



Junior Lien Servicing Manual

August 2018



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Introduction

Mission Statement

Housing is the foundation for success, so we collaborate with individuals, communities and partners to create, preserve and finance affordable housing.

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 Junior Lien Servicing Manual (this “Manual”), including changes, additions and exhibits, is a supplement to the Junior Lien Servicing Agreement (the “Agreement”) executed between the Servicer (“AmeriNational Community Services, LLC dba AmeriNat”) and Minnesota Housing Finance Agency (“Minnesota Housing”). The Agreement is incorporated into this servicing manual by reference.

Minnesota Housing reserves the right to:

- Alter or waive any of the requirements
- Impose additional requirements
- 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 legal action.

1.03 Termination of Agreement

Minnesota Housing can terminate the Agreement at any time and can prevent the Servicer’s future eligibility to contract with Minnesota Housing for reasons including, but not limited to, non-conformance with:

- This Manual
- The Agreement
- The Federal Fair Housing Laws or the Equal Credit Opportunity Act
- Any federal or state laws or acts that protect the borrower’s rights with regard to obtaining financing
- Applicable state and federal laws, rules and regulations

Minnesota Housing may impose other remedies for Servicer non-performance.

1.04 Representations and Warranties

The Servicer agrees to follow all applicable federal, state, and local laws, ordinances, regulations and orders including, but not limited to, the:

- 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
- 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
- Real Estate Settlement and Procedures Act of 1974
- Fair Debt Collection Practices Act
- Any federal data privacy acts

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

- The Servicer will keep adequate internal management and audit control procedures to:
 - Assure the loans are serviced under sound servicing and accounting principles

- Guard against dishonest, fraudulent, or negligent acts of employees or contracted third parties
- Guard against errors and omissions by officers, employees, or other authorized persons

The Servicer has and will continue to keep servicing facilities that are staffed with trained personnel who are knowledgeable to service Minnesota Housing loans per industry accepted standards as determined at Minnesota Housing's sole discretion.

The Servicer will make sure 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 as a conflict of interest or an unfair advantage. All information must be used in a manner consistent with any applicable laws or regulations on disclosure of the 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 informs the Servicer that it does not object to the acquisition.

1.05 Net Worth

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

1.06 Annual Reports

The Servicer must give 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

- All related notes

If the Servicer's financial statements are combined with those of its parent or holding company, they must contain enough 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 duties under the Agreement or this 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 and Errors and Omissions Coverage

The Servicer must keep in effect, at all times and at its expense, a fidelity bond and an errors and omissions insurance policy. This policy 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, and any 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 coverage

- The insurer will let Minnesota Housing know within 10 days after the insurer receives the 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 keep bond or insurance coverage must be used to diminish, restrict, or otherwise limit the Servicer’s responsibilities and obligations 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) by the following formula:

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

A deductible clause can be for any amount up to the greater of \$100,000 or five percent 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 like the Servicer. The following are the minimum limits on the errors and omissions insurance coverage:

- \$2,000,000 per claim or event
- \$2,000,000 per aggregate

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

1.11 Changes in Servicer’s Organization

The Servicer must immediately let Minnesota Housing know of:

- Any contemplated major changes in its organization, such as a resignation of management personnel, mergers, reorganization, or consolidations
- Any changes of names or addresses
- Any changes 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
- Voluntarily filing a petition under the Federal Bankruptcy Act or under any state bankruptcy or insolvency act
- An answer in an involuntary proceeding admitting insolvency or inability to pay debts
- Any probation or activities are restricted in any manner whatsoever by an agency of the federal government or any state government

1.12 Transfers of Servicing

The Servicer cannot assign its duties under the Agreement or this Manual 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 in methods to cure the default.

Minnesota Housing will set 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 set benchmarks.

Chapter 2 – Servicer Performance

2.01 Performance Evaluation

The Servicer's performance is evaluated in each of the following areas:

- Delinquency and Loss Performance
 - Delinquency rates relative to the benchmarks
 - Losses per defaulted loan
- Funds Remittance and Reporting Requirements
 - All payments and Prepayments are applied promptly and correctly and the application of funds conforms to Minnesota Housing's requirements
 - Cash flow from operating accounts into custodial accounts follows Minnesota Housing's requirements
 - Minnesota Housing is promptly given the required reports and statements
- Regulatory and Policy Compliance Requirements
 - Modifications are properly applied and follow Minnesota Housing requirements
 - Borrower fees do not exceed statutory or prescribed limits and proper borrower notices are given
 - The Servicer gives proper notice to the borrower, taxing authorities, and credit bureaus for any transfer of servicing
 - Loan set-up is completed promptly and correctly upon receipt of the documents; investor reporting reconciliation and delinquency reports are prompt and accurate
 - The Servicer must maintain financial and servicing eligibility such as FHA Title 1 servicing and reporting
- Customer Service Performance
 - Borrower-related telephone calls and written correspondence are answered within 48 hours
 - Complete and prompt responses to borrowers and all correspondence are in compliance with Minnesota Housing's requirements and state and federal laws

2.02 Remedies

When a Servicer's performance shows improvement is necessary in any one area, or a number of areas, the Servicer must take the necessary steps to correct the situation. Minnesota Housing will follow-up with the Servicer if it seems they are not addressing the problem. Minnesota Housing may take immediate action if any of the expectations in this Manual are not met.

2.03 Delinquency Performance Remedy

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

- Minnesota Housing will issue a warning letter to the Servicer advising them of the portfolio's status.
 - The Servicer must send collection histories for all loan files 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 let the Servicer know the findings.
- If the Servicer's performance does not improve, or meet acceptable levels for a third consecutive month, Minnesota Housing will require the Servicer to prepare an improvement plan. The improvement plan will give specific details to meet the 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 first improvement plan, Minnesota Housing may transfer the portfolio. If the Servicer shows improving performance, Minnesota Housing may grant the Servicer more time to manage the improvement effort.
- Minnesota Housing will deliver to the Servicer a 90-day notice, as required by the Agreement, stating the portfolio will be transferred due to poor performance. The portfolio will be transferred to a different servicer within 90 days or as soon as possible.

2.04 Critical Intervention Remedy

This remedy addresses circumstances in which the Servicer did not remit funds within the required timeframe or lost its FHA Title 1 servicing eligibility. Either occurrence shows 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 non-remittance of funds or notification of lost eligibility for FHA Title 1 servicing.
 - The Servicer has three days to provide evidence of FHA Title 1 servicing eligibility or remit the funds.
 - After three days, if the Servicer fails to provide either a notice of continued FHA Title 1 servicing eligibility or the funds, Minnesota Housing will send the Servicer a 90-day letter telling them Minnesota Housing is transferring the portfolio.
 - After five days of the non-remittance or notification of lost FHA Title 1 servicing eligibility, Minnesota Housing will solicit other providers to service the at-risk portfolio.

- After 30 days of the solicitation, Minnesota Housing will choose a contingency servicer.
- The new servicer can begin to collect data and loan files from the Servicer within five days of selection.
- Unless the Servicer remits the funds or regains FHA Title 1 servicing eligibility before the end of the 90 day letter, the portfolio will be transferred 120 days from non-remittance or loss of FHA Title 1 servicing eligibility, or as soon as possible.
- If the Servicer remits the funds or regains FHA Title 1 servicing eligibility after the three day notice period, but before the end of the 90 day letter, Minnesota Housing will put the Servicer on a Performance Watch.
 - Minnesota Housing may continue with its solicitation process to find a contingency servicer.
 - If the Servicer remits all funds according to schedule and 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 require a more extensive review of the Servicer's business processes and financial status.
- During the Performance Watch, if the same or a similar problem occurs, Minnesota Housing will issue the 90 day letter and transfer the portfolio as soon after the end of the 90 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 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 property owners.
	Multifamily Rental Rehab - Property improvement loans to residential rental property owners.
	Foreclosure Prevention Assistance (FPAP) – One-time loans to individuals facing foreclosure.
	Standalone Monthly Payment Loans (MPL) – Down payment assistance loans with compounding interest
Deferred Loans (Forgivable)	Rehab – Property improvement loans to low-income homeowners.
	HOME Rehab – Federally funded loans for property improvements to low-income homeowners.
	Disaster - Rehabilitation loans to borrowers in state declared disaster areas.
	HOME Help - Federally funded loans for down payment and closing costs.
	Deferred Payment Loans (DPL) – Down payment assistance loans.

Deferred Loans (Non-forgivable)	Rehab – Property improvement loans to low-income homeowners.
	FPAP –One-time loans to individuals facing foreclosure.
	Entry Cost Assistance (ECHO) - Loans for down payment and closing costs.
	Impact Fund - Loans to help communities keep or increase the supply of affordable housing.
	Maple Grove Land Trust– Interest free loans to a specific community.

3.02 Customer Service

The Servicer must keep and make available to the borrower a toll free number for use in obtaining information about the servicing of their loan.

- The Servicer must communicate the availability of the toll free number in all communications with the borrower.
- The Servicer will respond to questions or concerns presented by Minnesota Housing staff, the borrower, or other customers associated with any loans or activities.
- The Servicer must send Minnesota Housing a bi-annual report of all written complaints received on Minnesota Housing loans they service. The report must contain loan identifying information, a description of the complaint, and steps taken by the Servicer to resolve the complaint.

3.03 Loan Set-Up

- Minnesota Housing will provide a weekly report to the Servicer detailing loans purchased since the previous report. The report will have all information necessary for the Servicer to set-up the loans in their system.
- For Impact Fund loans (Project 1515) - Minnesota Housing will send the Servicer the entire file after final documents have been collected. Complete loan files will be sent with the weekly report.
- For Multifamily Rental Rehab loans (Project 1533) - Minnesota Housing will send the Servicer the loan package that has the information necessary for loan set-up shortly after loan purchase.
- Standalone Monthly Payment Loans (Project 1514) - These loans must be setup to calculate compounding interest.

3.04 Notices of Liens or Legal Actions

Minnesota Housing will send relevant legal notices it receives 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.

For Deferred Loans, once the Servicer determines a foreclosure redemption period has expired without a redemption which extinguished Minnesota Housing's lien, the Servicer must send the Advice of Action (171A) form to Minnesota Housing with a recommendation to move the loan to Non-Collectable status.

3.05 Returned Mail

The Servicer must validate the address if it receives returned mail and must track all letters returned as undeliverable. If the borrower is deceased, and the Servicer has knowledge of heirs/successors in interest the Servicer should attempt to contact the heirs/successors in interest or enter a probate proof of claim. The Servicer must send collection letters advising the borrower or the estate that they have defaulted on the terms of the loan and the loan must be repaid in full.

3.06 Bankruptcy Claims

The Servicer must have written procedures to effectively control and check bankruptcy proceedings. The procedures must cover bankruptcies filed under Chapter 7, Chapter 12, and Chapter 13.

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

- Requirements for filing a proof of claim, including 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(s) to take if the time limits are not met
- Instructions on what action(s) must be taken if the bankruptcy trustee files a no-asset report or the borrower intends to sell the property or abandons their interest
- A process in place and recommended counsel available to investigate and defend against a Chapter 13 bankruptcy, lien strip, or cram down

The loan file must have a copy of the following:

- The notice of the first meeting of creditors
- The proof of claim
- The debtor's plan, pleadings, notices, etc.
- A notice of dismissal or discharge upon completion of the bankruptcy proceedings

3.07 Vacant or Abandoned Property

When an inspection reveals the property is vacant and may be abandoned, the Servicer must attempt to contact the borrower to determine the reason for the vacancy. If unsuccessful, the Servicer must contact the first mortgage lien holder, if any, so the first mortgage lien holder can make arrangements to preserve the property.

3.08 Borrower Name and Address Changes

The Servicer will investigate any change in the name or address of borrowers. 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 notify Minnesota Housing and start collection efforts.

3.09 Paid In Full Processing

Loan payoff requests need to be processed and completed in two business days from receipt of the request. The Servicer is granted a limited power of attorney to execute subordinations and satisfactions of mortgages on behalf of Minnesota Housing. The Servicer must complete the handling of loan payoffs, including the execution and delivery of the satisfaction of mortgage. Payoffs must be in compliance with any and all federal and state laws, rules and regulations.

3.10 Low Balance Loans

If the unpaid principal loan balance is less than \$10 and one attempt has been made to collect the shortage the Servicer must consider the loan paid in full and notify Minnesota Housing of the short amount.

If the loan balance (principal and interest) is less than \$250 and all collection and loss mitigations option have been exhausted the Servicer must recommend writing off the loan and receive approval from Minnesota Housing.

If a loan balance (principal and interest) is less than \$500 and all collection and loss mitigation options have been exhausted and the note is no longer valid due to bankruptcy or death of the borrower, the Servicer must recommend writing off the loan and receive approval from Minnesota Housing.

3.11 Loan File

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

The loan file must include:

- All documents initially received by the Servicer
- All subsequent documentation received from the investor or borrower such as legal notices, correspondence, forms, reports, and results of conversations relating to the loan

The Servicer must document in detail any communication, written or verbal, between the borrower and the Servicer regarding the loan file.

3.12 Loan File Delivery

Loans are originated in the name of the participating lender and purchased by Minnesota Housing. With the exception of Impact loans described below within five days of purchase, the lenders are instructed to give the Servicer the:

- Original borrower application, including the borrower's phone number
- Original note endorsed to Minnesota Housing Finance Agency
- Copy of the unrecorded mortgage and assignment (if a secured loan)
- Copy of the Contractor Warranty form, if applicable
- Copy of the lender's certificate
- Any other loan documentation

Within 180 days of loan closing, on secured loans, the lender will give the Servicer the recorded mortgage and assignment, or lien holder card (if a mobile home).

Impact Fund Loans

Impact Fund loans are originated in the name of the lender. Minnesota Housing will deliver to the Servicer the:

- Original borrower application
- Original note endorsed to Minnesota Housing Finance Agency
- Recorded mortgage
- Recorded assignment of mortgage
- All other existing file documents

Impact Fund loans will be seasoned for three to six months by the time they reach the Servicer.

3.13 Record Retention

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

The Servicer must keep the originals of any unrecorded loan documents that determine or change the loan terms, such as the loan note. Other paper documentation can be converted to an alternative storage media. All papers and documentation must be promptly produced 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 its possession.

After the loan is paid in full, servicing is transferred, or moved to Non-Collectable status all records must be kept for at least two years. After that time, the Servicer can destroy the originals and keep a copy of the entire loan file in an alternative storage media. These records must be kept for at least an additional five years. The Servicer must notify Minnesota Housing in writing at least 60 days before the final deletion or destruction of any loan file.

The Servicer must keep any accounting records for a period of six years from the date of the expiration of the Agreement unless a greater period is customary in the jurisdiction where the property address for the loan is located.

3.14 Access to Records and Format of Stored Material

The Servicer agrees to deliver any loan files or statements requested by Minnesota Housing within two federal business days of receipt of the request.

The Servicer must give Minnesota Housing a complete list of the information stored for each loan and the format in which the information is stored. The Servicer must let Minnesota Housing know about any changes in the information stored or the storage format.

3.15 Duplicate Copies of Computer Records

The Servicer must keep duplicate copies of all stored information at a secure site physically separate from the Servicer's primary facilities. The records must be updated daily to show all transactions that occurred during the previous day, including a separate recording of each transaction for the previous day.

All duplicate copies are the property of Minnesota Housing and the Servicer must have access to the duplicate copies of records for those loans governed by the Agreement and this procedural manual.

If the Servicer chooses to use a third party storage facility, the Servicer must make arrangements for unlimited access to the duplicate copies by Minnesota Housing.

3.16 Subordinations

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

- The Servicer completes the handling of subordinations, including the execution and delivery of the subordination document.
- The Servicer will keep all required documentation necessary for the approval or denial of subordination requests.
- Subordination requests on loans with an unpaid principal balance of less than \$1,000 or one percent of the new mortgage unpaid principal balance should be denied based on the low balance.
- The Servicer will refer to Appendix B for subordination requirements by loan type and program.

3.17 Required Subordination Documentation

- Lender requested data sheet (a collection of relevant data on current loans along with relevant data on proposed loans).
- Current title opinion or title policy, dated within the last 30 days.
- Current appraisal, dated within the last six months.
- Loan Estimate and estimated Closing Disclosure.
- Itemization of home improvements, if applicable.
- Proof of streamline refinances, if applicable; the title and appraisal requirements can be waived by the Servicer.

3.18 Subordination Reporting

The Servicer will give Minnesota Housing, by the 10th calendar day of the following month, a report containing the following information:

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

3.19 Partial Releases and Easements

The Servicer will complete the handling of requests for:

- A partial release
- A release of personal property

- Easements
- A waiver of any right under a mortgage
- Consent to substantial alterations, removal, demolition, taking, or division of the mortgaged property
- Other matters relating to changes affecting the mortgage or mortgaged property

The following information and documentation is required for consideration:

- 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
- A 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 and the remaining mortgaged property
- The reason for the modification request

The loan-to-value ratio must be no greater than before the partial release, easement, etc. If needed, to satisfy this requirement, the principal balance may be paid down proportionately. This provision can be waived by Minnesota Housing on an individual basis, especially in the case of forgivable loans.

The Servicer must gather the relevant information for each circumstance and make a recommendation and receive written approval from Minnesota Housing to proceed with any of the above actions.

No fees should be assessed by the Servicer for processing these requests on behalf of Minnesota Housing. The Servicer will keep all required documentation necessary for the approval or denial of these requests.

Minnesota Housing will not consent to the modification of the security for any mortgage if it will result in the material deterioration of Minnesota Housing's security.

3.20 Assumptions

Under the terms of the note, Minnesota Housing loans must be paid in full upon the sale or transfer of any borrower's interest in the property. Assumptions by third parties are not allowed on any Minnesota Housing loans. Minnesota Housing may consider an exception to this requirement under the following circumstances and at its sole discretion:

- A release of liability of a party to the mortgage
- An assumption by a surviving spouse

The Servicer must comply with all applicable successors in interest requirements of applicable regulators.

Chapter 4 - Specific Loan Servicing Requirements

4.01 First Payment

At the time of loan origination, the borrower, with an amortizing loan, is instructed by the originating lender to make the payment directly to the Servicer and is given a temporary payment coupon.

4.02 Monthly Account Statements

The Servicer must give each borrower 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 within 10 business days after the Servicer receives the loan from Minnesota Housing.
- If coupon books are used, the borrower must receive a new book, issued in subsequent years, at least 10 days before the anniversary date of the first payment.
- If using monthly statements, the borrower must receive the monthly statements at least 10 days before each payment is due.

The monthly account statements must be in compliance with all applicable federal regulations.

4.03 Annual Account Statements

In January of each year, the Servicer must send the borrower a statement of all activity during the past year for all amortizing loans. This statement can be used to satisfy the Internal Revenue Service (IRS) requirement for informing the borrower about the total interest received and reported to the IRS for the preceding year.

The annual statement must be given to the borrower by January 31st. The statement must include:

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

4.04 Specialty Servicing Features

The following table gives specific details for meeting the required servicing features of Deferred Loans:

Category	Program Name	Welcome Letter	Periodic letter	Maturity Letter	Collection Efforts
Deferred Loans (Forgivable)	Rehab (projects 1530, 1802)	✓	✓	✓	✓
	HOME Rehab (project 1531) Impact Fund (project 1514)				
	Disaster (projects 1516-1520, 1594)	✓	✓	✓	✓
	HOME Help (project 1526)	✓	✓	✓	✓
Deferred Loans (Non-forgivable)	Rehab (project 1530) Impact Fund (project 1515) FPAP, HECAT (projects 1522, 1523) ECHO (projects 1521, 1543)	✓	✓		✓
	Maple Grove Land Trust (project 1527)	✓	✓		✓

4.05 Welcome Letter

The Servicer must send each new borrower a welcome letter within 10 business days of receiving the loan. The letter must include:

- The name, address, and toll free telephone number where the borrower can receive information about the servicing of the loan
- Information that identifies Minnesota Housing as the owner of the loan
- Information that complies with TILA 1026.39 (Transfer of Servicing), if necessary

4.06 Periodic Letters

As indicated on the matrix above, the Servicer must send a periodic letter to the borrower annually. The periodic 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 can ask for more information about the loan

4.07 Maturity Letter

As indicated on the matrix above, the Servicer must send a maturity letter to the borrower between 60 and 90 calendar days before loan maturity. The letter must:

- Include the maturity date
- If applicable and required by the mortgage, ask the borrower to verify ownership of the property as the principal place of residence for the entire term of the mortgage by signing and returning the letter. If owner occupancy is not required a satisfaction of mortgage must be processed and sent to the borrower with the maturity letter with instructions to record the satisfaction at the appropriate county recorder office.

Once the signed maturity letter is returned, the loan is considered paid in full. The satisfaction of mortgage must be processed and sent to the borrower with instructions to have the satisfaction recorded at the appropriate county recorder office.

Chapter 5 - Delinquent Loan Servicing

5.01 General Delinquent Servicing

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

- An accounting system that alerts the proper department when a loan becomes delinquent
- Collection department staff familiar with all FHA and Minnesota Housing procedural and reporting requirements
- Counseling procedures to advise the borrower how to avoid or 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 the form of repayment arrangement, loss mitigation, liquidation, or write-off proceedings
- A method for tracking the delinquency and foreclosure ratios for all loans serviced
- Documentation of all collection efforts in its permanent servicing files
- Analysis of each delinquent account to find:
 - The reason for the default
 - Whether the reason is a temporary or permanent condition

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

5.02 Credit Bureau Reporting

The Servicer must give a full-file status report every month to each major credit repository for all loans with monthly payments. The Servicer should not report to the credit repositories on any Deferred Loans.

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 or notice of a credit reporting dispute from a borrower and resolve 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 the trends. The Servicer will also outline

proposed actions for responding to adverse trends and will, if necessary, recommend changes to Minnesota Housing's servicing policies needed to accomplish the actions.

5.04 Collection Activities

The Servicer must use an approach that is most effective based on the borrower's circumstances and the stage of the delinquency.

For any borrower experiencing a hardship and that is cooperative the Servicer must consider using the following:

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

Borrower Contact

The Servicer may use a variety of methods to contact the borrower, including:

- Past due notices
- Telephone calls emphasizing the importance of making payments on time. 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 relief options available.
- Individually written letters can be a more effective collection technique than a form letter, emphasizing how serious a delinquency can be. Individual letters are the preferred approach after the 20th day of the delinquency.
- Decide if face-to-face interviews with the borrower may be called for before making an Advice of Action (171A). These efforts must be consistent with standard industry practice and government regulations.

Borrower Counseling

The Servicer must be aware of any government programs that can help the borrower resolve the delinquency or any counseling agencies that can help with debt management and refer the borrower to these agencies.

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

Circumstances most likely to be resolved through counseling involve:

- Poor debt management
- A lack of cash reserves for unexpected expenses
- A temporary reduction of income

To find a local delinquency and foreclosure counselor in Minnesota, please direct borrower to the Home Ownership Center of Minnesota at www.hocmn.org or 866-462-6466.

Financial Analysis

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

Temporary Indulgence

A temporary indulgence can only be granted when the Servicer decides the borrower is financially able to bring the account current by paying the delinquent installments within 60 days.

A temporary indulgence may be appropriate when:

- A sale or rental of the property is pending
- An insurance settlement is pending
- Assistance from a social agency has been arranged but funds have not been received
- More time is needed to formalize a repayment plan under other relief provisions
- The loan payments were lost in transit and need to be traced

Accepting Partial Payments

The Servicer should generally accept partial payments; however, the Servicer should return any partial payments when it believes the action would be an effective collection tool or if needed to start a foreclosure.

Payment Plans

The Servicer may consider a repayment plan when the delinquency resulted from a temporary hardship that is no longer applicable.

For a delinquency with:

- Less than three monthly payments - an oral agreement is sufficient. The Servicer must document the agreement in the servicing file.

- If more than three monthly payments a formal written repayment agreement must be signed by the borrower. 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.

A payment plan may be used to cancel a scheduled sheriff sale, with approval from Minnesota Housing.

Death and Probate

The Servicer must obtain:

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

Military Indulgence

A military indulgence is available to borrowers 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 under the requirements of these Acts.

The relief begins when the borrower 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 loan to six percent during active duty
- Decide if other forbearance measures are needed
- Determine the provisions that apply to foreclosure proceedings or the extension of any redemption period

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

5.05 Loss Mitigation

The Servicer must use available loss mitigation options before recommending further loan disposition options. The Servicer's procedures must document the borrower's hardship to determine the best available loss mitigation option considering the circumstances. A borrower's

documented misuse of funds disqualifies a borrower for loss mitigation and the Servicer should contact Minnesota Housing. Loss mitigation tools available include, but are not limited to:

- Loan modifications
- A repayment plan
- Special forbearance
- Forgiveness or settlement

Loan Modification

The servicer should consider modification of the Loan if a borrower has experienced a reduction in income or hardship that affects their ability to continue making the monthly Loan payments or has another documented situation in which changing the terms of the Loan would cure the delinquency.

To be eligible for a modification the borrower must not be in violation of any occupancy requirement or other terms of the mortgage.

Modifications should be considered under the following circumstances:

- The death of the principal wage earner in the family
- The borrower's income was reduced or eliminated for a temporary period of time
- A permanent reduction in borrower income makes the current mortgage payment unaffordable

In order to make the modified payment affordable the Servicer should consider modifications to the loan in the following order:

- Capitalize the delinquent amount and re-amortize the loan
- Extend the term of the loan to a maximum of the original term of the loan
- Reduce the interest rate in steps to a minimum of 2%
- Extend the term of the mortgage past the original term with approval from Minnesota Housing

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

- Request modification approval from Minnesota Housing before the loan modification's trial period.
- Have a trial payment period where the borrower makes the new payment amount to the Servicer on time for three consecutive months before the modification documents are

signed and the modification becomes permanent. If the borrower fails the trial payment period, the Servicer must deny the modification.

- Forward the borrower signed modification documents to Minnesota Housing for execution
- Supply the borrower with a new coupon book or monthly statements with the modified payment amount

Repayment Plan

A repayment plan requires the borrower to pay a specified amount plus their regular monthly payments for an agreed upon number of payments to cure the delinquency.

A repayment plan can be an oral agreement if the delinquency is three monthly payments or less. The Servicer must document the agreement in the loan file.

If the delinquency is greater than three monthly payments a written repayment agreement, signed by the borrower, is required. The agreement should clearly state the payment amount, due date, and the date the total delinquency will be cured.

Special Forbearance

Under special forbearance, the Servicer agrees to reduce or suspend the borrower's monthly payments for a specified period of time. When the forbearance concludes, the borrower must agree to resume regular payments and enter into a repayment plan detailed above. Special forbearance should be considered when the default is the result of:

- The death or serious illness of the borrower or an immediate family member
- A natural disaster
- Other documented circumstances that may call for a temporary relief provision as approved by Minnesota Housing

Special forbearance agreements must always be in writing. The agreement must state the period of reduced or suspended payments, the schedule for making additional payments to cure the delinquency, when the borrower resumes regular monthly payments, and the date on which the forbearance will end. The term of special forbearance should end no later than six months from the date of the first reduced or suspended payment but the Servicer can consider longer terms for special circumstances.

The Servicer must request written approval from Minnesota Housing before agreeing to a special forbearance with the borrower.

Forgiveness or Settlement

Selling Property

A loan can be partially or totally forgiven in the following circumstances:

- The borrower cannot sell the home for the full amount of the indebtedness. The Servicer must document terms of the sale and produce an independent property valuation such as an appraisal, generally provided by the borrower.
- The borrower submits a Hardship Package
- The financial situation of the borrower was adversely affected by the hardship

First Mortgagee to Take a Deed-in-Lieu

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

- All collection efforts were exhausted
- The property is worth less than what is owed to Minnesota Housing and superior lien holders based on an appraisal or other creditable evaluation method.
- The borrower conveys marketable title to a first mortgage holder.
- The Servicer has considered redeeming the property per section 5.07 and determined it does not meet the guidelines.
- An acceptable offer should be calculated using the following guidelines.
 - The settlement amount should be based on 12% of the principal and interest amount
 - A minimum offer will be \$1,500 and an maximum amount of \$3,000
 - In addition to the above calculated amount, if the first mortgage is FHA insured, the Servicer must ask the first mortgage holder if the borrower is expected to receive consideration from HUD. If so, the Servicer must demand one half of the consideration in exchange for releasing the lien on the property in addition to the amount determined in #1 and 2 above. The maximum amount of the above should not exceed the principal and interest amount of the loan.
 - The calculated amount should not exceed to total principal and interest of the loan.

The Servicer must submit the offer to Minnesota Housing for approval.

Deferred Mortgage Loans

If the borrower is forced to leave a property secured by a Deferred Loan before the end of the term of the mortgage for reasons beyond the borrower's control, the payoff can be reduced by the length of time the borrower lived in the property. To be eligible, the borrower must submit a Hardship Package. The proration is calculated by dividing the months the borrower lived in the property by the term of the loan in months. The resulting fraction is multiplied by the outstanding balance to determine the amount of Forgiveness applied to the principal balance. Situations include, but are not limited to:

- Long-term or permanent disability or serious illness
- Involuntary job relocation over 20 miles

- Uninsured or under insured loss of the property

Death of the borrower is not a reason for the purpose of this section.

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

The Servicer must receive the Hardship Package and written approval from Minnesota Housing prior to processing the Forgiveness.

Once a settlement or Forgiveness plan is approved, the Servicer will execute a release of lien and send to the borrower. An Advice of Action (171A) must be completed after settlement or Forgiveness was approved and should be sent to Minnesota Housing. .

5.06 Foreclosure Recommendations

After all collection and loss mitigation options have been exhausted, the Servicer should explore the possibility of foreclosure on Minnesota Housing amortizing loans by obtaining an Owner's and Encumbrances (O&E) report and a Broker's Price Opinion (BPO) report only if the following conditions exist:

- The loan balance is greater than \$10,000
- The borrower is unable or unwilling to make the payments
- No other workout solution is practical
- No known environmental hazards affect the security of the property
- The property has sufficient equity to justify the liquidation expense
- The property is abandoned

If the above conditions have been met, the Servicer may recommend a foreclosure if the O&E and BPO reports verify:

- Minnesota Housing is in first lien position
 - The probable sales price of the property in an "as is" condition is at least \$10,000 more than the unpaid principal balance of the loan
- Minnesota Housing is in a junior lien position
 - The probable sales price of the property in an "as is" condition is at least \$15,000 more than the total of the unpaid principal balance of all superior liens

5.07 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 O&E and BPO reports only if all the following conditions exist:

- The senior mortgage holder started the foreclosure process
- The loan balance is greater than \$2,500
- The borrower is unable or unwilling to make the payment
- No other workout solution is practical
- No known environmental hazards affect the security of the property
- The property has sufficient equity to justify the liquidation expense

The Servicer can 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 \$10,000 more than the total of the cost of redemption and any other superior liens

The Servicer must include the following supporting documentation:

- A title or O&E Report
- The market analysis or BPO
- A picture of the mortgaged property including interior pictures, if possible
- The senior lien holder’s statement of the amount to redeem

When Minnesota Housing’s written approval is received, the Servicer must instruct the foreclosing attorney to file an Intent to Redeem within the required statutory period. All attorney fees must be approved by Minnesota Housing in writing.

The Servicer must:

- Obtain an updated amount to redeem statement from the senior lien holder two weeks before the end of the redemption
- Send the redemption statement to Minnesota Housing and foreclosure counsel

Minnesota Housing will:

- Send a check to the foreclosing attorney for the redemption amount
- Let the Servicer know within one business day of the redemption

5.08 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 practical option, the Servicer must consider changing the loan status. All loans status change recommendations from the Servicer must be completed on the Advice of Action (171A) form and accompanied by supporting documentation, if applicable.

Inactive Loan Status

If the borrower has stopped making payments on an amortizing loan and has either an enforceable lien or valid promissory note the loan should be moved to an Inactive Loan status. This will remove the loan from delinquency status and the loan will remain on the trial balance. A loan must be moved to Inactive Loan status under the following conditions:

- The Servicer has considered and exhausted all collection and loss mitigation options
- The borrower has not demonstrated a willingness to work with the Servicer to correct the delinquency
- The principal and interest amount is greater than \$250

Below are some specific instances that can lead to Inactive Loan status:

- The borrower is deceased
- The borrower filed bankruptcy

For loans that do not have an enforceable note but have a valid lien and a loan balance of under \$500, the Servicer should recommend to Minnesota Housing that the loan be moved to non-collectable.

Ongoing Collection Activity

The Servicer must:

- Send out collection notices to the borrower every three months
- Make telephone contact with the borrower once a year
- Follow-up with the bankruptcy trustee for loans that are in bankruptcy

Revenue Recapture

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

- It has a valid note
- It is an amortizing loan
- The borrower is not deceased
- The borrower did not file Chapter 7, 12, or 13 bankruptcy

- The loan balance, including principal and interest, is more than \$250

Revenue Recapture claims include interest through the date of the completion of the Advice of Action (171A) form. Minnesota Housing will send any funds received from Revenue Recapture to the Servicer for application to the loan.

For loans that have a principal and interest loan balance of under \$250, the Servicer should recommend to Minnesota Housing that the loan be moved to Non-Collectable.

If the full amount of the Revenue Recapture claim is received, Minnesota Housing will notify the Servicer to write off any remaining balance and the loan is now considered paid in full. The Servicer will send the Advice of Action (171A) form upon write off of remaining balance on the Revenue Recapture loan.

Payments Received

The Servicer must notify Minnesota Housing of any borrower payments received that are not a result of Revenue Recapture. All funds must be applied to the loan.

Bankruptcy

Any Chapter 7, 12, or 13 bankruptcy on a loan with an Inactive Loan status must trigger a notification to Minnesota Housing to remove the Revenue Recapture claim.

Loan Paid In Full

The Servicer must notify Minnesota Housing when any Inactive Loan is paid in full. This applies to both Inactive Loans with or without Revenue Recapture.

Non-Collectible Status

If the Servicer determines there is no possibility of collecting on the note through Revenue Recapture or other means, and the loan is unsecured or the lien has been extinguished, the loan must be moved to Non-Collectible. For amortizing loans the Servicer must report the loan to the credit bureaus as charged off and adjust the loan balance to zero. For Deferred Loans, no credit reporting will be needed to adjust the loan balance to zero. The Advice of Action (171A) must be completed and contain the principal balance and payoff balance of the loan before it is zeroed out.

Examples of actions include:

- A bankruptcy action prohibits collecting on the note and the loan is unsecured
- A loan is secured and amortizing and the superior lien holder completed a foreclosure extinguishing our lien and a bankruptcy action extinguishes our ability to collect on the note
- A loan is deferred and a superior lien holder completes a foreclosure extinguishing our lien

- The borrower is deceased, the loan is unsecured, and there is no probate
- A chapter 13 bankruptcy extinguishes Minnesota Housing’s lien as well as Minnesota Housing’s ability to collect on the note

5.09 Defaulted Loan Recommendation and Advice of Action

The Servicer must send a Recommendation or Advice of Action (171A) form, along with supporting documentation, to Minnesota Housing for all recommendations or actions taken on curing a delinquency, as noted in this chapter. Written approval from Minnesota Housing is needed, as noted below.

Defaulted Loan Circumstance	Servicer Response
Loss Mitigation or Modifications	Advice of Action (171A) - Notification
Inactive Loan Status with or without Revenue Recapture	Advice of Action (171A) - Notification
Non-Collectible	Advice of Action (171A) - Notification
Forgiveness or Settlement	Recommendation – Written Approval from Minnesota Housing
Foreclosure	Recommendation – Written Approval from Minnesota Housing
Redeem First Mortgage	Recommendation – Written Approval from Minnesota Housing
Sale of lien to third party or payoff of lien by third party	Recommendation – Written Approval from Minnesota Housing

Any fee incurred by the Servicer in the process of loss mitigation must be indicated in the Agreement or approved by Minnesota Housing and invoiced as a separate line item on the monthly servicing invoice for reimbursement.

5.10 Statute of Limitations

The Servicer will stop all collection activity on loans with a maturity over six years past the current date. When discovered, the Servicer must make a recommendation to Minnesota Housing to close out the loan.

Chapter 6 - Foreclosures and REO

6.01 Initiating Foreclosure

The Servicer processes foreclosures under 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
- Inform 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
- Inform the attorney that they will reimburse Minnesota Housing for losses incurred because the attorney did not meet their responsibilities
- Send documents necessary to begin foreclosure proceedings to the attorney within five business days of receipt of the foreclosure approval
- Check the monthly progress of each loan file
- The attorney fees must be reasonable and related to the amount of work actually done by the attorney

If the foreclosure process is not proceeding promptly, Minnesota Housing will request an explanation and a timeline of actions.

6.02 Demand Letter

The Servicer must send the borrower a demand letter at least 30 days before foreclosure proceedings begin. The demand letter must be in compliance with the loan documents and must:

- Clearly explain the exact nature of the default (such as a default in payments)
- Show what action is required to cure the default
- Show the date by which the default must be cured
- Tell the borrower the approximate date the foreclosure action will begin, if the default is not cured by the specified date
- Let the borrower know 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 and note occupancy status.
- If the property is vacant or located in an area with a high rate of vandalism, additional inspections may be required. Such inspections must be approved by Minnesota Housing.

Notice of Condemnation

The Servicer, or their agent, 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 repairs
- Arrange for the borrower to repay the advance, as part of the full amount required to reinstate the loan

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

Acquired Property

The Servicer must inspect the property 15 days before the property acquisition and let Minnesota Housing know the occupancy status and condition of the property.

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 if they are aware of damages to the property. Minnesota Housing will determine the 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 about the estimated value of the mortgaged property. If the mortgaged property is worth less than the outstanding balance of the 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

The Servicer must notify Minnesota Housing of all reinstatements.

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

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.

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, unless delayed due to loss mitigation activity. The sheriff's sale date must not be greater than four months from Minnesota Housing's approval date unless delayed by loss mitigation activity. The Servicer must update Minnesota Housing when the sheriff's sale is scheduled, postponed, held as scheduled, or 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 include the full amount of the indebtedness, including:

- The unpaid principal balance
- Accrued interest to the date of the sale
- Advances for taxes and insurance
- Any other foreclosure costs including attorney fees, property preservation fees, and inspection fees

6.08 Shortening the Redemption Period

Minnesota Housing requires the Servicer to take advantage of the Minnesota Statute Section 582.032 allowing the redemption period to be shortened to five weeks for abandoned properties. The Servicer must determine if the vacant property is eligible and engage the foreclosing attorney to process the action.

6.09 Redemption Procedures

Once the Servicer receives redemption funds, the Servicer must send a check for the amount collected to Minnesota Housing along with a completed Redemption Statement (114) form and Advice of Action (171A) form. The Servicer must have the attorney prepare the Certificate of Redemption and send it to Minnesota Housing for execution.

If the Servicer has made additional advances after the sheriff's sale, the Servicer must contact the foreclosing attorney and have an Affidavit of Additional Amounts prepared and filed with the sheriff. This action will add the additional advances to the redemption amount.

6.10 Foreclosure Expenses

The maximum allowable foreclosure related attorney fees that Minnesota Housing will pay are to align with the current standard Fannie Mae approved expenses outlined in their servicing guide and subsequent servicing guide announcements. Fees include foreclosure, bankruptcy, unlawful detainer, deed in lieu, reduced redemption, and proceedings subsequent for the state of Minnesota.

Fees higher than the Fannie Mae amounts may be justified in certain circumstances and must be approved in writing by Minnesota Housing.

Statement of Expenses

The Servicer must ask for reimbursement of any advances by sending a Statement of Expense form 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 property maintenance work to assure the condition and appearance of the mortgaged property is acceptable during the redemption period including, snow removal, grass cutting, winterization, and exterior or hazardous trash removal.

Winterization must be completed on all abandoned properties beginning October 1 through March 31.

The Servicer must secure abandoned mortgaged property by:

- Changing all exterior locks
- Securing all windows and exterior doors

- Arranging for utilities to be activated and put in the name of and paid by the Servicer

Minnesota Housing prefers properties not be boarded up. Please contact Minnesota Housing with a recommendation regarding replacing windows or doors versus boarding up the property.

The maintenance of the mortgaged property is the responsibility of the Servicer until Minnesota Housing assigns that responsibility to a real estate agent shortly after the end of the redemption period.

Property Preservation Fees

Property preservation fees in excess of \$400 need prior written approval from Minnesota Housing.

6.12 Hazard Insurance

If the Servicer becomes aware of cancelled insurance coverage on a property and determines that Minnesota Housing is in a first lien position, they must notify Minnesota Housing.

6.13 Insurance Losses

The Servicer is responsible for taking prompt action to protect the interest of Minnesota Housing and the borrower when a hazard or flood insurance loss occurs if the Servicer has been notified of the loss. The Servicer must determine if there is a superior lien holder and contact them to determine if they will be managing the insurance loss.

When Minnesota Housing is in first lien position, as soon as the servicer discovers a casualty loss, they must obtain complete details of the damage, determine whether the borrower has filed the proof of loss, and discuss any plans the borrower has for repairing the mortgaged property. If the borrower has not filed a proof of loss, the Servicer will take appropriate action to assure the proof of loss is filed within the time period specified in the insurance policy in order to avoid a delay in receiving payment of the claim. The Servicer must closely monitor the filing of the proof of loss with the insurance carrier, the repairs to the property, and the disbursement of the insurance proceeds.

When the Servicer is unable to contact the borrower (or it appears the mortgaged property has been abandoned), the Servicer will determine the general extent of the damage, the required repairs, and take appropriate measures to protect the property from further damage and contact the insurance carrier to determine whether the borrower has submitted a claim. If the borrower has not filed a claim, the Servicer will file a proof of loss under the standard mortgage clause and collect the insurance proceeds on Minnesota Housing's behalf.

- **Disposition of Insurance Loss Settlements.** The proceeds of an insurance settlement must be applied in accordance with provisions contained within the mortgage. If proceeds are applied to restoration, any excess proceeds shall be applied to the mortgage loan, unless otherwise approved by Minnesota Housing. Minnesota Housing shall be named as payee

on all insurance loss drafts. The Servicer may endorse the loss drafts on Minnesota Housing's behalf.

- Loss of \$10,000 or Less: The servicer is required to obtain a copy of the insurance adjuster's worksheet, a copy of the contractor's estimate, and a signed affidavit from the borrower agreeing to apply the insurance proceeds to the restoration of the damaged property. Provided there is no delinquency or other servicing problem, the Servicer will disburse the proceeds to the borrower and document all pertinent facts concerning the loss and disposition of the proceeds in the loan file. The Servicer will exercise their prudent judgment in determining whether a physical inspection of the property should be made.
- Loss exceeding \$10,000: The Servicer will place all insurance proceeds in an escrow account, pending disbursement. The Servicer is required to obtain a copy of the insurance adjuster's worksheet and an executed Restoration Affidavit form, or similar document, from the borrower. A Stipulated Sum Agreement form, or similar document, must be executed between the owner of the property and the building contractor selected to restore the property. The Servicer will review the Stipulated Sum Agreement form to see that it provides, at a minimum, the following:
 - The dwelling, as repaired or restored, will not lessen Minnesota Housing's security interest
 - The construction will be completed within 90 days after its commencement
 - The contractor maintains adequate fire, hazard, liability, and workmen's compensation insurance coverages on the premises
 - The contractor will deliver lien waivers and sworn construction statements for each requested draw of the construction contract amount
 - The construction draws will be in such numbers and amounts as to protect the mortgagor's interest in the successful completion of construction
 - A reasonable amount will be withheld from the contractor before completion of construction

Partial disbursement or a draw plan may be utilized, provided that physical inspection is made to ensure the percentage of work satisfactorily completed at least equals the percentage of funds to be disbursed on each draw. The Servicer will document in the loan file all pertinent facts concerning the loss and disposition of the proceeds.

Whenever a total or near total loss is sustained on the property and the Servicer does not recommend the proceeds be applied against the mortgage loan, the Servicer will explain its reasons to Minnesota Housing.

The Servicer will adhere to all applicable laws regarding application of insurance proceeds and prudent practices concerning notification, inspection, and approval. The Servicer will take any

action necessary to protect the priority of the mortgage, such as obtaining waivers of materialmen's or mechanic's liens.

Uninsured Losses: When a disaster, such as a flood, results in an uninsured loss to the mortgaged property, the Servicer will:

- Determine the extent of the damage
- Secure the property, if it is abandoned
- Send a complete report of the damage to Minnesota Housing

The Servicer will help the borrower file for any disaster relief aid that may be available. If the damage is extensive, the Servicer should agree to any reasonable forbearance plan.

6.14 Notifying the IRS

The Servicer is responsible for accurately completing and filing the IRS 1099-A and IRS 1099-C forms on Minnesota Housing's behalf when required.

The following events trigger the reporting requirement for a 1099-A:

- 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 following rules must be followed for reporting for a 1099-C:

- If the principal balance forgiven or written off is less than \$600, a 1099-C does not need to be filed
- If all borrowers have been discharged from a personal bankruptcy during the term of the mortgage, a 1099-C does not need to be filed.

NOTE: If the borrower is discharged from a business bankruptcy this provision does not apply.

If the above two items do not apply, a 1099-C needs to be filed in the following circumstances:

- Granted Hardship Forgiveness
- A short sale
- A business bankruptcy discharges the debt
- A loan that is six or more years past its maturity
- A probate proceeding that renders the debt unenforceable
- A loan that moves to Non-Collectable status

The amount reported to the IRS must only be the principal balance forgiven and should not include any interest or fees.

If, in the same calendar year, the debt is cancelled in connection with the acquisition or abandonment of the same property securing the loan, filing a timely and accurate IRS Form 1099-C will satisfy the requirement to file an IRS Form 1099-A.

The IRS forms must be filed in Minnesota Housing's name and on behalf of Minnesota Housing. Complete 1099 reporting required by the Servicer includes accurate and timely filling of the 1099 reports to the IRS as well as sending physical copies of the required 1099 to the borrower.

The Servicer will provide Minnesota Housing a summary report of borrowers that received a 1099 within 30 days of filing.

See Appendix C for further guidance per loan type on filing a 1099-C.

6.15 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 and has appointed a real estate agent to assume certain property management responsibilities. The Servicer will continue to be responsible for:

- Arranging eviction proceedings with the foreclosing attorney
- Advancing funds to pay:
 - Real estate taxes
 - Insurance premiums
 - Utility bills
 - Reimbursement for authorized vendor and broker expenses

Minnesota Housing may ask the Servicer to do property management work normally assigned to a real estate agent.

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

6.16 REO Servicer Responsibilities

- If a property is occupied, the Servicer must send a vacate reminder to the occupants of the property 30 days before the end of redemption. Two weeks before the end of redemption, the Servicer must inspect the property to determine the occupancy status.

- When the property becomes vacant, the Servicer is responsible for winterizing the property. Winterization on all of Minnesota Housing’s abandoned Acquired Properties must be completed during the timeframe beginning October 1 through March 31 to make sure 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 arrange for an unlawful detainer eviction with the foreclosing attorney.
- The Servicer must keep adequate hazard insurance coverage on the property and ask for the tax rolls to be changed to show Minnesota Housing’s ownership of the property (specifying the tax bills must be directed to the Servicer). The Servicer must pay all insurance premiums and tax assessments.
- If the Acquired Property is part of a condominium or Home Owners Association (HOA) the Servicer must contact the management company, to arrange for all future bills for owner’s association, assessment, or other fees are sent to the Servicer. The Servicer must determine the allowable amount and period of time Minnesota Housing is liable for payment of the HOA dues per Minnesota Statutes sections 515B.3-116. All HOA bill payments must be approved by Minnesota Housing prior to payment.

6.17 Reimbursement of Expenses

Real estate agents must request reimbursement of their expenses by submitting supporting documentation to the Servicer for payment.

The Servicer must disburse the reimbursement request to the real estate agent within five business days of receipt of the documented request.

6.18 REO Loan Removal

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

- Minnesota Housing receives all outstanding funds
- The Servicer receives final reimbursement of its expenses

Chapter 7 - Accounting and Reporting

7.01 Loan Payment Records

The Servicer must keep permanent accounting records for each loan. The records must clearly indicate Minnesota Housing's ownership and 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 give 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 the 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 kept under sound and generally accepted accounting practices, and in a manner that will let the representative or designee of Minnesota Housing, at any time, examine and audit the accounts and records.

7.02 Custodial Accounts

The Servicer must set-up and keep a separate custodial bank account for Minnesota Housing. The custodial account must be at a depository institution, which is FDIC insured or insured by another federal 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 can 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 the procedures described below. No modification, deviation, or exception in any form or manner to the procedures described below on applying payments is permitted unless previously approved in writing by Minnesota Housing. The procedures specified provide the necessary accounting control.

For all liens except MPL Standalone and DPL Standalone (Projects 1914 and 1915), interest calculations must be made using a simple interest, 365-day year formula calculated from the date of the last payment to the date of the current payment.

For MPL Standalone and DPL Standalone (Projects 1914 and 1915), interest calculation must be compounded (as is usual for a first mortgage lien).

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 rest of the payment must be used to reduce the unpaid principal balance.
- The Servicer must contact the borrower if they have a question about applying a payment received in excess of the full monthly payment. If the borrower is unresponsive use the excess funds to reduce the unpaid principal balance.

Partial Prepayments

- Partial Prepayments of principal in any amount can be accepted by the Servicer at any time without prior notice, given the loan is current.
- On delinquent loans, funds are applied first to interest owed with the rest of the payment used to reduce the principal balance.
- A payment from a Minnesota Housing lender as a return of undisbursed principal must be applied to the principal reduction without extending the due date.

Prepayment in Full

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

- The unpaid principal balance
- Unpaid Interest (charged up to, but not including, the date of the payoff of the loan)
- No Prepayment penalties exist on any Minnesota Housing loans and should not be charged

Re-application of Prior Payments

The Servicer cannot, without the prior written approval of Minnesota Housing, re-apply previous prepayments to pay current delinquent installments.

7.04 Remitting Funds and Servicing Fees

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

Amortized Loans

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

Deferred Loans

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

Servicing Fees

The Servicer must submit a written invoice for the servicing fee to Minnesota Housing for payment. If the Servicer is entitled to additional fees, they must be detailed by line item for each loan on the monthly servicing invoice.

7.05 Investor Reporting

Minnesota Housing needs certain reports prepared at definite times. The cut-off date for monthly reporting is the last business day of the month. All reports must be sent electronically in a format acceptable to Minnesota Housing. The reports are due within two business days of the cut-off date. The Servicer must ensure that all reports are prepared correctly and submitted promptly. The reports must be separated by program and then by category within the program. Minnesota Housing Accounting Department will give the specific guidance if needed.

Failure to follow the reporting schedule is considered a violation of the Servicer's responsibilities and is a violation of the Agreement and this 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
- Weighted Average Life of Loan
- Daily file reported to trustee for MPL Standalone Loans
- Monthly file reported to trustee for MPL and DPL Standalone Loans

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

Appendix A: Definitions

TERM	DEFINITION
Acquired Property	A property Minnesota Housing gained title to 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 lien against the property. Net to and from borrower, as listed on the Closing Disclosure, is not to exceed one percent of the new first mortgage amount on no-Cash Out refinances.
Contractor Warranty	A document in which the contractor warrants workmanship of home 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 may have provisions that allow the principal amount that is due and payable at that later time to be partially or totally forgiven.
Forgiveness	The part of the debt that is considered fully satisfied without monetary payment.
Hardship Package	<p>A package containing requested financial information regarding the borrower. The package is used to evaluate the borrower for loss mitigation, settlement, or other Minnesota Housing consideration. Items requested include:</p> <ul style="list-style-type: none"> • Written statement from borrower explaining circumstance • A copy of recent paystub including year-to-date information • The last two years of tax returns • The last two months of bank statements • Financial statement signed by the borrower
Inactive Loan	A nonperforming loan with an enforceable lien or promissory note where foreclosure is not a practical choice.
Non-Collectible	Loans that, after the application of the remedies outlined in this Manual did not result in collection on the note.
Performance Watch	A period of time during which Minnesota Housing

	will closely watch the Servicer's performance and compliance.
Prepayments	Principal prepayments received on loans before the maturity date 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.

Appendix B: Subordination Details

<i>Subordination Details</i>	Programs														
	Amortizing						Deferred forgivable				Deferred non-forgivable				
	FUF	CFUF	HE	Revolving	SF Rental Rehab	MF Rental Rehab	Rehab	Disaster	Impact Fund	HOME Help	Rehab	Impact Fund	FPAP/HECAT	ECHO	Maple Grove
Limited to refinances of the first mortgage at prevailing market rates and 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	
The Minnesota Housing loan must be in a current status and not in default of any of its terms (i.e. occupancy status).	X	X	X	X	X		X	X	X		X	X	X	X	
Proposed combined loan-to-value ratio does not exceed 110 percent.	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
If a balloon mortgage, the balloon payment must be due after the current maturity date.	X	X	X	X	X										
Contact Minnesota Housing, Multifamily Division.						X									

<i>Subordination Details</i>	Programs														
	Amortizing						Deferred forgivable				Deferred non-forgivable				
	FUF	CFUF	HE	Revolving	SF Rental Rehab	MF Rental	Rehab	Disaster	Impact Fund	HOME Help	Rehab	Impact Fund	FPAP/HECAT	ECHO	Maple Grove
<i>Cash Out Conditions:</i>															
No Cash Out: Net to borrower, as listed on the Closing Disclosure, not to exceed one percent of the new first mortgage.				X	X		X		X	X	X	X	X	X	
Debt consolidation: if all debts to be paid off documented either on a loan commitment or are paid through the Closing Disclosure.	X	X	X												
Home improvements: given all improvements are itemized by the borrower and are not of the same as original home improvement	X	X	X												
Used for basic home repairs or improvements, given an escrow account is set-up to handle disbursements.							X		X		X	X			
No restrictions.								X							X

Appendix C: 1099-C Filing Matrix

	Require a 1099-C due to Statute of Limitations (SoL)	Require a 1099-C due to Forgiveness, Settlement or Short sale (Agreement)	Require a 1099-C due to Non-Collectable (Policy)	Require a 1099-C due to Bankruptcy (Business Only)	Report to Credit
MPL Standalone	Yes, unless BK*	Yes, unless BK	Yes, unless BK	No	Yes
DPL Standalone	Yes, unless BK	Yes, unless BK	Yes, unless BK	No	Not Reported
Deferred Forgivable programs	No	Yes, unless BK	Yes, unless BK	If business, Yes	Not Reported
Deferred Non-Forgivable programs	Yes, unless BK	Yes, unless BK	Yes, unless BK	If business, Yes	Not Reported
FUF/CFUF Amortizing loans	Yes, unless BK	Yes, unless BK	Yes, unless BK	No	Yes
Rental Rehab - MF (Business)	Yes, unless BK	Yes, unless BK	Yes, unless BK	Yes	Yes

*BK means Bankruptcy

Appendix D: Forms List

[Loan Modification and Extension Agreement](#)

[Advice of Action \(171A\)](#)

[Redemption Statement \(114\)](#)