnesota Housing if the attorney's services are terminated;
- Advise the attorney that he/she is responsible for reimbursement of Minnesota Housing for losses incurred because the attorney failed to meet his/her responsibilities;
- Send documents necessary to begin foreclosure proceedings to the attorney within five business days of receipt of the foreclosure approval; and
- Monitor the progress of each loan file on a monthly basis.

If the foreclosure process is not proceeding timely, Minnesota Housing will request an explanation and an indication of when the next course of action is expected to occur.

6.02 Demand Letter

The Servicer must send the mortgagor a demand letter at least 30 days before foreclosure proceedings begin. The demand letter must:

- clearly explain the exact nature of the default (for example, a default in payments),
- what action is required to cure the default;
- the date by which the default must be cured;
- notify the mortgagor of the approximate date foreclosure action will begin if the default is not cured by the specified date; and
- notify the mortgagor of the possibility of the pursuit of a deficiency judgment if foreclosure proceedings are undertaken.

6.03 Property Inspections

The Servicer must make a thorough inspection of the property before it decides to recommend the loan for foreclosure.

- The Servicer must inspect the property at least once every 30 days once the foreclosure is approved.

- If the property is vacant or located in an area with a high rate of vandalism, the property may need to be inspected more often.
- Winterization must be completed on all vacant properties beginning October 1 through March 31.

Notice of Condemnation

The Servicer must contact the city to determine required repairs to comply with city codes.

Emergency Repairs

The Servicer must:

- advance the funds necessary to pay for required emergency repairs; and
- arrange for the mortgagor to repay this advance, either in installments or as part of the full amount required to reinstate the mortgage loan.

If the mortgage loan is subsequently foreclosed and the mortgagor did not repay the advance, Minnesota Housing will reimburse the Servicer for the advances when the Statement of Expenses form is submitted.

Acquired Property

The Servicer must inspect the property within 15 days prior to the property acquisition and notify Minnesota Housing of the occupancy status.

Until title is acquired by Minnesota Housing and a real estate agent is assigned, the Servicer must continue to inspect the property every 30 days.

Criminal Penalties for Real Estate Damage

Whoever removes or damages real property, which is subject to a mortgage, including the period of time allowed for redemption, with the intent to impair the value of the property without consent of the security holder, is subject to criminal penalties. The Servicer must contact Minnesota Housing immediately if they are aware of damages to the mortgaged property. Minnesota Housing will determine the appropriate action to be taken.

Farm Homestead

The Servicer must inform Minnesota Housing and the foreclosure attorney if the inspected property is a farm homestead. Minnesota Statute 500.245 “Right of first refusal for agriculture land” may apply. The Servicer must advise Minnesota Housing of the estimated value of the mortgaged property. If the mortgaged property is worth less than the outstanding balance of the mortgage loan a judicial foreclosure may be necessary.

6.04 Reinstatements

The Servicer can accept the full amount due for reinstatement as long as a Sheriff Sale has not been held. A full reinstatement includes:

- Payment of all delinquent monthly mortgage payments.
- Funds for expenses advanced.
- All legal fees and late charges incurred.

Attorney Fees

The attorney fee must be reasonable and related to the amount of work actually performed by the attorney. It must bear a proportional relationship to the fee that would have been allowed for a completed foreclosure.

NOTE: Minnesota Housing will not reimburse attorney fees if the mortgage is reinstated. Those fees must be collected from the mortgagor as a condition of the reinstatement.

When a loan in foreclosure reinstates, the Servicer must notify Minnesota Housing.

Partial Reinstatement

The Servicer can accept a mortgagor's proposal for a partial reinstatement if it believes the mortgagor is acting in good faith and the mortgage can be brought current within a reasonable period of time. The proposed plan must be submitted in writing and clearly state the action the Servicer can take to resume the foreclosure action if the mortgagor does not meet the agreed terms.

The Servicer must notify Minnesota Housing when a partial reinstatement is accepted and the foreclosure action is halted.

NOTE: If the application of partial payments would jeopardize Minnesota Housing's legal position in the event foreclosure proceedings needed to be resumed, the Servicer must hold all funds received for a partial reinstatement and must not apply them until it receives the full amount required to reinstate the mortgage.

6.05 Power of Attorney

A foreclosure must be completed in Minnesota Housing's name (as owner of record) and a power of attorney will need to be executed by Minnesota Housing for each foreclosure. A power of attorney prepared by the foreclosing attorney may be used.

6.06 Sheriff's Sale

The sheriff's sale must be published within one month of Minnesota Housing's execution of the power of attorney. The sheriff's sale date must not be greater than four months from

Minnesota Housing's approval date. The Servicer must notify Minnesota Housing when the sheriff's sale is scheduled, if it is postponed, if it was held as scheduled, or was canceled.

6.07 Bidding Instructions

The Servicer must issue bidding instructions to the foreclosing attorney. Any proceeds received from a hazard insurance loss settlement must be considered in the bid amount. The bid amount must normally include the full amount of the indebtedness:

- Unpaid principal balance;
- Accrued interest to the date of the sale;
- Any advances for taxes and insurance; and
- Other foreclosure costs (including any reimbursable property inspection fees).

6.08 Shortening the Redemption Period

Minnesota Housing requires the Servicer to take full advantage of the Minnesota Statute Section 582.032 allowing the redemption period to be shortened for certain abandoned properties – from six months to five weeks. The Servicer must determine if the vacant mortgaged property meets the eligibility criteria and, if so, take the necessary action to reduce the redemption period.

6.09 Redemption Procedures

Minnesota Housing may be outbid at the Sheriff Sale by a third party, or the mortgagor redeems the mortgage property; or the mortgaged property is redeemed by a junior lien holder.

The Servicer must submit a check for the amount collected less funds owed the Servicer to Minnesota Housing along with a completed Redemption Statement form. The Servicer or its attorney must prepare the Certificate of Redemption and forward it to Minnesota Housing for execution.

If there are indications a mortgagor or junior lien holder intends to redeem and the Servicer made advances after the sheriff's sale, the Servicer must contact the foreclosing attorney and have an affidavit of additional amounts prepared and filed. The affidavit will ensure that all funds advanced will be collected if the property is redeemed through the sheriff's office.

6.10 Foreclosure Expenses

The maximum allowable foreclosure related attorney fees that Minnesota Housing will pay are as follows:

Standard Fannie Mae approved	Standard HUD approved
<ul style="list-style-type: none"> • Foreclosure 	<ul style="list-style-type: none"> • Reduced redemption
<ul style="list-style-type: none"> • Bankruptcy 	
<ul style="list-style-type: none"> • Unlawful Detainer 	
<ul style="list-style-type: none"> • Deed-in-Lieu 	
<ul style="list-style-type: none"> • Proceedings Subsequent 	

Fees higher than these amounts may be appropriate, but must be approved in writing by Minnesota Housing in advance.

Statement of Expenses

The Servicer must request reimbursement for its advances by submitting a Statement of Expense form(s) to Minnesota Housing.

- The first Statement of Expense form must be submitted within 30 calendar days after the redemption period expires.
- The second and final Statement of Expense form must be submitted within 30 calendar days of Minnesota Housing’s notification to the Servicer that the property sale is closed.
- If warranted, a Statement of Expense form may be submitted more often.

6.11 Property Maintenance

The Servicer is responsible for performing all property maintenance functions to assure the condition and appearance of the mortgaged property are maintained satisfactorily. This includes:

- cutting the grass;
- removal of trash and other debris;
- snow removal; and
- winterization of the property, etc.

NOTE: Winterization must be completed on all vacant properties beginning October 1 through March 31.

The Servicer must secure a vacant mortgaged property by:

- changing all exterior locks; and

- securing all windows and exterior doors.

NOTE: Properties must not be boarded unless absolutely necessary to prevent vandalism.

The maintenance of the mortgaged property remains the responsibility of the Servicer until Minnesota Housing assigns that responsibility to a real estate agent.

Property Preservation Fees

Property preservation fees in excess of \$400.00 require prior written approval from Minnesota Housing.

6.12 Hazard Insurance

The Servicer must ensure proper insurance coverage is in effect at all times and is responsible for notifying the insurance company when a property becomes vacant. Immediately following the sheriff's sale, the Servicer must obtain an endorsement to the policy to reflect Minnesota Housing's interest. Should insurance coverage be canceled at any time, the Servicer must place coverage reflecting proper ownership interests. Hazard insurance coverage must stay in effect until Minnesota Housing notifies the Servicer to cancel coverage.

6.13 Notifying the IRS

The Service must file an IRS 1099-A form on Minnesota Housing's behalf when a property is acquired.

The following events trigger the reporting requirement:

- Minnesota Housing acquires the mortgaged property at the end of the redemption period following a foreclosure sale or by deed-in-lieu of foreclosure.
- A third party acquires the mortgaged property at a foreclosure sale.
- The mortgaged premises are abandoned, three months have passed and foreclosure proceedings have not begun.

The form must be filed in Minnesota Housing's name.

6.14 Real Estate Owned (REO) Management

The Servicer must discontinue ordering property inspections once the redemption period expires or Minnesota Housing has redeemed a first mortgage. Minnesota Housing will designate a real estate agent to assume certain property management responsibilities. The Servicer will continue to be responsible for:

- Conducting eviction proceedings
- Advancing funds to pay:

- Real estate taxes;
- Insurance premiums;
- Utility bills; and
- Reimbursing authorized vendor and broker expenses.

Minnesota Housing may request the Servicer to perform some property management functions normally assigned to a real estate agent. Minnesota Housing will approve all repair and marketing costs involved in the property's disposition.

When Minnesota Housing has sold and closed the REO property, Minnesota Housing will notify the Servicer to cancel its insurance coverage and submit the Final Statement of Expenses form.

6.15 REO Servicer Responsibilities

- If a property is occupied, the Servicer must send a vacate reminder to the occupants of the property 30 days prior to the end of redemption. Two weeks prior to the end of redemption, the Servicer must inspect the property to determine the occupancy status.
- When the property becomes vacant, it is the Servicer's responsibility to winterize. Winterization on all of Minnesota Housing's acquired properties must be done beginning October 1 through March 31 to ensure properties do not suffer freeze damage.
- If the property continues to be occupied when the redemption period expires, the Servicer must prepare and send a vacate letter to the occupants within three business days of the redemption expiration. If necessary, the Servicer must undertake and complete an Unlawful Detainer/Eviction.
- The Servicer must maintain adequate hazard insurance coverage on the property and request the tax rolls be changed to reflect Minnesota Housing's ownership of the property (specifying the tax bills must be directed to the Servicer). The Servicer must pay all appropriate insurance premiums and tax assessments as they become due.
- The Servicer must contact the management company if the Acquired Property was part of a condominium or PUD project to assure all future bills for owner's association, assessments or fees are sent to the Servicer. The Servicer must pay the bills as they come due.
- The Servicer is responsible for paying Minnesota Housing's designated real estate agents for authorized maintenance and repair expenses.

6.16 Real Estate Agent's Responsibilities

The real estate agent's general responsibilities include:

- Obtaining keys to the property from the Servicer, or rekeying the property (retaining one set of keys and providing one set to the Servicer for its use).

- Coordinating access to the property by any and all parties, such as vendors making repairs, and prospective purchasers.
- Maintaining the condition and appearance of the property by arranging for cleaning, removing trash, cutting grass, snow removal, etc. in a manner that preserves the property's value and prevents deferred maintenance.
- Obtaining bids on estimated repair work and hiring vendors to accomplish the work authorized by Minnesota Housing.
- Inspecting and taking photographs of the completed repair work, obtaining appropriate invoices, and getting any necessary lien releases.
- Marketing the property effectively by listing with a MLS or other appropriate service, advertising in the local newspapers and holding open houses.

6.17 Reimbursement of Expenses

Real estate agents must request reimbursement for their expenses by submitting a Realtor Monthly Statement form and supporting documentation to the Servicer for payment.

The real estate agent may request payment before all of the supporting documentation is available. If the Servicer believes immediate reimbursement is justified, Minnesota Housing must be contacted to request verbal authorization.

The Servicer must pay the real estate agent for their expenses within five business days of receipt of the Realtor Monthly Statement form or Minnesota Housing's approval for an early payment.

6.18 REO Loan Removal

The Servicer must remove the principal balance from its trial balance when:

- Minnesota Housing received all expected funds; and
- The Servicer received final reimbursement of its expenses.

Chapter 7 - Accounting and Reporting

7.01 Loan Payment Records

The Servicer must maintain permanent accounting records for each loan. The records must clearly indicate Minnesota Housing's ownership of each loan and contain the complete Minnesota Housing loan number.

The Servicer's loan accounting system must be capable of producing an account history for each loan. The account history must be listed in chronological order and provide the following information:

- The date each payment was received, the amount of the payment, how the payment was applied (principal, interest, etc.) and the date payment was paid through.
- The cumulative amount of interest paid.
- The transaction date, amount and nature of each disbursement, adjustment or any other transaction affecting the current outstanding principal.

The accounts and records relating to a loan must be maintained in accordance with sound and generally accepted accounting practices, and in a manner that will permit the representative or designee of Minnesota Housing, at any time, to examine and audit the accounts and records.

7.02 Custodial Accounts

The Servicer must establish and maintain a separate custodial bank account for Minnesota Housing. The custodial account must be established at a depository institution, which is insured by an agency of the United States, or another federally insured institution. Each custodial account name must be as follows:

- "(Servicer name), trustee for Minnesota Housing Finance Agency".

Only one custodial account is required by Minnesota Housing. All funds (principal, interest) held for the account of Minnesota Housing may be deposited into this one account. The Servicer must credit all receipts to the custodial account no later than the first business day following receipt.

7.03 Application of Payments

The Servicer's procedures for applying and accounting for individual loan payments must comply exactly with those procedures set forth below. No modification, deviation or exception, in any form or manner to the procedures set forth below regarding applying payments is permitted, unless previously approved in writing by Minnesota Housing. The procedures specified provide the necessary accounting control.

NOTE: Interest calculations must be made using a simple interest, 365-day year formula, calculated from the date of last payment to the date of the current payment.

Regular Monthly Payments

- The regular monthly loan payment must equal or exceed the monthly constant of principal and interest.
- An individual payment must first be applied to interest; the remainder of the payment must be used to reduce the unpaid principal balance.
- The Servicer must contact the borrower(s) if there is a question regarding applying a payment received in excess of the full monthly payment.

Partial Prepayments

- Partial prepayments of principal in any amount may be accepted by the Servicer at any time without prior notice, provided the loan is current.
- On delinquent loans, funds are to be applied first to interest owed with the remainder of the payment used to reduce the principal balance.
- A payment from a Minnesota Housing lender representing a return of unspent principal must be applied to the principal without advancing the due date.

Prepayment in Full

The Servicer must determine and accept the amount required to completely prepay the loan. The payoff amount must include:

- the unpaid principal balance;
- interest (charged up to, but not including, the date of the payoff of the loan); and
- prepayment penalty, if any.

The amount to be remitted to Minnesota Housing for the prepayment in full is the sum of the following:

- Unpaid principal balance;
- Plus any unpaid interest;
- Plus prepayment penalty, if any; and
- Less servicing compensation.

Re-application of Prior Payments

The Servicer may not, without the prior written approval of Minnesota Housing, reapply prepayments to pay delinquent installments.

7.04 Remitting Funds/Servicing Fees

Principal and interest collections and payoffs are to be remitted to Minnesota Housing the first business day following receipt. The summary forms are to breakdown each wire by loan program. Minnesota Housing will provide the program and appropriate account numbers. Remittance summary forms are to be e-mailed to the trustee and Minnesota Housing.

Amortized Loans

Funds are to be wired directly to the trustee, Wells Fargo Bank, unless other arrangements are approved by Minnesota Housing.

Deferred and Sleeping Loans

Funds are to be wired directly to the **State of Minnesota**, unless other arrangements are approved by Minnesota Housing.

Servicing Fees

The Servicer must provide in detail, the number and dollar amount of payments received, the servicing fee, and any other fees the Servicer may be entitled to.

Amortized Loans

The Servicer is to deduct the fees from the dollar amount remitted in accordance with the Agreement.

Deferred and Sleeping Loans

The Servicer must submit a written invoice for the servicing fee to Minnesota Housing for payment. Payment will be in accordance with the Agreement.

7.05 Investor Reporting

Minnesota Housing requires certain reports be prepared at certain times. All reports are to be submitted electronically in a format designated by Minnesota Housing. The reports are due within two business days of the cut-off date. The Servicer must make sure all reports are accurately prepared and submitted promptly.

The reports are to be separated by Program and then by categories within the Program. Minnesota Housing will provide the specific details. The cut-off date for monthly reporting is the last business day of the month.

Failure to comply with the reporting schedule is deemed a violation of the Servicer's responsibility and constitutes a violation of the Agreement and this Procedural Manual. The following is the list of required reports:

- Trial Balances;
- New Loans – Monthly;
- Service Fee Statement;
- Alphabetical Active Borrower(s);
- Delinquency Summary;
- Delinquency Summary by Lender;
- Prepayments;
- Cash Flow;
- Weighted Averages;
- Cumulative Cash Receipts;
- Reconciliation Report;
- Monthly Remittance;
- Monthly Remittance Summary; and
- Weighted Average Life of Loan.

The Servicer must provide other reports and/or data interfaces as reasonably requested by Minnesota Housing.

Appendix A: Definitions

TERM	DEFINITION
Acquired Property	A property for which Minnesota Housing gained title through foreclosure or acceptance of a deed-in-lieu of foreclosure; often referred to as real estate owned (REO).
Cash Out	Proceeds used to pay any item that is not a seasoned lien against the subject property. Net to/from borrower(s), as listed on the HUD-1, is not to exceed 1% of the new first mortgage amount on no-cash out refinances.
Contractor Warranty	Document in which contractor warrants workmanship of improvements.
Deferred Loan	A non-amortized loan that is due and payable at a later date or upon the occurrence of an event that may occur at a later date and which contains provisions that allows the principal amount that is due and payable at that later time to be partially or totally forgiven.
Forgiveness	The portion of the debt that is considered fully satisfied without monetary payment.
Inactive Loan	A currently non-performing loan with an enforceable lien or Promissory Note where foreclosure is not a viable option.
Non-Collectible	Loans for which all remedies outlined in this Procedural Manual have been pursued and did not result in collection on the note.
Performance Watch	A period of time during which Minnesota Housing will closely monitor the Servicer's performance and eligibility compliance.
Prepayments	Principal prepayments received on loans prior to maturity dates that bring the loan balance to \$10 or less.
Revenue Recapture	A means of collecting state agency debts by intercepting state income and property tax refunds or credits, and lottery winnings over \$1,000.00.
Sleeping Mortgage	A non-amortized interest free loan that is due and payable in full at some later date or upon the occurrence of some event that may occur at some later date.

Appendix B: Subordination Details

<i>Subordination Details</i>	Programs														
	Amortizing						Deferred				Sleeping				
	FUF	CFUF	HE	REV	SF Rental Rehab	MF Rental Rehab	Rehab	Disaster	Impact Fund	HOME Help	Rehab	Impact Fund	FPAP	ECHO	Maple Grove
Limited to refinances of the first mortgage at prevailing market rates/fees.	X	X	X	X	X		X		X	X	X	X	X	X	
Proposed rates and fees must be the lowest available for the borrower's risk category.	X	X	X	X	X		X	X	X	X	X	X	X	X	
MN Housing loan must be in a current status and not in default of any of its terms and/or promises.	X	X	X	X	X		X	X	X		X	X	X	X	
Proposed combined loan-to-value ratio does not exceed 100%.	X	X	X	X	X		X	X	X		X	X	X	X	
Property taxes must be current.	X	X	X	X	X		X	X	X		X	X	X	X	
No restrictions.															X
None granted.															
Contact MN Housing, Multifamily Division.						X									
<i>Cash Out Conditions:</i>															
<ul style="list-style-type: none"> No Cash Out: Net to borrower, as listed on HUD-1, not to exceed 1% of new first mortgage. 				X	X		X		X	X	X	X	X	X	
<ul style="list-style-type: none"> Debt consolidation provided that all debts to be paid off are identified and documented either on a Loan commitment or identified debts are paid through the HUD-1. 	X	X	X												

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Subordination Details	Programs														
	Amortizing						Deferred				Sleeping				
	FUF	CFUF	HE	REV	SF Rental Rehab	MF Rental Rehab	Rehab	Disaster	Impact Fund	HOME Help	Rehab	Impact Fund	FPAP	ECHO	Maple Grove
<ul style="list-style-type: none"> Home improvements, provided all improvements are itemized and identified by Borrower, and are not a duplication of original Home Improvement or Home Energy Loan improvement. 	X	X	X												
<ul style="list-style-type: none"> Used for basic home repairs/improvements provided that an Escrow is set up to handle disbursements. 				X			X		X		X	X			
<ul style="list-style-type: none"> No restrictions. 								X							X

Appendix C: Forms List

Assumption Agreement with Release of Liability
Certificate of Redemption
Loan Modification and Extension Agreement
Recommendation/Advice of Action
Redemption Statement
Realtor Monthly Statement
Statement of Expenses