S00R7400001 – Exhibit A

DHCD SINGLE FAMILY SERVICING MANUAL

UPDATED: April 2016

Maryland Dept. of Housing and Community Development
7800 Harkins Road, Lanham, MD 20706
www.dhcd.maryland.gov
1-800-756-0119

TABLE OF CONTENTS

Title Page ……..Page 1
Table of Contents…….. ..Page 2
Appendix …….. Page 5

SECTION I – INTRODUCTION

A. Purpose of This Manual……..……Page 6
B. Applicability……...Page 6
C. Manual Effective Date and Amendment……..…….Page 7
D. DHCD Goals and Background……..….Page 7
E. DHCD Organization and Contact Information…….…Page 8
F. General Servicing Principles……..Page 9

SECTION 2 – SUB-SERVICER/INVESTOR RELATIONSHIP

A. Sub-servicer Servicing Agreement Requirements…….….Page 12
B. Servicing Entity Changes…….…Page 14
C. Monitoring of Servicing Performance…….Page 15
D. Termination of the Servicing Agreement……...Page 18

SECTION 3 – GENERAL LOAN SERVICING

A. Loan Set Up……...…Page 19
B. Servicing Rehabilitation Program Loans During the Construction Period…....Page 20
C. Initial Contact……..……Page 21
D. Processing Mortgage Payments……..……...Page 21
E. Servicing File Requirements……..……..Page 22
F. Custodial Accounts……..….Page 23
G. Payoffs and Account Close Outs……....Page 23
H. Escrow Accounts……...Page 24
I. Hazard Insurance Coverage……..…Page 26
J. Flood Insurance Coverage……..…Page 30
K. Mortgage Insurance/Guaranty……....Page 30
L. Real Property Taxes…….…Page 32
M. Soldier's & Sailor's Civil Relief Act…….…Page 33
N. Annual Statements to the Mortgagor…….…Page 34
O. Modification, Waiver, Release…….…Page 34
P. Non-occupancy of the Mortgaged Property……..…Page 34
Q. Second Lien Requests…….…Page 36
R. Loan Assumption……..Page 36
S. Addition of a Party to a Mortgage, Removal of a Party From a Mortgage, and Transferring Interest to a Child……Page 37
T. Partial Releases……Page 37
U. Subordination Requests……Page 37

V. Deceased Mortgagor Policy…….Page 40

SECTION 4– REPORTING AND REMITTANCE REQUIREMENTS

A. Information Technology Requirements……Page 43
B. DHCD Monthly Delinquency Reports to Single Family Collections…….Page 44
C. Reports for Mortgage Insurer/Guarantors……Page 46
D. Reports and Remittances to CDA Finance Dept. –
Bond Loans Only…….….Page 46
E. Reports and Remittances to DHCD Finance Dept. –
All Other Loan Programs…….Page 63

SECTION 5– DEFAULT SERVICING

A. General Collection Policy…….Page 65
B. Sub-servicer General Collection
Responsibilities……Page 65
C. Billing Procedures…….Page 66
D. Late Charges……..Page 66
E. Phone Calls……Page 67
F. Late Payment Notices……..Page 68
G. Letters……Page 68
H. Notice of Mortgage Default……..Page 69
I. Notice to Mortgage Insurer/Guarantors……Page 69
J. Default Counseling……Page 69
K. Category of Default……...Page 71
L. Acceptance/Return of Payments……Page 72
M. Property Preservation……Page 73
N. Collecting Under Assignment of Rents……..……Page 74
O. Non-monetary Defaults……..……..Page 75
P. Filing a Judgment……..Page 75
Q. Loan Write-offs……..Page 76
R. Loan Acceleration……Page 77

SECTION 6– LOSS MITIGATION GUIDELINES

A. Overall Delinquency Management & Reports ……Page 79
B. Forbearances……Page 82
C. Loan Modifications……Page 84
D. Refinancing……Page 93
E. Sale or Assignment of Mortgage……Page 94
F. Sale of Property……Page 94
G. Short Sales…….……Page 95
H. Deed in Lieu of Foreclosure……..……Page 101

I. Cash Incentives for Conventional Insured Loans……...Page 103
J. Foreclosure Mediation Policy…….Page 108

SECTION 7– BANKRUPTCY

A. Notice of Bankruptcy Filing……..……Page 109
B. Motion for Relief from Automatic Stay Procedures……..Page 111
C. Foreclosure After Relief From Automatic Bankruptcy Stay……Page 112
D. Abusive Filing Actions……..Page 112
E. Bankruptcy Attorney Bills…….Page 113

SECTION 8– FORECLOSURE LEGAL ACTION

A. Foreclosure Initiation Time Frames……..Page 113
B. Foreclosure Referral Requirements…….Page 114
C. Servicing After Foreclosure has been Initiated……...Page 115
D. Post Foreclosure Sale Activity……..……Page 119
E. Penalty Fees for Delays……..Page 121

SECTION 9– MORTGAGE INSURANCE CLAIMS/ESCROW REIMBURSEMENTS

A. Mortgage Insurance Claims……..Page 122
B. Escrow Reimbursement…….Page 123

List of Exhibits – DHCD Single Family Servicing Manual

A. Appendix A

1. Form A1 – Mortgage Agency Agreement and Notice
2. Form A2 – Annual Certification
3. Form A3 – Fannie Mae Form Letter
4. Form A4 – Certification of Name Change
5. Form A5 – Acknowledgement and Assumption of Obligations by Successor

B. Appendix B

1. Form MMP01 – Summary of Remittance
2. Form MMP02 – Monthly Cash Reconciliation
3. Form MMP03 – Principal Reconciliation
4. Form MMP04 – Prepaid Installments, Curtailments, Additions
5. Form MMP05 – Delinquencies & Payments Due but Not Remitted
6. Form MMP06 - Reductions & Level Payments Billed, not Processed
7. Form MMP07 – Collection Report
8. Form MMP08 – Trial Balance
9. Form MMP 9 – Loan Paid In Full Statement
10. Form MMP10 – Soldiers & Sailors Notification
11. Form MMP11 – Single Family Sub-servicer Exceptions Record Layout
12. Form B12 – Standard Reports for DHCD Finance

C. Appendix C

1. Form C1 – Sub-servicer Introductory Letter
2. Form C2 – Default Notice
3. Form C3 – DHCD Loss Mitigation Letter
4. Form C4 – Acceleration Letter
5. Form C5 – State of Mortgage Debt
6. Form C6 – Delinquency Status and Recommendation
7. Form C7 – Request for Original Documents After Payoff
8. Form C8 – Loan assumption Transmittal Checklist
9. Form C9 – Closing Instructions Letter for Assumption
10. Form C10 – Annual Notice of Homeowner's Protection Act of 1998

D. Appendix D – DHCD Contact Information

E. Appendix E – Overview of DHCD Loan Programs

SECTION 1 - INTRODUCTION – All loans

A. PURPOSE OF THIS MANUAL

The Maryland Department of Housing and Community Development (DHCD), is a principal governmental department of the State of Maryland. DHCD is the investor for a portfolio of single family loans. The loans include the Maryland Mortgage Program (MMP) whole loans which are bond funded loans under Community Development Administration (CDA), which is a division within DHCD. CDA is both the investor and master Sub-servicer for these loans. The MMP loans are insured by VA, FHA, Rural Housing Services, and various private mortgage insurance companies. The other loan programs are financed by Maryland state funds and include first mortgages, junior mortgages, and unsecured promissory notes. These loans do not have mortgage insurance.

The DHCD Single Family Servicing Manual (The "Manual") is an investor-servicing Manual prepared by (DHCD). The purpose of this Manual is to provide Sub-servicers with the information needed to properly service DHCD's single family loans under the various State and Bond funded Whole Loan Sub-servicer Agreements, all of which incorporate this Manual by reference. Please be aware many DHCD MMP Whole Loans are insured by Maryland Housing Fund, a separate division under the Maryland Dept. of Housing and Community Development. Please contact Maryland Housing Fund at (800) 756-0119, extension 7655, if you would like a current copy of their Servicing Manual.

B. APPLICABILITY

The Sub-servicer will be held responsible for any financial loss sustained by DHCD which occurs as a result of that Sub-servicer's failure to comply with this Manual or any existing or future requirements of a Mortgage Insurer/Guarantor, Investor, or State and Federal laws, if applicable. If the policies and procedures in this Manual conflict with a Mortgage Insurer/Guarantor's requirements, the Mortgage Insurer/Guarantor's procedures shall be followed by the Sub-servicer in all cases unless the Sub-servicer receives prior written authorization from DHCD. If a Sub-servicer's procedures are at odds with the Servicing Agreement, this Manual, or any future amendments to either, Sub-servicers shall bring their procedures into compliance. If a Sub-servicer feels that process differences are not substantive, the Sub-servicer may notify DHCD of these differences and obtain written approval for an alternative procedure. Should there be any conflict between the requirements of this Manual and the Servicing Agreement, the terms and requirements of the Servicing Agreement shall supersede this Manual.

C. MANUAL EFFECTIVE DATE AND AMENDMENT

This Servicing Manual supersedes all previous manuals issued and is effective upon its posting to the Department's website (http://www.dhcd.maryland.gov.). Sub-servicers will be advised, in advance, of the posting of the Manual by letter and/or e-mail to the Sub-servicers' designated contact(s).

From time to time, at the discretion of DHCD, the Manual may be updated, supplemented, or modified. These changes will be effective upon the posting of the amendments to the website. Sub-servicers will be notified, in advance, of the posting of amendments to the Manual by letter and/or e-mail to the Sub-servicers' designated contact(s).

The DHCD may, on occasion, find it necessary to make emergency amendments to its processes and procedures. The urgent nature of these changes may preclude incorporating them in the Manual and posting them to the website before the amendments are effective. When this is the case, emergency amendments will be forwarded to the Sub-servicers as written notices sent by mail and/or e-mail to the Sub-servicers designated contacts. These notices are effective upon issuance. Sub-servicers are required to distribute them to impacted staff and to maintain them on file until the amendments are incorporated into the Manual at a later date.

Any failure on the part of a Sub-servicer and its employees, vendors, or subcontractors to comply with the requirements of this Servicing Manual as initially posted or when amended, constitutes a breach of the Servicing Agreement. Such a breach may result, at the discretion of DHCD, in the exercising of remedies described in the Manual and the Servicing Agreement, of which the Manual is a part. The Sub-servicer must ensure that all of its employees, vendors, or subcontractors are familiar with the Manual and its requirements, and that they are informed of amendments to the Manual as they occur.

D. DHCD GOALS AND BACKGROUND

DHCD's goal is to revitalize communities and promote affordable housing using various types of loans and loan instruments. The intended impact of these loans is to increase opportunities for low and moderate-income families to purchase homes or to repair or improve homes to be or already occupied by low and moderate-income households.

DHCD was established as an independent cabinet-level department in 1987. Prior to the creation of DHCD, State housing programs were administered under the Department of Economic and Community Development (DECD). Accordingly some loan documents and insurance policies may list DECD as the mortgagee or beneficiary. Whenever DECD is listed and a departmental endorsement is required, it should be revised to read "Department of Housing and Community Development, formerly the Department of Economic and Community Development"

In general, the Department's single family activity falls into two categories that are based on the source of funding for the loans. The first and largest category is composed of loans for low and moderate-income homebuyers funded through the sale of revenue bonds. The second and smaller category is composed primarily of purchase money loans, rehabilitation, and home improvement loans that benefit very low to moderate-income households funded with State appropriations.

Bond-funded loans, also known as CDA or Maryland Mortgage Program loans, are purchase money loans. They are originated by private lenders and purchased by the Department. They are insured/guaranteed by FHA, MHF, VA, RHS, and other private Mortgage Insurer/Guarantors. These loans are interest bearing, amortizing, and involve escrows. The loans in this category are serviced by two Primary Bond Sub-servicers.
State Funded Loans vary greatly in purpose, terms, and conditions. They range from interest bearing amortizing loans to zero interest deferred payment loans. State funded loans are not insured. They are originated directly by DHCD or through a network of local governments or nonprofit agencies utilizing a number of Department programs (see Appendix E).

E. DHCD ORGANIZATION AND CONTACT INFORMATION

DHCD is divided into six divisions. Generally speaking, Sub-servicers will have regular contact with three of them: 1. The Division of Development Finance, (also known as CDA); 2.The Division of Credit Assurance (DCA); and 3. The Division of Finance and Administration (DFA).

The Division of Development Finance/CDA is the origination arm of the Department and is charged with originating all loans whether Bond or State Funded. CDA is also responsible for the issuance of Mortgage Revenue Bonds and all loan accounting associated with the Department's Bond Funded program – the Maryland Mortgage Program.

The Division of Credit Assurance performs the asset management function for all loans made by the Department. This includes monitoring the Sub-servicers' performance in loan maintenance and determining the Sub-servicers' ongoing compliance with Servicing Agreement requirements. Also,

through the Maryland Housing Fund, a unit of this Division, the Department has provided mortgage insurance for Bond Funded Loans purchased by the Department. Although no longer active in providing insurance for new loans since 1997, the Maryland Housing Fund holds mortgage insurance certificates on a significant number of the Bond Funded Loan portfolio. As of February 28, 2014, Maryland Housing Fund insured 17.2% of the MMP Whole Loan portfolio.

The Division of Finance and Administration is responsible for all loan accounting on the State Funded Loan portfolio. This function is performed by DHCD Finance, a unit within the Division.

Important contact information is contained in Appendix D of this manual. Included in this section are the Department's mailing and web address, office hours, and the names and phone numbers of key staff. Staff are divided by unit and function to assist Sub-servicers in determining whom they should contact.

F. GENERAL SERVICING PRINCIPLES

Compliance with Maryland State and Federal laws. Sub-servicers are to have policies and procedures in place to insure compliance to the Maryland State foreclosure laws and Federal laws as well as Consumer Financial Protection Bureau's 2013 Mortgage Servicing Final Rules and Amendments and any future Amendments to Regulations X and Z. **Servicing of mortgage loans using generally accepted Industry standards** - Sub-servicers are required to follow applicable federal and state laws. Sub-servicers are also to ensure mortgages are serviced in accordance with sound mortgage banking and accounting principles and are to protect DHCD against fraud, misrepresentation, or negligence by any parties involved in the servicing process.

Compliance with Mortgage Insurer/Guarantor Requirements - It is expected that DHCD Sub-servicers will employ experienced mortgage loan servicing staff familiar with the mortgage servicing policies and procedures of FHA, VA, RHS, MHF, Fannie Mae, Freddie Mac, and other public and private entities that insure or guarantee DHCD's loans. The Sub-servicer, to the full benefit of both DHCD and the insurance company, shall satisfy and comply with all requirements of public and private Mortgage Insurers/Guarantors and pool insurers with respect to mortgages serviced for the Department. The Sub-servicer is responsible to submit in a timely manner all forms, notices, reports, etc., which are normally required of a mortgagee to the public and private Insurers/Guarantors. Unless specifically requested by DHCD elsewhere in the Manual or on an individual basis, copies of these submissions do not need to be sent to DHCD but must be retained in the mortgage loan file maintained by the Sub-servicer.

Compliance with Mortgage Electronic Registration Systems, Inc. (MERS) – Sub-servicer is required to service all CDA MMP MERS loan according to MERS guidelines including yearly audit requirements:

1. Auditors must perform MERS annual audit on the Sub-servicers .
2. MERS Audit engagement letter must explicitly state CDA Maryland Mortgage Program loans are included in the audit population
3. MERS Audit sampling must include at least one CDA MMP loan.
4. Sub-servicer/auditor must agree to provide a copy of the engagement letter to DHCD. If redacted, Sub-servicer/auditor must provide redaction letter.
5. Auditor must agree to be mentioned as 3rd party reviewer on CDA annual report.
6. These requirements must not incurred additional charges to DHCD as they do not constitute additional engagement tasks to the auditors other than activities inherently occurring.

Privacy Policy - The Sub-servicer is responsible for complying with all State and Federal laws regarding a Mortgagor's privacy, including sending any notices required by law. The Sub-servicer shall keep all personal information of any Mortgagor confidential and shall not provide a Mortgagor's personal information to any non-affiliated third party. Subject to the Maryland Public Information Act and any other applicable laws, all confidential information and documentation relating to either party or a Mortgagor (including without limitation, any information or data stored on the Sub-servicer's computer systems) shall be held in absolute confidence by the Sub-servicer. The Sub-servicer shall, however, be permitted to disclose relevant confidential information to its officers, agents, and employees to the extent that such disclosure is necessary for the performance of their duties under the Servicing Agreement, provided the data may be collected, stored, disclosed, sorted and disseminated only as provided by and consistent with the law. The provisions of this section shall not apply to information that: (1) is lawfully in the public domain; (2) has been independently developed by the Sub-servicer without violation of the Servicing Agreement; (3) was already in the possession of the Sub-servicer; (4) was supplied to the Sub-servicer by a third party lawfully in possession thereof and legally permitted to further disclose the information; or (5) the Sub-servicer is required to disclose by law.

Conflicts of Interest – Sub-servicers must comply with all federal and State laws in regard to conflicts of interest. Every effort must be made by the Sub-servicer not only to avoid conflicts of interest, but also to avoid the appearance of conflict. When faced with a potential conflict, Sub-servicers should contact DHCD - Single Family Collections for guidance.

On occasion through normal servicing activities, Sub-servicers obtain privileged information concerning the Mortgagors and mortgaged properties. Such privileged information shall not be used by the Sub-servicer or its officers, employees, agents or affiliates in any way which could be construed to present a conflict of interest, a violation of privacy laws, or an unfair advantage to the user. All such information shall be used in a manner consistent with all applicable laws or regulations regarding disclosure of credit information.

No property which secures a mortgage covered under this Manual may be acquired by a Sub-servicer of DHCD loans or its officers, employees, agents, or affiliates, unless DHCD has granted approval for such acquisition.

Quality Control Procedures – Sub-servicers should have written quality control procedures and a quality control system to evaluate and monitor the overall quality of their loan servicing activities. The quality control system must provide for the selection of loans on a random basis in sufficient numbers to include a fair representation of loan types. The plan must provide for periodic reports to senior management for the purpose of identifying areas of deficiencies. The quality control plan must be in compliance with Fannie Mae, Freddie Mac, FHA, VA, RHS regulations.

SECTION 2 – SUB-SERVICER/INVESTOR RELATIONSHIP – All Loans

A. Servicing Agreement Requirements

There are several Servicing Agreements governing the relationship between DHCD and Sub-servicers. The Servicing Agreement is executed when a company is first approved to originate and service DHCD loans and may be amended or revised at later dates. The Servicing Agreements establish standards to service DHCD loans which must be maintained as long as the Servicing Agreements remains in effect. Sub-servicers are required to provide DHCD with regular verifications that these standards are being maintained and must notify DHCD of any changes.

Listed here are those Servicing Agreement requirements which involve action by Sub-servicers on a regular basis and some Servicing Agreement issues for which DHCD has certain policies and procedures. Servicing staff who are responsible for these matters are advised to be familiar with the terms of the Servicing Agreement and this Manual and are to contact DHCD Single Family Compliance if there are any questions.

1. Annual Financial Statements and Certifications – Contact DHCD's Compliance Section at (301) 429-7645.

- **Annual Audit** - Sub-servicers must be able to provide DHCD with annual audited financial statements together with an opinion by an independent certified public accountant or firm of independent certified public accountants. This must be submitted within 120 days after the end of the company's fiscal year. DHCD reserves the right to request further financial information at any time and may terminate servicing agreements if not reasonably satisfied about the company's financial status.

- **Annual Certification** - Appendix Form A2 is a form for Sub-servicers to certify that they are in compliance with DHCD's policies and procedures including certification of custodial accounts. It should be completed in full, signed by an officer of the company and returned to DHCD at the same time as the annual audit. Any item in this form which cannot be certified as true must be explained in detail.

- **Fannie Mae Approval** - All loan Sub-servicers must be approved to service mortgage loans by Fannie Mae and must provide DHCD with annual evidence of current approval. Fannie Mae will confirm that a Sub-servicer is in good standing with them if requested to do so by that company. Appendix Form A3 is a form letter that Sub-servicers may use to obtain written the confirmation.

2. Corporate Insurance Requirements - Sub-servicers must maintain in effect at all times, and at their own expense, a Fidelity Bond (or Direct Surety Bond) and a Mortgage Errors and Omissions Policy which covers all officers, employees and other persons authorized to act on the Sub-servicer's behalf. Such coverage may be in the form of individual or blanket bonds/policies, but DHCD must receive a Certificate of Insurance which names DHCD as an insured party. **Insurance Renewal & Cancellation** - The insurance policies must state there will be no changes or cancellation of coverage without at least ten days written notice to DHCD. Sub-servicers are expected to maintain continuous insurance coverage and provide evidence of renewal in advance of any expiration date. Sub-servicers must promptly report any interruptions in coverage and must also report any claims made under their insurance policies.

- **Fidelity Bonds** - Fidelity Bonds must cover against loss arising from dishonest, fraudulent or criminal acts committed by the servicing company and its employees. The amount of coverage must be equal to a percentage of the Sub-servicer's total portfolio according to the formula found in Exhibit C of the Mortgage Agency Agreement (Appendix A1) or in other amounts acceptable to Fannie Mae. The policy's deductible may be for any amount up to the lesser of $100,000 or 5% of the bond's face amount. Sub-servicers must get DHCD's permission for higher deductible amounts.

- **Errors & Omissions Coverage** - Errors and Omissions policies must insure against losses resulting from negligence and mistakes in maintaining required hazard, flood and mortgage insurance coverage or failure to pay real estate taxes and other special assessments. The amount of coverage should be equal to the fidelity bond coverage amount. The policy's deductible clause may also be the same as for the fidelity bond coverage. If the policy provides for coverage per mortgage, the maximum deductible amount cannot be more than 5% of the insurer's liability per mortgage.

- **E-mail Communication between Sub-servicer, mortgagor, Sub-servicer's contractors, and Investor:** All e-mail communication which includes either in the body of the e-mail or the attachment any private or sensitive information concerning a mortgagor's personal account such as loan due date, loan balance, social security number, birth date, credit score, credit information, income, debt information, loss mitigation packages with accompanying documentation, legal referrals, etc. must be sent via secure method.

B. Servicing Company Changes – Contact DHCD's Compliance Section at (301) 329-7645.

1. Servicing Company Changes in Location - Sub-servicers must inform DHCD at least sixty days in advance of any changes in the location of their servicing operations.

2. Corporate Mergers, Acquisitions, and Name Changes - Sub-servicers must inform DHCD if there are any changes in the corporate structure of the servicing company. If the company is changing its name from the one that was used in signing DHCD's Servicing Agreement, then the forms in Appendix Form A4 must be completed. If the company has been acquired or has merged with another company, whether or not forming a new corporation, then the forms in Appendix Form A5 must be completed. DHCD reserves the right to terminate its Servicing Agreement, if, in our opinion, corporate changes make a company no longer qualified to service DHCD loans.

3. Savings Association Insurance Fund (SAIF) - Sub-servicers are in default of their Servicing Agreement with DHCD whenever SAIF, the FDIC, or a similar entity or successor is appointed as receiver, liquidator or trustee of the company. Sub-servicers are expected to notify DHCD promptly whenever this occurs. DHCD will issue a written notice that terminates our Servicing Agreement and gives sixty (60) days for DHCD loans to be transferred. The notice will provide the contact information for the Sub-servicer where the loans are to be transferred. There is no compensation paid for this transfer.

4. Transfer of Servicing

In addition to the loan information that will be electronically transferred from the current loan Sub-servicer to the Primary Bond Sub-servicer, paper documentation will also be transferred for each loan. The paper files should include at a minimum:

- Copy of Deed of Trust Note with all pertinent riders
- Copy of the recorded Deed of Trust with all pertinent riders
- Copy of the Title Insurance Policy
- Copy of the Mortgage Insurance Certificate/Guarantee/Policy
- Current Hazard Insurance Policy/Declarations Page
- Notice to Hazard Insurer advising of loan transfer and change in mortgagee clause
- Current Flood Insurance Policy/Declarations Page (if applicable)
- Notice to Flood Insurer advising of loan transfer and change in mortgagee clause, if applicable
- Flood Certification form

- Ground Rent owner information (if applicable)
- Notice to ground rent owner advising of loans transfer (if applicable)
- Complete loan transaction history
- Collections history, if applicable
- Escrow information and statement at time of transfer
- Most recent escrow analysis or aggregate analysis from loan closing
- Most recent tax bill or tax information
- Credit report
- Contact information for borrower (mailing address, phone numbers, e-mail, etc.)
- Copy of good-bye letter to borrower
- Any other miscellaneous loan documents in the current Sub-servicer's possession

Primary Bond Sub-servicer will be responsible for verifying receipt of the loan documents. If any documents are missing, Primary Bond Sub-servicer should first contact the transferring Sub-servicer to obtain the documents. If the transferring Sub-servicer does not have the documents, DHCD will provide replacements if DHCD has copies in its possession. Primary Bond Sub-servicer may be required to contact the document source (i.e, hazard insurer, settlement company) for missing documentation.

C. Monitoring of Sub-servicer Performance

Sub-servicers are expected to have the capability to service loans in compliance with all Mortgage Insurer/Guarantor guidelines, Federal, State, and local laws, and the procedures outlined in this Manual. The Sub-servicer will be required to maintain its books, records, required individual loan information, and other evidence pertaining to expenditures incurred, pursuant to the Servicing Agreement, in accordance with generally accepted accounting principles. DHCD or its agents will review the Sub-servicer's performance at least once a year. At any given time, DHCD or its agents may conduct an audit of servicing performance of the Sub-servicer in their office. During normal business hours, the Sub-servicer will permit DHCD to examine all books, documentation, written policies & procedures, and records pertaining to DHCD mortgage loans, and compliance with the requirements of the Servicing Agreement, and the requirements of this Manual during the period of the Sub-servicer's Servicing Agreement and for three (3) years thereafter. Performance may also be evaluated from a random selection of files selected at site visits of the Sub-servicer's offices, information the Sub-servicer submits to DHCD, information from loans via the Sub-servicer's website, or information obtained from an outside customer.

1. **General servicing: Tasks to be evaluated** – Guidelines for the tasks to be evaluated, are either detailed below or are outlined in other sections of this Manual. DHCD's evaluation of Sub-servicer performance will include, but not be limited to, the following:

- Initial loan set up
- Servicing loans during construction period, if applicable
- Timeliness of cash receipt to DHCD
- Timeliness of reporting to DHCD
- Presentation of Reports/Disclosure (data fields)
- Accuracy of data
- Delinquency Reports – timely, complete, correct
- Foreclosure and loss mitigation packages – timely, complete, appropriate request, accurate reason for default
- Loss mitigation efforts – all options given, appropriate options discussed, number of collection calls per month, appropriate outside referrals for assistance.
- MMP/Mortgage Insurer/ State or Federal guidelines being followed – timely legal referrals, notices, and reports to Mortgagor/investor/Mortgage Insurer, and interest curtailments
- Sub-servicer 60+ delinquency rates must stay at or below Maryland FHA All loans as published quarterly by the Mortgage Bankers Association.
- Customer service to DHCD and the mortgagor – complaints, compliments, responsiveness to requests from DHCD, compliance to 2013 Mortgage Servicing Final Rules.
- Mortgage insurance claims – timely, complete, correct
- Post foreclosure sale servicing performed timely – requests for eviction, cleaning property, securing, winterizing, forwarding keys, grass cuts, etc.
- Hazard insurance claims – filed and resolved timely
- Escrow payments handled properly
- Annual certification performance to DHCD
- Requests for loan changes (subordinations, assumptions, partial releases)
- Sub-servicer provides detailed property condition report at initial inspection
- Other issues – other servicing errors, failures, etc.
- Compliance to CFPB 2013 Mortgage Servicing Final Rules and any future updates or amendments such as:
    - Sub-servicer to have policy, procedures and employee training manuals to insure compliance.
    - Qualified written request for information and qualified written requests for error resolution. Sub-servicer should keep a log and be able to timely respond as per guidelines.
    - Full mortgage payments must be posted same day
    - Escrow accounts should have yearly escrow analysis and escrow bills are to be paid timely.

- Force place insurance should only be purchased per CFPB guidelines.
- Impermissible fees are not charged to the mortgage customer.

2. The Contractor shall have an annual audit performed by an independent audit firm of its handling of the Department's critical functions and/or sensitive information.

- Critical functions - loan payments, clearing, settlements, custody, ability to interface with Trustee and the Department's software systems, and "relevant to all of the trust principles" such as handling of mortgage account information, escrow deposits/payments, mortgage insurance claims, maintain hazard and mortgage insurance coverage.
- Sensitive information - database systems, reports, e-mail, website access to individual accounts, and hard copy files that contain individual borrower social security numbers, due dates, loan balances, delinquent information, and other sensitive information should be in compliance with Appendix F – DHCD Communication Security and Privacy Policies**.** The Sub-servicer should take prudent steps to keep all sensitive information, both electronic and hardcopy, secure to avoid credit fraud risk.
- The report to be submitted by April 1st for the preceding calendar year.

Non-Compliance with Servicing Guidelines: A letter will be forwarded listing items that are not in compliance. Sub-servicer's are subject to monetary penalties, mandatory training (which may involve travel to DHCD), warning letters, being placed on probation, repurchase of specific loans, indemnify DHCD for any loss incurred, or termination. For more information on penalties and fees, please refer to Section 8 – Foreclosure Legal Action, Section E. Penalty Fees for Delays and Section 4 – Reporting and Remittance Requirements, D. Reports and Remittances to CDA Finance Dept. , #16**.** . Penalties and Remedies Sections - Sub-servicer Reports and Remittances to CDA Finance. If the Sub-servicer is placed on probation, they will be given a period of 3 – 6 months to bring the deficiencies into compliance. At the end of this time, Sub-servicers who are unable to comply with DHCD's requirements, may have their probation extended or be sent a notice of termination of the Servicing Agreement. Any material deviation from applicable state or federal laws, the Sub-servicer's Servicing Agreement with DHCD, this Manual, Mortgage Insurer/Guarantor requirements and/or Program documents, may be cause for termination of the Servicing Agreement.

D. Termination of Servicing Agreement

1. **Termination of Contract for Default** – It is DHCD's intent to work with Sub-servicers whenever there are problems and to arrive at mutually agreeable solutions. However, if the Sub-servicer has failed to improve their performance, fails to fulfill its obligations under the Servicing Agreement properly and on time, or otherwise violates any provision of the Servicing Agreement, DHCD may terminate the Servicing Agreement in accordance with its terms.

2. Termination of the Servicing Agreement for Convenience - The performance of work under the Servicing Agreement may be terminated by DHCD in accordance with the Servicing Agreement, whenever DHCD shall determine that such termination is in the best interest of DHCD.

3. **Loan transfers** – Sub-servicer is to follow all 2013 Mortgage Servicing Final Rules, RESPA, and TILA regulations when transferring loans to another servicing company or receiving mortgage loans from another servicing/originating company.

SECTION 3 – GENERAL LOAN SERVICING.

A. Loan set up - Sub-servicer is to follow all 2013 Mortgage Servicing Final Rules, RESPA, and TILA regulations for loan servicing transfers when receiving mortgage loans from another servicing/originating company

1. **Bond Loans - Maryland Mortgage Program** – The Lender must submit the loan package to the Bond Primary Sub-servicer within 15 days after DHCD purchases the loan. The Primary Bond Sub-servicer is responsible for obtaining all copies of loan documents, closing documents, loan history and payment history (Please refer to Subsection *E. Servicing File Requirements* for information the Sub-servicer is required to have on file). The Primary Bond Sub-servicer must obtain the escrow funds from the Lender and set up the appropriate escrow account for each loan. Sub-servicers must have the loan on their system and begin servicing the loan within 5 days from receipt of the Lender's loan package. The original Deed of Trust, Deed of Trust Note, and Title Policy will be held by CDA's Trustee. CDA will retain the original FHA Mortgage Insurance Certificate or VA Guaranty.

2. **State Loans –** Instructions and documents for new loan set-up may come from DHCD directly, a local housing agency, a non-profit, or a title company that handled the closing. The loan package should include a loan summary and original documents may be sent at a later date after recording.

   a. **Home Buyers Assistance Programs (DSELP, MHFP).** Single Family Housing, approved DHCD Lenders, or local non-profit organizations are required to send the Primary State Sub-servicer a copy of the loan closing documents within 5 days after the loan has closed, along with the setup sheet which outlines the terms of the loan. The original Deed of Trust and Title Policy will be forwarded to the Sub-servicer to retain once the local agency has recorded the Deed of Trust. The original Deed of Trust Note will be held by DHCD. Sub-servicers are to have the loan on their system and begin servicing the loan within 10 business days from receipt of the loan closing documents.

   b. **State Funded Rehabilitation Program Loans (MHRP, IPP, LHRGLP).** DHCD's Single Family Housing section, as well as a network of local county and city housing agencies, originates housing rehabilitation loans under various programs, noted above. Single Family Housing or the local agency are required to send the Primary State Sub-servicer a copy of the loan closing documents within 5 days after the loan has closed, along with the setup sheet which outlines the terms of the loan. The original Deed of Trust and Title Policy will be forwarded to the Sub-servicer to retain once the local agency has recorded the Deed of Trust. The original Deed of Trust Note will be held by DHCD. Sub-servicers are to have the loan on

their system and begin servicing the loan within 10 business days from receipt of the loan closing documents.

c. All loans – The Sub-servicer may not report an account delinquent to the credit bureaus during a 60 day period after the loan has been set up with their company.

B. State Loans - Servicing State Funded Rehabilitation Program Loans during the Construction Period

- **The construction period -** Loans are to be set up by the Primary State Sub-servicer in the database during the construction period but the loan balance must show zero ($0) balance until the Sub-servicer is notified in writing of construction draws. During the construction period, funds are disbursed on draw schedules by the local housing agency or Single Family Housing to the contractor as work progresses. Single Family Housing or the local housing agency will provide a disbursement report monthly for each loan which identifies principal disbursements for the preceding month. The Sub-servicer will adjust the loan balance within ten (10) working days of notification. The Sub-servicer shall use this information to bill the Mortgagor interest based on the amount of principal advanced to date. The loan balance must reflect the construction draws to the contractor not the disbursement by DHCD to the local housing agencies. Once the construction draws have been made, it may be necessary to bill for accrued interest in accordance with the loan documents. A loan may start as deferred or with escrow-only payments during the construction phase and become an amortizing loan after the work is completed. It is also possible that construction period interest will be added to the loan principal. Accrued interest must be calculated and reported monthly on all loans in accordance with the loan documents, even if billings are not necessary.

- **Post Construction** - At project closeout, the return of unused funds on a construction loan by a local housing agency must be accounted for as both a construction draw increasing the principal and a loan collection decreasing the principal. Once the construction period is over and the loan is fully disbursed, DHCD prepares a closeout statement and sends it to both the Primary State Sub-servicer and the Mortgagor. The Sub-servicer should use this information to reconcile the principal balance and prepare the loan billing to begin fixed principal and interest payments at the note rate. Discrepancies between Single Family Housing/local agencies' records and the Sub-servicer should be brought to Single Family Housing's attention. Should the construction period extend beyond the original term, the Sub-servicer or Mortgagor should forward a request to Single Family Housing *through the local housing agency* asking for a change in the date that fixed principal and interest payments are to start.

The local housing agency will verify the status of the construction for Single Family Housing and request a new first payment date for the loan. Single Family Housing will prepare and send an Allonge to the Note to the local housing agency for the Mortgagor to sign.

- **Requests for payoff quotes during the construction period –** If the Sub-servicer receives a request to pay off the loan, the Sub-servicer should contact Single Family Housing at (301) 429- ____ to confirm the principal balance owed. Single Family Housing will work with the local agency if necessary.

C. Initial Contact – All Loans

1. Verification of Mortgagor Address and Phone Number - Prior to the first payment or at least 15 days after the closing date, the Sub-servicer should contact the Mortgagor to introduce themselves, clarify their basic procedures, provide contact information, including requests for information or error resolution, and to verify critical data obtained from settlement. A sample Introductory Letter is supplied in Appendix C, Form C1. It is understood that the Sub-servicer may have to change this letter to fit their operations; however, the basic information outlined in this section must be included.

2. Explanation of the monthly payment - The amount of the first payment and how it has been calculated should be outlined for the Mortgagor. It should also be explained that escrow accounts undergo reviews and that the monthly payment may change as a result.

3. **Sub-servicer Offices & Phone Numbers** - Information must be provided to the Mortgagor on how to contact the Sub-servicer both by letter and by telephone. Telephone numbers provided in letters should direct the Mortgagor to the Sub-servicer's telephone number not DHCD. Sub-servicers located outside the State of Maryland are required to provide a toll free number to the Mortgagor.
4. **Customer Requests for error resolution or information**: Sub-servicer must be in compliance with 2013 Mortgage Servicing Final Rules, Regulation X 1024.35 & 36 for mortgagor request for information or error resolution.

D. Processing Mortgage Payments – All Loans

1. Payment Processing – Sub-servicer is to promptly credit the mortgage payment the same day as received. The Sub-servicer will send the mortgagor a monthly billing statement for the monthly mortgage payment that contains all the information as required by the CFPB 2013 Mortgage Servicing Rules. The Sub-servicer must at all times maintain adequate facilities for the collection of mortgage payments. At least one location must be clearly identified where payments can be received on a business day and be processed the same day. ..

The Sub-servicer's method of collecting payments should be explained to the Mortgagor in detail. The explanation should include the place or places where payments are accepted, and the form of payment notice or coupon that is used. Payments are to be credited in full monthly amounts only. Partial payments are to be held in suspense as part of a payment plan or while the Sub-servicer attempts to contact the Mortgagor regarding the balance owed. Payments received should be applied as outlined in the Mortgage Note or Deed of Trust Note.

2. Due Dates –All mortgage payments are due on the first day of the month. It is essential that Mortgagors be told the correct date and grace period.

E. Information Required in the Servicing File – All Loans

1. Required information - The Sub-servicer must maintain an electronic individual file for each loan. Within each electronic file the following documentation and information must be included:

- Copy of the most recent escrow analysis
- Copies of all legal notices or correspondence concerning the loan
- Copies of all loan assumption documentation
- Copies of the Note, Deed of Trust, Title Policy, HUD I Settlement Statement, mortgage insurance/guarantee certificate appraisal, and the survey
- Records of all insurance loss settlements and related documentation
- Payment and collection history from loan inception
- Copy of current hazard insurance policy or insurance declarations page
- Copies of all loss mitigation applications on short sales, loan modifications, FHA HAMP Claims, partial claims, forbearances, and deeds in lieu.
- Copies of all property preservation bills and repairs completed.
- Copies of all attorney bills from DHCD's contract law firms.
- Any other records required by law
- All documents required per the CDA Lender Servicing Manual, Attachment P, Page 1

2. Access to records and loan record retention requirements - All servicing file information, including items stored electronically or on microfiche, must be immediately available for review by DHCD. You must reproduce any document required by DHCD without cost to DHCD. No information or documentation may be surrendered or destroyed without our prior written consent except as follows:

- you may destroy mortgage records after a period of five years from the date a loan become inactive by foreclosure, payment in full, or loan

maturity except if loan was accelerated, unless a greater period is required by the Mortgage Insurer/Guarantor, State, or Federal law.

- Records must be maintained on accelerated loans for a minimum of seven (7) years.

F. Custodial accounts and account records – All Loans

1. Collections and Deposits – All monies the Sub-servicer collects are for the benefit of either DHCD/CDA or the Mortgagor. Until such funds are remitted to DHCD/CDA and/or the CDA trustee, or are used to pay escrow bills for the Mortgagor, funds must be properly deposited and maintained in special trust or custodial accounts. Sub-servicers may not commingle any monies relating to DHCD/CDA's mortgage loans with any other monies, or commingle CDA funds with DHCD funds.

2. Account Records - The Sub-servicer's records must clearly show the respective interests of DHCD/CDA and each individual Mortgagor on all accounts. Accounts may be held in the Sub-servicer's own depository facilities if the Sub-servicer is authorized to exercise trust or custodial powers. Such accounts must be managed in accordance with rules and regulations established by the applicable Federal, State, and Local laws. The Sub-servicer is expected to furnish DHCD with copies of statements regarding these accounts at any time upon request. Furthermore, as part of DHCD's/CDA's Annual Audit, the Sub-servicer and the Sub-servicer's bank must confirm to DHCD's/CDA's Auditor that these accounts are in DHCD/CDA's name and that DHCD/CDA funds are not commingled with any other moneys held by the Sub-servicer.

G. Payoffs & Account Close-outs

1. Bond Loans - Releasing Documents on Payoffs of MMP Loans - Whenever a loan is paid off, a copy of the Loan Paid-In-Full Statement (Appendix B, Form MMP09) must be mailed immediately to CDA Finance. A Request For Original Documents (Appendix C, Form C7) must be mailed immediately to DHCD Single Family Collections. DHCD will obtain original documents from the trustee. The documents or a legally acceptable substitute will be endorsed by DHCD for release and returned to the Sub-servicer along with an executed Certificate of Satisfaction. The Servicer may have delegated authority to release the mortgage lien. Payoff funds are to be wired to CDA's Trustee. See *Section .4 Reports and Remittances, Subsection D. Reports for CDA Finance - Loan Paid in Full wiring instructions.*

2. State Loans - Releasing Documents on Payoffs for all loan programs except MMP – When a loan is paid off, a Request For Original Documents (Appendix B, Form C7), a copy of the payoff check, and any original documents held by the Sub-servicer must be mailed to DHCD's Single Family Asset

Management within 5 days of settlement. DHCD will endorse the documents for release and prepare a Certificate of Satisfaction. The Servicer may have delegated authority to release the mortgage. Checks ARE NOT to be sent to the 7800 Harkins Road office.. Payoff funds in the form of checks may be sent to **DHCD Finance, Central Cashier – Maryland Dept. of Housing and Community Development, P.O. Box 2521 Landover Hills, MD 20784.** Payoff funds must be wired or direct deposited to the Maryland State Depository Bank daily. Please refer to *Section 4 Reports and Remittances, Subsection E. Reports and Remittances for DHCD Finance* for remittance instructions.

3. Recording Releases – The Sub-servicer is responsible for making sure all releases are properly recorded and may charge the Mortgagor a recording fee if it is necessary for the Sub-servicer to perform this function, but the fee may not exceed what is permitted by law.

4. Mortgage Insurer/Guarantor Notification – The Sub-servicer will be responsible for notifying the primary Mortgage Insurer/Guarantor that the loan has been paid off and the insurance coverage may be cancelled. The Sub-servicer should also request any prepaid amounts that may be due to be refunded to the Mortgagor. DHCD will be responsible for notifying any pool Mortgage Insurer/Guarantor of loan payoffs.

H. Escrow Accounts – General Information – All Loans

The Mortgagor is required to make monthly deposits to the escrow account in an amount equal to one-twelfth of the estimated annual expenses. Escrow expenses shall include taxes, mortgage insurance premiums, hazard insurance premiums, ground rent, special assessments, and all payments other than principal and interest as required by DHCD. Other escrow expenses may be required under the terms of the Deed of Trust for certain loans. The Sub-servicer is responsible for collection of the monthly escrow deposit as an integral part of the monthly mortgage payment. A default in the payment of escrow expenses or escrow-only payments is to be treated the same as a default in the payment of principal and interest. Escrow funds must be used only for the designated purpose for which they were collected. Under no circumstances may the funds be used to pay late charges, assumption fees, or any other charges.

1. Collecting Escrow Deposits – The Sub-servicer must pay, from the Mortgagor's escrow account, all taxes and insurance premiums due prior to the expiration date, in accordance with RESPA and any applicable State and Federal laws.

2. Obtaining Statements – The Sub-servicer is expected to obtain escrow expense bills required for each mortgage account and pay the expenses from funds accrued in the escrow account on or before the due date. The Sub-

servicer must maintain adequate records with proof of payment of all escrow bills including, but not limited to, tax receipts and hazard insurance receipts. The Sub-servicer must further keep a detailed listing of disbursements.

3. Advancing Funds – Current Accounts - The Sub-servicer is to advance its own funds to pay a Mortgagor's escrow bill if sufficient funds are not available in the Mortgagor's escrow account when an expense becomes due. Collection from the Mortgagor of escrow shortages due to increases in taxes or other bills may be accomplished by prorating the shortage or requesting a lump sum payment. When lump sum payments are requested, Sub-servicers will offer counseling to any Mortgagor who needs a reasonable amount of time to acquire the sum due or refer them to a HUD approved housing counseling agency. State funded loans – In cases where taxes are not escrowed, DHCD may require the Sub-servicer to pay the taxes when DHCD's security is endangered by a tax sale of a property. Servicer may have an agreement with DHCD to have all escrow and corporate advances reimbursed monthly. See the RFP and Contract for details.

4. Reimbursement on Delinquent Accounts –

Delinquent Accounts – **(a)** Escrow advances made on delinquent accounts will be reimbursed by DHCD effective with the completion of a foreclosure sale, recorded deed in lieu of foreclosure or short sale settlement. When the Sub-servicer advises DHCD that a foreclosure sale has been held, deed in lieu has been recorded, or the short sale has settled, the Sub-servicer may begin billing DHCD for all foreclosure related expenses beginning the month after the foreclosure sale has been completed. The request for escrow reimbursement shall be provided in a format acceptable to DHCD and will be submitted to DCA for review and payment. OR **(b)** If the sub-servicing Contract allows reimbursement of servicer's escrow and corporate advances monthly, then the Contract will supersede this section of the Manual with appropriate supporting documentation. DHCD will request at least 10% of invoices monthly per generally accepted accounting procedures. Servicer may have an agreement with DHCD to have all escrow and corporate advances reimbursed monthly. See the RFP and Contract for details.

- If the loan is brought current after a period of delinquency, DHCD will not reimburse any expenses that cannot legally be charged to the mortgagor such as appraisal fees, inspection fees, credit report fees, etc.
- DHCD will reimburse for pre-file mediation, Maryland notice of Intent to Foreclose letters, filing a bankruptcy proof of claim, or post-file foreclosure mediation hearings.
- DHCD will also reimburse the Sub-servicer's escrow for the amount of the escrow shortage that is capitalized in a loan modification. The Sub-servicer should send a bill for their escrow shortage after the loan modification has been implemented and the loan brought current.

5. Escrow Analysis – The Sub-servicer will perform an analysis of the escrow account at least annually to determine if any change in the monthly escrow installment is required to pay future escrow bills. The Sub-servicer shall comply with all State and Federal laws regarding any escrow surpluses or deficiencies. Mortgagors must be given at least thirty (30) days advance notice if payments must be increased. The Sub-servicer must provide the Mortgagor with an annual statement detailing all transactions affecting their escrow account. The results of the analysis must be disclosed in the annual statement to the Mortgagor in accordance with RESPA and any applicable state and federal laws.

6. Certifying Payment of Escrow Expenses – The Sub-servicer will be asked to certify to DHCD at the end of each year that all bills payable from the escrow account have been paid. Additionally, the certification must state that there are no unpaid real estate tax bills on any mortgaged property serviced for DHCD, including loans in foreclosure. Exceptions, if any, must be listed in detail (see Appendix A2 for certification form).

I. Hazard Insurance Coverage – All Loans

1. General Requirements - The eligible residence securing any mortgage loan must be covered by hazard insurance meeting the following requirements:

- The coverage shall include all fire and extended coverage risks customarily insured against within the geographical area in which the property is located. The policy shall provide extended coverage on a replacement cost basis in an amount equal to the original principal balance of the mortgage loan or full replacement cost coverage, whichever is less.
- Hazard insurance must be in effect on the date of closing of the mortgage loan and remain in effect as long as the mortgage is in effect.
- Sub-servicers are required to have copies of the current hazard insurance policy or declarations page in the loan file.
- Insurance policies shall be sufficient in amount and scope of coverage to meet the requirements of the Mortgage Insurer/Guarantor.
- Policies containing a deductible clause up to guidelines issued by Fannie Mae are applicable to either fire or extended coverage, or both, are acceptable.
- Each hazard insurance policy must be written by an insurance company which has an A. M. Best's Policyholder Rating of "B" or better and a Best's Financial Category Rating of Class VI or better (as described in Best's Key Rating Guide), and which is licensed or authorized by law to transact business within the State of Maryland.

- All policies of hazard insurance must contain or have attached the standard mortgagee clause:

Bond Loans - naming the Sub-servicer and/or "Maryland Community Development Administration, its successors and assigns, as their interests may appear" as mortgagee. The mortgagee clause must provide that the insurance carrier shall notify the first mortgagee named at least 10 days in advance of the effective date of the reduction in or cancellation of the policy.

State Loans - "Maryland Dept. of Housing and Community Development, its successors and assigns, as their interests may appear" as mortgagee for all State Loans. The mortgagee clause must provide that the insurance carrier shall notify the mortgagee named at least 10 days in advance of the effective date of the reduction in or cancellation of the policy.

It is the Sub-servicer's responsibility (i) to cause each insurance policy to be properly endorsed to the Sub-servicer, (ii) to give any necessary notices of transfer in order to fully protect, under the terms of the policy and applicable law, DHCD's interest as first mortgagee and (iii) to cause all insurance drafts, notices, policies, invoices, and other documents to be delivered directly to the Sub-servicer, regardless of the manner in which the mortgagee clause is endorsed. DHCD's address as loss payee should be in care of Sub-servicer, at Sub-servicer's address, to ensure proper notification. Sub-servicers acquiring DHCD loans through a transfer of servicing must have in place appropriate procedures for performing due diligence with respect to hazard insurance coverage.

2. Condominium Hazard Policies-When a DHCD mortgage is covered by a master or blanket policy, the Sub-servicer must:

- Ensure that the coverage adequately protects DHCD's interests
- Maintain a current certificate of insurance for each unit which meets the minimum standards as set forth above

Certificates which have no fixed expiration date (i.e. "continuous') are acceptable only if the Sub-servicer maintains a copy of the current master or blanket policy with a fixed expiration date.

3. Notice of vacancy - When a property becomes vacant, the Sub-servicer shall add the proper endorsement to change a homeowner's policy to a fire and extended coverage policy, or obtain forced place coverage in the amount of the outstanding principal balance, sufficient to meet all Mortgage Insurer/Guarantors requirements.

4. Failure to Maintain Insurance – Any failure to maintain hazard insurance will be considered a default of the Servicing Agreement. The Sub-servicer must immediately contact the Mortgagor on any notice of lapse of coverage. Sub-servicers are also expected to obtain forced place coverage, if necessary, in the amount of the outstanding principal balance and sufficient to meet all Mortgage Insurer/Guarantors requirements. The deductible for force place coverage shall be determine by Fannie Mae's current guidelines.

5. Notice of property damage on current loans - The Sub-servicer shall promptly notify DHCD in writing using FNMA Form 176 - Report of Hazard Loss of any loss, vandalism, damage by fire, disrepair or damage from any other cause to the mortgaged premises in excess of $10,000. The Sub-servicer may not make any agreement with respect to the restoration of the property as the result of any loss or damage without the written consent of DHCD Single Family Collections.

6. Hazard claims – If the Mortgagor does not file a hazard claim within 5 business days from notification of property damage, the Sub-servicer should automatically file claims under the hazard insurance policy. The Sub-servicer must file a hazard insurance claim in all instances of damaged property and let the hazard insurance company evaluate for coverage. The Sub-servicer shall use its best efforts to assist in the collection of the proceeds of such policies with respect to all losses which may occur. The Sub-servicer shall supervise all repairs if so instructed by DHCD Single Family Collections and protect the interest of DHCD as mortgagee. Single Family Collections must be notified of any hazard loss resulting in a claim of $5,000.00 or more. Sub-servicer is responsible for:

a. If the loan is current, the Sub-servicer must:

- File a hazard insurance claim within 10 days of notification of damages
- Collect, endorse and disburse the insurance loss proceeds
- Verify that the contractor is duly licensed, qualified & experienced
- Review the estimate to determine that the described repairs are generally consistent with the damage reported on the proof of loss statement
- Establish a reasonable schedule for completion of each phase of repair
- Confirm that the Mortgagor and contractor have an executed contract. The contract must state the contractor will perform the work described in the plans & specifications and that the contractor will comply with applicable codes and regulations
- If the contractor requests an advance, Sub-servicer has authority to approve the request using normal industry standards for advance and draw schedules

- Inspect the property for the status of the repairs prior to issuing draws, with the exception of the deposit or first draw
- Obtain a letter from the Mortgagor stating the repairs have been completed in a satisfactory manner
- Provide written confirmation to DHCD that repairs have been completed and all payments made
- Ensure the security of the loan is not impaired
- Ensure the priority of our lien
- Sub-servicer should be named as mortgagee on all drafts
- Comply with all FHA, VA, RHS, MHF, or Mortgage Insurer/Guarantor requirements for hazard claims and repairs.
- If restoration or repair is not economically feasible or if the security of the Deed of Trust would be impaired, DHCD may elect to have the insurance proceeds applied against the outstanding mortgage balance secured by this Deed of Trust. The excess, if any, would be paid to the Mortgagor.

b. If the loan is 30 or more days delinquent, in addition to the above requirements, the Sub-servicer must:

- Ensure any proceeds that remain after the completion of the repairs are not sent to the Mortgagor until the loan is current
- Notify DHCD Single Family Collections when the hazard claim has been filed
- Forward copies to DHCD Single Family Collections of any notice of payment or claim denial

c. If the loan is in foreclosure:

- Any hazard funds received must be taken into consideration when preparing the bid for the sale, unless the funds are used to repair the property. Failure to do so may infringe on DHCD's ability to collect hazard proceeds and/or mortgage insurance claims.
- If the property is vacant and damaged, Sub-servicer is required to take action to keep the property from sustaining additional damage in accordance with Mortgage Insurer/Guarantor guidelines. For uninsured loans, follow FHA guidelines.
- DHCD expects the hazard claim to be settled and to receive the loss statement within 45 business days of discovery of the damage
- Once the loan has foreclosed, the Mortgage Insurer/Guarantor will decide as to the disposition of the hazard proceeds

d. If the loan has already foreclosed:

- If the property is vacant, Sub-servicer is required to take action to keep the property from sustaining more damage

- DHCD expects the hazard claim to be settled and to receive the loss statement within 45-60 business days from discovery of the damage for force place coverage and 60 – 90 days for other insurance carriers
- It will be the Mortgagor Insurer's/Guarantor's decision as to the disposition of the hazard proceeds.

Any hazard proceeds to be forwarded to DHCD are to be mailed to either: (a) MMP loans – CDA Finance Department – Maryland Dept. of Housing and Community Development, P.O. Box 2524 Landover Hills, MD 20784 or (b) State funded loansDHCD Finance, Central Cashier – Maryland Dept. of Housing and Community Development, P.O. Box 2521 Landover Hills, MD 20784.

7. Denied or Contested Hazard Claims - DHCD must be notified in writing of any contested claims within 5 business days of discovery. It is the Sub-servicer's responsibility to resolve such issues while following the Mortgage Insurer/Guarantor guidelines. The Sub-servicer may not enter into or incur legal expenses for litigation regarding a denied or contested claim without expressed written consent of DHCD.

8. Uninsured Hazard Losses - If the hazard insurance company notifies the Sub-servicer that a loss is not covered by insurance, the Sub-servicer must take the following action to protect DHCD's interest:

- Within 48 hours ascertain the extent of damage to the property
- Secure the property and take any other action necessary to protect the abandoned property from vandalism and the elements
- Forward a written property condition report to DHCD
- Counsel Mortgagors on any available disaster relief programs, discuss loss mitigation options, and refer the Mortgagors to a HUD approved housing counseling agency for assistance.
- Follow all requirements of Mortgage Insurer/Guarantor

If a hazard claim is denied, the property is not covered by hazard insurance or force place coverage due to Sub-servicer negligence, Sub-servicer may be required to repurchase the loan or indemnify DHCD for any loss incurred. This does not include any loan where hazard insurance was not required to be escrowed at loan closing or subsequent to loan closing.

J. Flood Insurance Coverage

Sub-servicers are required to maintain adequate flood insurance coverage when the improved portion of a property is located in a special flood hazard area as defined by the Federal Emergency Management Agency and the National Flood Insurance Act. The coverage must comply with all applicable FHA, VA, RHS, MHF, and private Mortgage Insurer/Guarantor's flood insurance requirements. Sub-servicers acquiring DHCD loans through a transfer of servicing must have in

place appropriate procedures for performing due diligence with respect to flood insurance coverage and monitoring of changes in flood maps and community designations.

K. Mortgage Insurance/Guaranty – Bond loans

1. Mortgage Insurance Cancellation – Mortgagors may request that private mortgage insurance requirements be cancelled and that they be allowed to discontinue paying monthly installments to the escrow account. Regulations governing the bonds that finance MMP loans only permit cancellation of mortgage insurance under the following circumstances:

- **Loans with private mortgage insurance financed under the 1982A bond series** (CDA Series #502) with must have a loan balance equal to or less than 80% of original fair market value. Fair market value is defined as the lesser of the original sales price, not including settlement costs, or appraised value.
- **Loans insured through Maryland Housing Fund prior to January 1, 1998** must have a loan balance less than 75% of the original principal loan amount. In all cases, current appreciation in property value does not count in the determination of cancellation.
- **Under the Homeowners Protection Act of 1998, private mortgage insurance for a loan originated on or after July 29, 1999**, that is secured by the borrower's one-family principal residence will be cancelled at the borrower's request when the loan-to-value ratio (LTV) reaches 80% based on the value of the home at loan origination or the principal balance is 80% of the original appraisal in order to have private mortgage insurance cancelled at this point, the borrower must have a good payment history, have no other loans taken out on your home, and any other requirements of the mortgage insurer. **Loans insured through private mortgage insurance companies or through the Maryland Housing Fund made after January 1, 2005,** in addition to termination and cancellation rights available to the borrower under the Homeowners Protection Act, DHCD also permits a borrower to request cancellation of, provided that: (1) the loan balance is 75% or less of the current value of the home as established by a new appraisal acceptable to DHCD; (2) none of the borrower's payments were 30 days or more past due within the 12-month period before the mortgage insurance will be cancelled; (3) none of the borrower's payments were 60 days or more past due during the 24-month period before the mortgage insurance will be cancelled; and (4) the loan is between two and five years old. If the loan is more than five years old, the loan balance may be 80% (instead of 75%) or less of the current value of the home as established by a new appraisal acceptable to

DHCD; conditions (2) and (3) also apply. If the borrower does not request private mortgage insurance cancellation, the Sub-servicer must automatically cancel private mortgage insurance on these loans when the LTV is scheduled to reach 78 percent, based on the value of the home at loan origination, provided that the loan is current at that time.

- Sub-servicer is to comply with all private mortgage insurance companies, VA, FHA, and RHS guidelines with respect to mortgage insurance cancelation requests. No cancellation of government mortgage insurance coverage is allowed on CDA loans.

Using the above formulas, Sub-servicers should be able to advise Mortgagors when they inquire about mortgage insurance cancellation. If the Sub-servicer thinks that a Mortgagor meets the qualifications, a cover letter from the Sub-servicer with contact name, address, phone/fax numbers and a copy of the Mortgagor's cancellation request letter should be sent to DHCD Compliance section along with a loan payment history covering the past two years. DHCD has the right to refuse cancellation of mortgage insurance, regardless of principal balance, due to poor payment history.

2. Homeowners Protection Act of 1998 - You are required to send annual written disclosures to the Mortgagor outlining the Mortgagors rights under the Homeowners Protection Act of 1998 related to cancellation or termination of private mortgage insurance. This act provides for termination of private mortgage insurance for certain loans closed on or after July 29, 1999. This Act does not apply to loans insured by FHA, VA, or RHS. (See attachment--Form C10 Homeowner's Protection Act Disclosure sample disclosure)

3. Lapse in mortgage insurance coverage - If the mortgage insurance on any loan lapses, is cancelled, or is reduced as a result of Sub-servicer's error, the Sub-servicer shall repurchase the loan within 10 days of notice from DHCD.

L. Real Property Taxes – All loans

The Sub-servicer will be expected to know the real property tax procedures in each tax jurisdiction. The dates on which taxes are due, the procedure for obtaining bills, the location of the tax office or tax collector's office and the penalty dates must be thoroughly researched by the Sub-servicer's staff members who are responsible for payment of escrow bills. A tax record is to be established for each property and for each tax bill assigned to the property. Special attention must be paid to new accounts to ensure that an accounting is conducted for all bills noted on the settlement sheet. Procedures for the payment of partial bills and half-year levies must be followed carefully on each account where applicable. Sub-servicers acquiring DHCD loans through a transfer of

servicing must have in place appropriate procedures for performing due diligence to insure the real estate tax bills due are paid.

1. Tax Bills – Mortgagors are expected to forward their tax bills to the Sub-servicer for payment. Sub-servicers are expected to pay the bills as soon as they are received. Mortgagors should not be charged for penalties resulting from a Sub-servicer's failure to act in a timely fashion. Failure by the Mortgagor to forward a tax bill does not relieve the Sub-servicer of the responsibility to make sure all property taxes are paid. Every effort must be made to obtain a copy of the tax bill and to have it paid from the Mortgagor's escrow funds or monies advanced by the Sub-servicer. The cost of any penalty incurred for late payment will be incurred by the Sub-servicer.

2. Tax Sales or assessments – The Sub-servicer shall promptly pay all taxes and assessments affecting DHCD mortgage loans before any penalty date; however, **Sub-servicers should obtain DHCD approval before paying any taxes, tax sales, or assessments if our mortgage is in a junior lien position, unless the loan was set up originally to pay taxes and other escrow expenses. Sub-servicers should seek DHCD approval before paying any taxes, tax sales, or assessments over $3,000 for all loan programs.** Tax sale listings from each tax jurisdiction should be obtained as soon as they are published. The tax sale list should be checked against the Sub-servicer's property address file to ensure that a tax bill for a mortgaged property has not gone unpaid. A small unpaid tax bill or a misapplied payment can cause a property to be listed at a tax sale. Sub-servicers are expected to obtain any missing tax bills and pay any delinquent tax bills in order to protect the mortgage. Responsibility for the payment of penalties or other charges may be established after the bill is paid. Any costs incurred by DHCD due to late payment of taxes will be passed on to the Sub-servicer.

M. Soldier's & Sailor's Civil Relief Act

Under the Soldier's & Sailor's Civil Relief Act of 1940 as amended, Mortgagors who are **called to active duty** may have the interest rates on their mortgages reduced to 6.0% and any foreclosure proceedings may have to be suspended. The law applies to persons in the Army, Navy, Air Force, Marines and Coast Guard including various related Reserve units. If any DHCD Mortgagor wants to invoke this Act and have the interest rate on their loan reduced to 6% or have foreclosure proceedings halted, they must submit a written request to the Sub-servicer along with a copy of their military orders. It is the Sub-servicer's responsibility to obtain necessary documentation to determine the eligibility of any Mortgagor seeking relief under this Act. A follow-up procedure must be established to learn when Mortgagors are released from service and are no longer covered by this Act. DHCD is not requiring any Mortgagor who may be eligible for relief to prove financial hardship. Although Mortgagors have the responsibility to make a written request for relief under this Act, Sub-servicers are responsible to follow up on any indications should they become aware of a

Mortgagor who might be covered under this Act. Sub-servicers are to report loan adjustments using Form MMP10 Soldiers and Sailors Civil Relief Act Notice of Interest Rate Change (see Appendix B) and include it in the monthly ABS report to CDA Finance (Refer to *Section 4 – Reporting and Remittance Requirements Subsection C. Reports and Remittances to CDA Finance*).

N. Annual Statements – All loans

The Sub-servicer shall provide the Mortgagor, without charge, an annual statement at year end with the outstanding principal balance and list the amount of interest paid, taxes paid, and insurance premiums paid during the year by the Sub-servicer on behalf of the Mortgagor.

O. Modification, waiver, release – All loans

The Sub-servicer shall not modify, waive, or release any term of any mortgage, accept any prepayment, or consent to any postponement of performance by the Mortgagor of any obligation under a mortgage, except as authorized in accordance with the provisions of the Servicing Agreement or this Manual.

P. Non Occupancy of Mortgaged Property – All loans

The Sub-servicer must promptly provide DHCD with any information that may have an effect on the Administration's security with respect to each mortgage being serviced. DHCD mortgages were made with the specific purpose of helping low and moderate income people become homeowners. In order to ensure that this purpose is properly fulfilled, several special terms were included in the Deeds of Trust.

It is the Sub-servicer's responsibility to assure compliance with these special terms and to communicate with the Mortgagor if a violation of these terms is suspected. Sub-servicers should be familiar with the requirements of all terms of the Deed of Trust. However, special attention should be given to the handling of the issues covered in the sections to follow.

The Sub-servicer will provide the DHCD Compliance Section with a monthly report which will identify all MMP and MHFP loans in their portfolio with a mailing address which differs from the property address.

1. DHCD/CDA Approval for Non Occupancy - One of the important requirements of all DHCD Loans is that financed properties must serve as principal residences of the Mortgagors. Mortgagors are expected to occupy the property at all times and there are restrictions in the Deed of Trust on leasing, subletting or otherwise using the property for investment purposes.

DHCD may grant a waiver to this requirement, but only upon written request from the Mortgagor and only for a temporary period of time. Sub-servicers should advise Mortgagors seeking such a waiver that requests will only be considered if they fall into one of the following categories:

- **Temporary Job/School Relocation** - Occasionally Mortgagor's employers may require a move to another location for long periods of time, but not necessarily permanently. Mortgagors also sometimes pursue educational opportunities that require them to move. Requests for permission to rent the property under these circumstances must be accompanied by a letter from the Mortgagor's employer explaining the nature and duration of the assignment. If it is a military assignment, a copy of the military orders must be provided. In the case of returning to school, evidence of enrollment is needed.

- **Listing for Sale** - Mortgagors sometimes have changes in their personal lives (marriage, divorce, children etc.) that necessitate moving. In these cases, it will be necessary to list the property for sale. Requests for permission to rent the property under these circumstances must be accompanied by a sales listing agreement and/or any sales Servicing Agreement as well as an explanation of why a move from the property is necessary.

- **Inability to Sell** - Mortgagors sometimes have changes in their personal lives that **necessitate** moving, but could not sell the property without taking a substantial monetary loss. Requests for permission to rent under these circumstances must be accompanied by a Real Estate Market Analysis and Closing Cost Estimate showing the loss the Mortgagor would suffer by selling at this time.

- **Financial Hardship** - Permission to temporarily rent the property may be considered if the Mortgagor is unable to meet monthly mortgage obligations because of financial problems. Requests to rent the property under these conditions must be accompanied by documentation of the Mortgagor's financial situation and a copy of the proposed rental agreement.

2. Requests for Permission to Rent - Sub-servicers will receive all requests and forward all documentation supporting the request to DHCD's Compliance section. DHCD will respond directly to the Mortgagor but advise the Sub-servicer of the decision. Temporary permission to rent will only be granted for a limited period of time, depending on the circumstances, and Mortgagors may request extensions once the initial period has expired.

3. Notice of Non-Occupancy - Sub-servicers should notify DHCD of any circumstances indicating that the Mortgagor has failed to move into the property within 60 days after closing. If a Mortgagor occupying the property gives notice that the Mortgagor intends to move from the property or has already done so, Sub-servicers should refer the notice to DHCD's Compliance Section immediately upon receipt of any notification.

The Sub-servicer is to advise Mortgagors that renting their home may effect Mortgage Insurer/Guarantor's treatment or acceptance of loss mitigation such as partial claim, pre-foreclosure sale, deed in lieu of foreclosure, or loan modification if they subsequently default on their loan.

Additionally, the Sub-servicer will not change the mailing address on any MMP or MHFP loan "in care of" a Management or Rental Company without the prior written approval of the DHCD Compliance Section.

Q. Second Lien Requests – All loans

Some Deeds of Trust require DHCD's permission to be obtained before any subordinate lien can be placed against the mortgaged property. However, DHCD will no longer require enforcement of this clause in the loan documents. Mortgagors and lenders should be advised by the Sub-servicer that permission to place a second mortgage is not required.

R. Loan Assumptions

No loan assumption request will be considered when a loan is delinquent. The loan must be current, including the current months' payment, prior to the Sub-servicer accepting a loan assumption request.

1. Bond Loans assumptions (with monetary consideration) - All loans that are part of DHCD's Maryland Mortgage Program are assumable, even if the original loan documents prohibited them but only if the assuming borrower and the property meet all the Program requirements. However, all assumptions must have the prior written approval of DHCD and of the Mortgage Insurer/Guarantor (or the Sub-servicer acting on behalf of the insurer as a direct endorsement lender). A complete application must be taken by the Sub-servicer and sent to DHCD for review prior to any transfer of ownership. Sub-servicers may charge an assumption application fee, up to the maximum permitted by FHA. DHCD also charges a non-refundable fee of $50.00 which must accompany the application when it is sent to our office. In addition, the borrower must execute a Notice to Borrower With Information for Calculating Potential Recapture Tax.

Appendix C, Form C8 is a checklist of documents that must be included in a loan assumption package sent to DHCD's Compliance section. The form should be completed by the Sub-servicer's loan processor and sent as a cover to the

application. For loans which are insured by FHA, RHS, VA, or a private mortgage insurance company, the application must include evidence that the assumption meets the Mortgage Insurer/Guarantor's requirements. For loans which are insured by MHF, the application should be submitted to DHCD Compliance first for both MHF approval and DHCD approval.

All applicants for assumption must qualify as an eligible borrower under the current rules governing DHCD's program as they exist at the time of application. Sub-servicers who participate as originating lenders for DHCD's program will receive regular updates on changes. Other Sub-servicers should contact DHCD Compliance Section on 301-429-7642 for an update prior to taking an application. In addition to standard underwriting criteria, DHCD's program has the following special limitations:

- Income Eligibility - DHCD applicants must be low and moderate income, the definition of which is based on the median income in the State of Maryland.

- First Time Homebuyer - For properties located in certain parts of Maryland, the borrower cannot have owned other real property for at least the past three years.

- Maximum Sales Price - There are limitations on the sales price of homes financed by DHCD which vary by State regions.

- Conventional Test Rate – An applicant seeking DHCD financing must be unable to obtain conventional bank financing. This is determined by whether or not the applicant has monetary assets sufficient to make a down payment of twenty per cent (20%) of the sales price. If the applicant has that amount, his or her ability to qualify for a regular loan at conventional interest rates must be tested.

- Owner Occupancy - Purchasers must occupy the property as their principal place of residence for the remainder of the mortgage term.

Upon approving an assumption, DHCD will send a letter which lists the documents that the Sub-servicer must receive and review prior to closing along with DHCD's Addendum to the Deed. The Sub-servicer should send DHCD's Addendum to the Deed and a letter of closing instructions (Appendix C, Form C9) to the attorney or title agent handling the settlement.

2. Bond Loan assumptions (without monetary consideration) **-** Please contact the Compliance Section on 301-429-7642 to obtain information on documents and procedures.

3. State Loan assumptions (with or without monetary consideration) - Please contact the Compliance Section on 301-429-7642 to obtain information on documents and procedures. Terms for the assumed loan (such as rate of interest charged) may be changed depending on loan program, loan documents, and new borrower's current income. Assumptions may be denied if the borrower's income is too high.

S. Adding a Party to a Mortgage, Removal of a Party from a Mortgage or Transferring interest to a child – All loans

Please contact the Compliance Section on 301-429-7642 to obtain information on documents and procedures.

T. Partial Release of Security – All loans

All partial releases must have the prior written approval of both DHCD and the Mortgage Insurer/Guarantor. The Sub-servicer shall submit what is required directly to the Mortgage Insurer/Guarantor and send a copy of the submission to DHCD. The Sub-servicer shall then notify DHCD of the Mortgage Insurer/Guarantor's decision and forward the release documents to DHCD for execution. DHCD charges $50.00 for processing such releases. Please contact the Compliance Section on 301-429-7642 to obtain information on documents and procedures.

U. SUBORDINATION INSTRUCTIONS – State loans in junior lien position only contact DHCD Compliance Section at (301) 429-7642.

1. Deferred Loans - DHCD will not permit subordination of deferred loans when the applicant is requesting the payoff of unsecured debt(s) be included in the refinance. In such instances the deferred debt must be paid off.

DHCD will consider subordinating to the refinance of superior lien(s) only when the new loan amount does not exceed the amount of the original superior lien(s). To request approval of these refinances DHCD must receive a written request from the applicant to subordinate DHCD's loan that includes the following:

- New loan amount
- Term
- Interest rate
- Monthly payment
- Which lien(s) are to be paid off
- Closing costs

In addition the request should include a copy of the Property Appraisal, DHCD's Note and Deed of Trust (with a legible Liber/Folio number) and a check, made payable to DHCD, for the $50.00 non-refundable application fee, unless DHCD's loan was made from the SHRP, STAR or HOME programs. These programs are exempted from the application fee.

2. Forgiven Loans - DHCD will consider subordination of forgiven loans. To request approval of the subordination, DHCD must receive a written request from the applicant for the subordination of DHCD's loan that includes the following:

- New loan amount
- Term
- Interest rate
- Monthly payment
- Which lien(s) are to be paid off
- Closing costs
- Which debts and what amounts are to be paid off
- What settlement costs and expenses are to be paid

Please note that DHCD **will not** agree to subordinate to transactions that provide cash to the borrower. A list of the current and proposed lender's name, position and dollar amount (original and current principal balance) for each mortgage must be provided.

In addition, the request should include a copy of the Property Appraisal, DHCD's Note and Deed of Trust (with a legible Liber/Folio number) and a check, made payable to DHCD, for the $50.00 non-refundable application fee, unless DHCD's loan was made from the SHRP, STAR or HOME programs. These programs are exempted from the application fee.

3. Amortized Loans (Principal and Interest payments) - DHCD will consider subordination of amortized loans. To request approval of the subordination, DHCD must receive the following information. (Incomplete packages will be returned.)

A written request from the applicant to subordinate DHCD's loan that includes the following:

- New loan amount
- Term
- Interest rate
- Monthly payment
- Which lien(s) are to be paid off
- Closing costs
- Which debts and what amounts are to be paid off
- What settlement costs and expenses are to be paid

- A Complete Appraisal (Fannie Mae, Freddie Mac approved) done within the past 90 days. The only exception is refinance of an existing loan that does not increase the debt to which we are already subordinate.
- Completed and Executed Loan Application.
- Credit Report as defined by FNMA, FHLMC and FHA/VA guidelines.
- VOE's (Paystubs and W2's)
- Current Property and Judgment Report and/or Title Search (not a title insurance commitment/binder).
- Copy of Note and Deed of Trust with the Liber/Folio number at the top of the first page.
- A check, made payable to DHCD, for the $50.00 non-refundable application fee, unless DHCD's loan was made from the SHRP, STAR or HOME programs. These programs are exempted from the application fee $50.00 non-refundable processing fee. Make check payable to DHCD.

Please note that DHCD **will not** agree to subordinate to transactions that provide cash to the borrower. A list of the current and proposed lender's name, position and dollar amount (original and current principal balance) for each mortgage must be provided.

4. Interest Only/Escrow Only loans - Please see instructions for the deferred loans.

V. Deceased Mortgagor Policy – All loans

In the event all the original Mortgagors are deceased, DHCD will follow the Federal Garn St. Germain Act which allows ***owner occupant relatives who are heirs*** to retain the property inherited under the existing loan terms without having to assume, payoff, or refinance the existing mortgage (please note the Maryland Home Financing Program loans will still be subject to income reviews every 5 years which may result in higher interest rates and higher monthly payments). ***Garn St. Germain does not pertain to non-owner occupied properties.*** Upon notification of the death of sole or remaining Mortgagor, DHCD will require the Sub-servicer to obtain:

- Copy of the death certificate(s)
- Verification that an Estate has been opened
- Copy of the Will, if available
- Identity of the personal representative(s) of the Estate
- Forced place insurance coverage or written confirmation from the deceased Mortgagor's hazard insurance company that DHCD is still covered under the policy as mortgagee.
- Notify the heir/occupant of forced place insurance and conditions for cancellation.

1. Original Mortgagor(s) are deceased and a relative heir obtains ownership to the property. Once the personal representative has been identified, Sub-servicer will coordinate payments or disposition of the property with the personal representative. A formal assumption is not required if the Sub-servicer has determined the new owner is a legal heir. When the Estate is settled, and the property has been deeded to a new owner, DHCD will require the Sub-servicer to obtain:

- Deed transferring ownership of the property.
- Confirmation the new owner is an heir.
- Confirmation the new owner is occupying the property as their primary residence.
- Change Sub-servicer records to reflect the new owner of the property.
- Notify DHCD of the change in ownership and forward copies of all documentation.
- Obtain a copy of new owner's homeowner's insurance policy and cancel forced place coverage.
- Affidavit signed by new owner – MMP Program only.
- Recapture Tax Notice signed by new owner – MMP Program only.

2. Original Mortgagor(s) are deceased and an Estate is not opened – Sub-servicer is required to obtain force place coverage. Sub-servicer may cancel force place coverage only when heir provides a deed as proof of ownership and a homeowner's insurance policy in his name with CDA or DHCD as mortgagee or the hazard insurance company confirms DHCD is still covered under the original policy. The Sub-servicer is to contact DHCD Compliance for further instructions.

a. Loan remains paid current. DHCD does not require the Sub-servicer to take any action other than to request the relative/occupant provide a copy of the death certificate, verification that Estate has been opened and identify of the personal representative. If the relative/occupant does not comply, Sub-servicer is to continue accepting payments.

b. Loan becomes delinquent. Unless the relative/occupant verifies an Estate is being opened and they are named as Personal Representative or provides documentation of ownership to the property, Sub-servicer is not allowed to enter into any loss mitigation or repayment plan. The only option for the relative/occupant is reinstatement. If the relative subsequently provides documentation of an Estate or deed which documents he owns the property, Sub-servicer may offer any loss mitigation options appropriate subject to Mortgage Insurer/Guarantor guidelines. If the relative/occupant is unable to provide documentation to allow Sub-servicer to offer loss mitigation or does not bring the loan current, Sub-servicer is to recommend foreclosure to DHCD.

- **Original Mortgagor(s) are deceased and the Estate transfers or otherwise sells the property to a new owner who is not a relative of the deceased Mortgagor.** Sub-servicer is to obtain forced place coverage until the new owner provides a copy of their homeowner's insurance policy. If the new owner is not a relative, the new owner must apply to DHCD for approval of an assumption of our loan. Sub-servicer is to follow instructions in this Manual under *Section 3 - R. Loan Assumptions*. If the new owner is ineligible for a loan assumption, DHCD may grant reasonable time for the new owner to sell, refinance, or otherwise pay off the loan. Otherwise, DHCD may exercise its rights under the Deed of Trust and initiate foreclosure legal action.

W. Servicing Bond Loans with Interest-Only payments

1. Once a year on the anniversary of the loan closing date, the Sub-servicer is to send "Annual Statement of Current and Future Monthly Payments" letter. See The DHCD Single Family Servicing Manual Appendix, Form C-12.
2. Six months prior to the date the monthly mortgage payment changes from interest-only payments to principal and interest payments, the Sub-servicer will send a letter notifying the mortgagor of the upcoming changes to the monthly mortgage payment. This letter should include an estimate of the new principal and interest payment based on the current principal balance and inform the mortgagor the actual new payment will be based on the principal balance of the loan 3 months prior to the payment reset date.
3. Three months prior to the date the payment schedule on the loan changes from interest only to principal and interest payments, send a letter notifying the mortgagor of the new payment amount and date for the principal and interest payments. The monthly payment of principal and interest will be calculated using the principal balance 3 months prior to the payment change instead of the original principal balance.

SECTION 4 – REPORTING AND REMITTANCE REQUIREMENTS

A. Information Technology Requirements

The Sub-servicer will provide reports or data as required by DHCD during the Servicing Agreement term. The format, medium, and delivery method for all required reports and data will be at the discretion of DHCD. The following sections generally describe our current data and report requirements.

1. Bond Loans & State MHFP Loans - Loan Portfolio Data Transmission - Currently, loan Sub-servicers are required to electronically submit exception-based data on the loan portfolio to DHCD. The electronic data supplied to DHCD is an ASCII data file (see Appendix B, Form MMP11). The ASCII file must be delivered to the following DHCD email account as an email attachment by the specified deadline: dchdservicers@dhcd.state.md.us.

The software applications currently used to manage the Bond Loan portfolio and process the data (collectively known as "AOD Single Family System") have recently been rewritten as windows-based applications. Enhancements or changes to the ALICE applications over the term of the Servicing Agreement may necessitate changes to the loan portfolio data transmission, and the Sub-servicer will be expected to make any necessary changes by the specified deadline and at no cost to DHCD.

2. State Loans - **Loan Portfolio Data Submission –** – this is currently done by electronic reports. See *#4 Communication Methods* for further information.

3. Word Processing and Spreadsheet Data Transmission - DHCD is currently running Microsoft Office 97 under Windows 95, Windows 98, and Windows 2000. Migration to Office XP and Windows XP is planned for calendar year 2003. Any word processing or spreadsheet files created and transmitted to DHCD must be in a compatible format. It is the Sub-servicer's responsibility to remain compatible with DHCD software, as it exists now or in the future, throughout the term of the Servicing Agreement and at no cost to DHCD.

4. Communication Methods - It is the Sub-servicer's responsibility to submit all required data and reports through the form of communication established by DHCD at no cost to DHCD. The standard methods used by DHCD currently are hardcopy reports or electronic files sent as an email attachment or on diskette. Future methods of communication could include, but are not limited to: secure FTP or alternative Internet access. It is the Sub-servicer's responsibility to remain compatible with DHCD communication methods, as they exist now or in the future, throughout the term of the Servicing Agreement and at no cost to DHCD.

5. Transmission Security - When electronically transmitting required reports or data, the Sub-servicer must comply with DHCD's established remote communication security and privacy policies-see Appendix F – DHCD Communication Security and Privacy Policies. The Sub-servicer must secure any files transmitted via the Internet. If encryption software is necessary to ensure protection of sensitive data, the Sub-servicer will be required to supply such software at no cost to DHCD.

6. Data Fields - Sub-servicer must maintain a loan servicing system/database that contains fields and processes to perform all of the services outlined in the Servicing Agreement and this Manual. Changes to DHCD data or reporting requirements may necessitate the Sub-servicer adding or modifying data fields in their loan servicing system/database at no cost to DHCD. The report formats included in this Manual reflect current data field requirements. However, there are enhancements underway to the AOD Single Family System applications that will expand the necessary data fields and reporting requirements. The additional data fields/reporting requirements being added at this time include, but are not limited to: FNMA/FHA delinquency status, FNMA/FHA delinquency reason, and FNMA/FHA property occupancy code.

7. Changes to Data Maintenance and Reporting Requirements - It is possible that DHCD's data maintenance and reporting needs as outlined in the Servicing Agreement and this Manual may change over the term of the Servicing Agreement. It will be the responsibility of the Sub-servicer to comply with the requested changes by the specified deadline and at no cost to DHCD.

B. DHCD Monthly Delinquency Reports to Single Family Collections

1. Bond Loan Delinquency Report - Sub-servicers are required to send a monthly delinquency report to DHCD's Single Family Collections section reflecting status of the loan as of the last day of the month. The report must be received no later than the 10th day of the next month. All loans 60 days or more delinquent, loans in bankruptcy, loans referred for foreclosure legal action, foreclosed loans and loans pending payment of mortgage insurance claims should be included on the report. Once the Sub-servicer receives a letter from Manager, Single Family Compliance authorizing release of servicing responsibility on a loan, the Sub-servicer is no longer required to include the loan on this report. Reports should be forwarded via Excel spreadsheet and include the following information:

- DHCD's 11 digit loan number.
- Mortgagor name
- Property address
- Mortgage insurance company
- Current principal balance
- Due date

- Last transaction date (or date last payment posted to account)
- Mortgage Insurance Company
- FNMA Default reason code
- FNMA Default status code
- FNMA occupancy code

2. State Loan Delinquency Report – This report includes all loan programs except Maryland Mortgage Program:

a. Statistical Delinquency Report - The requirement for statistical Page 8A is still in effect for all loan programs *other than Bond Loans*. Sub-servicers are to send this report to DHCD's Single Family Collection section by the 10th day of the next month. Loans are to be sorted by loan program. Once a loan has foreclosed, it is not to be included in this report under total number of active loans or any other category. Statistical information for this report is to be separated into the following categories (Form 8A is no longer required):

- Total number of active loans
- Total principal balance of active loans
- Total number of 60 day delinquent loans
- Total number of 90+ day delinquent loans (loans in bankruptcy or where a request for a Motion for Relief of Bankruptcy stay is requested should be included)
- Total number of loans referred for foreclosure legal action.
- Total number of 60 days or more delinquent loans (include 60 day delinquent, 90+ delinquent loans, and loans referred for foreclosure legal action, exclude any loans already foreclosed)
- Total principal balance of all loans 60 days or more delinquent (include 60 day delinquent, 90+ delinquent loans, and loan in legal action, exclude any loans foreclosed)
- Delinquency rate for loans 60 days or more delinquent (Total number of loans 60 days or more delinquent divided by total number of active loans)
- Once a loan has foreclosed, it should not be included in the statistical report but must be included in the report of the status of individual loans (b. below).

b. Report of individual loans 60 days of more delinquent - Sub-servicers are required to report individual loans as outlined in *Subsection B. 1. DHCD Monthly Delinquency Report for Bond Loans*, above. The Sub-servicer will also report foreclosed loans until they receive a letter from Manager, Single Family Collections authorizing release of servicing responsibility.

3. Non-DHCD investor loans that are Maryland Housing Fund Insured
Sub-servicers should forward their monthly delinquency report for the Maryland

Housing Fund insured, non-DHCD investor loan portfolio to the attention to Single Family Compliance.

C. Reports for Mortgage Insurer/Guarantors – All loans

Sub-servicers are responsible for complying with the reporting requirements of all primary Mortgage Insurer/Guarantors/guarantors. DHCD is responsible for any pool insurance reporting requirements. If mortgage insurance is canceled or a claim is not paid because of Sub-servicer's failure to report delinquencies, then the Sub-servicer will be required to repurchase the loan.

D. Reports and Remittances to CDA Finance Department – Bond Loans only.

Payments collected on Bond Loans must be remitted by Sub-servicers to the Trustee who is responsible for making debt service payments to CDA bondholders. Each Sub-servicer will be evaluated monthly based upon their performance in remitting money to the trustee within the required time frames and on the accuracy, completeness and timeliness of their reports.

1. Aggregate Exception System Cycle: The CDA Aggregate Exception System (AES) requires the Sub-servicer to submit a separate control (or pool) for each bond series. **Do not** sort each series by interest rate. All loans must be set up in CDA loan number order.

All loan activity MUST be reported in order, using CDA'S eleven-digit loan number. The eleven-digit loan number consists of three parts. The parts indicate the series, originator, and individual loan number assigned by our computer system.
Example:

- **Bond Series-** 1984 Second has a series code of 069. The bond series may be alpha/numeric.
- **Originator-** ABC Savings & Loan has originator code of 999.
- **Loan Purchased-** John Doe has a code of 00001. Therefore, CDA'S loan number for this loan is 06999900001.

The loan number is listed in three parts on the Detail Purchase Report. All three will be identified as series, originator, and loan number. The Detail Purchase Report (Funding Report) is sent to the Sub-servicer at the time of purchase. **Loan numbers and Mortgagor information should be verified against this report for accuracy at the time each loan is loaded into your system.** If the information supplied by the originator does not agree with that supplied by DHCD, PLEASE CALL YOUR REPRESENTATIVE.

The AES cycle begins on the first day of the month and ends on the last day of the month. Only the activities during that period are to be reported to CDA.

AES Reports are due in the CDA Finance office within five days following the monthly cutoff.
Reports are to be mailed overnight delivery to:

Maryland Department of Housing and Community Development
Community Development Administration
7800 Harkins Road, Room 480
Lanham, Maryland 20706
ATTN: Single Family Reporting Supervisor
CDA Finance

2. Cash Remittance, Reporting and Cutoffs:

- **Remittances** - Monies collected for CDA mortgages must be remitted to the Trustee no later than next business day after the day of receipt. (Use form #MMP01)

- **Loan Paid In Full** - Money collected on loans paid in full **MUST** be mailed or wired by the end of the first business day following payoff. (Use Forms #MMP01 and #MMP09 for mailing/wire instructions)

- **Final Remittance** - A final remittance to close out the current cycle must be remitted to the Trustee within two business days of the monthly cutoff. (Use from #MMP01)

- **Mailing and Wire Instructions**

MAILING INSTRUCTIONS

M&T Bank
Corporate Trust Department
MC #101-591
25 South Charles Street
Baltimore, MD 21201

WIRE INSTRUCTIONS

M & T BANK BUFFALO, NY
One M&T Plaza, Buffalo, NY 14203
ABA # 022 000 046
Account Name: Trust Division
Account #: 3088001950200

A SIGNED COPY OF THE MMP09 AND A COPY OF THE WIRE TRANSMITTAL ARE TO BE MAILED TO:

CDA Finance
7800 Harkins Road, Room 480
Lanham, Maryland 20706

3. Form #MMP01 Summary of Remittance:

PLEASE DO NOT ATTEMPT TO REMIT NEGATIVE TOTALS.

The trustee does not have the authority to withdraw monies previously deposited to an account.

The Sub-servicer is required to complete Form #MMPOl for Payoff and all Remittances.

DO NOT INCLUDE PAYOFF MONEY WITH YOUR PAYMENT REMITTANCE. (See Form #MMPO9 for detailed payoff instructions.)

Remittances for Dual Rate Note series should be made to the original series (example: loans with dual rate notes on the original series 046-1988 March were transferred to two new sub-series; C02-1988 March and C03-1988 March and must be reported as three separate series, however, remittance should be made to the original series 046-1988 March).

- Sub-servicer Number - CDA assigns a three digit numeric computer code to each Sub-servicer. **This code is very IMPORTANT.** All activity is processed and sorted by this code.

- Sub-servicer Name and Address - Include city for positive identification.

- Amount - List the exact amount to be applied, in the space provided, by each bond series.

- Total Remittances - List the total of all columns combined. **The Trustee requires a proof tape be included with remittances.** Check whether "Interim", “Payoff”, or "Final" remittances.

List the cycle and sign. Mailing/wire instructions are given on the MMP01 and as noted below. The Sub-servicer is to mail checks or wire funds along with Form MMP01 for the total remittance to the CDA Trustee:

MAILING INSTRUCTIONS

M&T Bank
Corporate Trust Department
MC #101-591
25 South Charles Street
Baltimore, MD 21201

WIRE INSTRUCTIONS

M & T BANK BUFFALO, NY
One M&T Plaza, Buffalo, NY 14203
ABA # 022 000 046
Account Name: Trust Division
Account #: 3088001950200

A copy of the MMPO1 and a copy of the wire transmittal are to be sent to:
Maryland Department of Housing and Community Development
Community Development Administration

ATTN: CDA Finance
7800 Harkins Road, Room 480
Lanham, Maryland 20706

4. Form #MMP09 - Loan Paid-In-Full Statement:

All information requested on Form #MMP09, is VERY CRITICAL in the processing and the release of the mortgage. So, PLEASE complete all areas of this form carefully (repurchased loans must be reported as paid-in-full).

- **Sub-servicer Number** - This is the three digit computer code assigned by CDA. (Not the originator code unless they are the same) If you are not sure of your computer code, call your representative.

- **Sub-servicer and Address** - Include the city for identification.

- **Series** - List the three character computer code or name of the bond series.

- **Date Payoff Received** - List the date your company received the payoff (This should also agree with the final - "Interest Collected To" date- see *Interest Collected* bullet below).

- **Date Remitted to Trustee** - List the date the payoff wire and Form #MMP09 were sent to the Trustee. (Payoff funds must be wired by the end of the first business day following payoff.)

- **CDA Loan Number** - List the CDA'S 11 digit loan number.

- **Sub-servicer Loan Number, Interest Rate, and Service Fee Rate** - List each.

- **MHF/FHA Insurance Certificate Number** - If applicable.

- **Name and Address** - List the Mortgagor's complete name and address.

- **Paid-To-Date Before Payoff** - This is the due date of the last installment paid by the Mortgagor, prior to payoff.

- **Principal Balance Before Payoff** - This is the current outstanding principal balance. Verify for agreement with DHCD Billing Trial Balance, provided additional activity did not occur after the cutoff.

- **Interest Collected**: From_____ to _____ . "Interest Collected From", will be the due date of the last installment paid by the Mortgagor. "Interest Collected To", will be the date the loan paid off. REMEMBER: DHCD uses a 30 day month and a 360 day year, not actual days. Interest is collected through the day before payoff (or the "Interest Collected To" date).

- **Sub-Total** - List the total principal and interest.

- **Service Fee Earned** - Is calculated as a flat fee per loan per month.

- **Total Remittance To Trustee** - This is the sum of the principal balance, Interest, less service fee.

- **Signature** - The signature is the Sub-servicer's certification that the loan is paid in full and the mortgage should be released.

- **Paid-In-Full Remitting Instructions**

BY THE END OF THE FIRST BUSINESS DAY FOLLOWING THE DAY OF PAYOFF, COMPLETE THE FOLLOWING STEPS:

The Sub-servicer is to mail check or wire funds for the TOTAL PAYOFF amount and transmit Form #MMP09 to:

MAILING INSTRUCTIONS

M&T Bank
Corporate Trust Department
MC #101-591
25 South Charles Street
Baltimore, MD 21201

WIRE INSTRUCTIONS

M & T BANK BUFFALO, NY
One M&T Plaza, Buffalo, NY 14203
ABA # 022 000 046
Account Name: Trust Division
Account #: 3088001950200

A SIGNED COPY OF THE MMP09 AND A COPY OF THE WIRE TRANSMITTAL ARE TO BE MAILED TO:

CDA Finance
7800 Harkins Road, Room 480
Lanham, Maryland 20706

(Please remember to also follow instructions for form MMP01 on all "Payoffs")

5. Form ADJ01- Recap of Daily Remittances: You only need to use this form if any changes (adjustments) have been made to the remittances listed on your electronic file. **DO NOT SEND THIS FORM TO M&T BANK. THIS FORM IS FOR SUB-SERVICER/CDA USE ONLY.**

Loan Portfolio Data Transmission:

Currently, loan Sub-servicers are required to electronically submit exception-based data on the loan portfolio to CDA. The electronic data supplied to CDA is an ASCII data file (see Appendix B, Form MMP11). The ASCII file must conform to the CDA's specifications and layout requirements and must be delivered to a designated DHCD e-mail account as an e-mail attachment by the specified deadline. CDA may change its requirements with regard to the specifications, layout and other file format changes as well as the media of transmission. Such changes can be made at the discretion of CDA and the cost of compliance will remain the responsibility of the Sub-servicer.

Electronic e-mail files or data as required are due to DHCD Information Technology Dept. within five calendar days following the monthly cutoff.

Electronic email files or data are to be mailed to:
dhcdservicers@dhcd.state.md.us**.**

Each Sub-servicer has been sent a packet of Monthly Cash Reconciliation forms to be used when reporting monthly exceptions. Instructions for completing these forms are found on the following pages and copies of the forms are found in Appendix B.

Sub-servicers MUST complete Form #MMP02 (Monthly Cash Reconciliation) and Form #MMP03 (Principal Reconciliation) for each series billed. All summary totals provided by Sub-servicer on Forms #MMP02 and #MMP03 MUST be supported by detailed documentation.

Computer generated reports may be substituted for most CDA forms, PROVIDED all required information is included and the form is an exact duplication of the Manual forms enclosed. **All computer generated reports and Manual forms must be sorted and assembled in bond series order when submitted to CDA Finance.**

These forms must be completed manually:

- MMP01 - Summary of Remittance
- MMP02 - Monthly Cash Reconciliation
- MMP03 - Principal Reconciliation
- MMP04 - (Bottom) Miscellaneous Additions
- MMP05 - (Bottom) Payments Due, But Not Remitted on Loans Purchased, Not Set Up By Sub-servicer
- MMP06 - Miscellaneous Reductions and Loans Removed This Cycle
- MMP09 - Loan Paid-In-Full Statement
- ADJ1 - Recap of Daily Remittances
- MMP10 – Soldiers and Sailors Civil Relief Act

Sub-servicers approved to perform monthly AES reporting via the electronic attachment to e-mail may eliminate all computer generated reports except the collection report and the trial balance for each series. The Sub-servicer must complete the following forms Manually:

- MMPO1 - Summary of Remittance
- MMP04 - (Bottom) Miscellaneous Additions
- MMP05 - (Bottom) Payments Due, But Not Remitted on Loans Purchased, Not Set Up By Sub-servicers
- MMP06 - (Bottom) Loans Removed This Cycle (Foreclosures)
- ADJ1 - Recap of Daily Remittances (adj. made to cash on electronic file)
- MMP10 – Soldiers and Sailors Civil Relief Act

How To Complete Forms for AES Reporting:

6. Form #MMP01 Summary of Remittance (Instructions given in Cash Remittance, Reporting and Cutoffs)

7. Form #MMP02 - Monthly Cash Reconciliation

- **Sub-servicer Number** - the three (3) digit computer code assigned by CDA.

- **Sub-servicer name and address** - Include city for positive identification.

- **Series Code** - the three (3) character alpha/numeric computer code assigned by DHCD.

- **Line #1. Amount Due** - each month CDA Finance sends the Sub-servicer a **Level Payment Billing Statement and Trial Balance**. This report generates your beginning (or forecasted) figures, based upon the activity reported during the previous cycle. Line 12 of the Level payment Billing Statement, **NOT THE BILLING TRIAL BALANCE**, will list your beginning figure, (or line #1 of the MMP02).

- **Line #2. Additions**

2A. Prepaid Installments Received - this is the total of paid in advance installments collected this cycle. (These cannot be partial payments). Complete and attach Form #MMP04 to document the total.

2B. Curtailments Received - this is the total extra principal payments collected. (curtailments cannot be accepted on delinquent loans). Form #MMP04 must be completed and attached to document your total.

2C. Miscellaneous Additions (increase to final payment) The amount received greater than the monthly installment on a maturing mortgage. (Do not use this line for any other reporting purpose.) Complete and attach Form #MMP04.

2D. Loans Paid-In-Full Received (principal + interest ONLY) - This is the total principal + interest collected for loans paid-in-full during the current reporting cycle. The paid-in-full servicing fee is to be included in the total on line #4 of the MMP02. The total MUST agree with Form #MMP06. Computer generated reports cannot be substituted for this form. Complete Manual Form #MMP06 to document this total (repurchased loans should be processed as paid-in full loans).

- **Line #3. Reductions**

3A. Delinquencies - On Loans Reported by Sub-servicer - These are the total payments due, but not collected. Form #MMP05 must be completed and attached to document the total. **Do not** report partial payments.

3B. Delinquencies - On Loans Purchased but Not Set up on Sub-servicers' System (or Payments Due, but Not Remitted) - these are the total payments due, but not remitted to CDA, on any loan purchased but not setup for reporting. Form #MMP05 must be completed and attached to document the total. (3A + 3B = total delinquencies reported).

3C. Miscellaneous Reductions - this can be the reversal of curtailments or payments remitted and reported in a previous cycle, or the amount received less the monthly installment on a maturing mortgage. (Do not use this line for any other reporting purpose). Complete and attach Form #MMP06.

3D. Level Payments Billed, but Not Processed Due to Payoff or Foreclosure - These are the total payments billed (or forecasted) to be collected on a paid in full or foreclosed loan. This removes the payments from the control total, even though the payments were collected as a part of the payoff. Form #MMP06 must be completed and attached to document the total.

- **Line #4. Servicing Fees Earned** - this total is calculated on the total interest collected during the cycle and earned by the Sub-servicer. (Servicing fees earned on loans paid in full MUST be included in this figure.) This total must agree with the total servicing fees listed on line 10 of this form.

- **Line #5. Total Remittance Due CDA. Exclusive of Foreclosures.** This is the sum of lines #1 through #4. (Be sure to follow the signs to the left of each dollar sign). Proof for accuracy.

- **Line #6. Remittances To Trustee**

YOU MUST LIST THE DATE AND THE AMOUNT REMITTED TO THE TRUSTEE, EVEN IF THIS INCLUDES AN ERROR. To correct an error, you must increase or decrease your next remittance for this series. DO NOT LIST A NEGATIVE REMITTANCE TOTAL (Use Form ADJ1 to report changes in remittances).

Interim Remittances - List separately each date of remittance and total remitted per the series.
Final Remittance - List date of remittance and total remitted per the series.

Payoff Remittances - List date of remittance and total remitted for this payoff, per the series.

- **Line #7. Total Remittances This Month** - this is the sum of interim, final and payoff remittances. This line should also agree with line #5 and #13. **If it does not, enter the difference on line #14, with an explanation.**

PLEASE REMEMBER, you **MUST** include payoff principal, interest and servicing fee with principal and interest payments collected and servicing fee earned during the current cycle.

- **Line #8. Principal Payments Collected This Cycle** - Form #MMP07 must be completed and attached to document the total (include payoffs).

- **Line #9. Interest Payments Collected This Cycle** - Form #MMP07 must be completed and attached to document the total (include payoffs).

- **Line #10. Servicing Fee Earned** - this total is calculated from the total interest collected during the cycle (line #9). The total must also agree with line #4 of the MMP02 (include payoffs).

- **Line #11. Prior Month's Overage (Per Billing)** - this total is picked up from the Level Payment Billing Statement. The line is labeled "Overage". If the Billing Statement indicates the total is 0.00, **do not** list a total here. (Overages may be due to unrecovered money for payment reversals, curtailment reversals and/or remittance errors made in a previous cycle). Always correct an overage during the next cycle, do not let it continue for several months.

- **Line #12. Prior Month's Shortage (Per Billing)** - this total is picked up from the Level Payment Billing Statement. The line is labeled "Shortage". If the Billing Statement indicates the total is 0.00, do not list a total here. (Shortages may be due to errors in payment reporting or calculations during a previous cycle). Always correct a shortage during the next cycle, do not let it continue for several months.

- **Line #13. TOTAL (Lines 8 Through 12)** - this is the sum of lines #8 through #12. Be sure to follow the signs to the left of each dollar sign and proof for accuracy. This total should also agree with the totals listed on lines #5 and #7. If they do not agree, your Monthly Cash Reconciliation is out of balance.

Any discrepancy in the reconciliation should be researched and corrected PRIOR to submitting the report to CDA. However, if you are unable to determine what problem is causing the discrepancy, CALL YOUR REPORTING REPRESENTATIVE. Often, we are able to assist you by phone when provided with a little background information.

- **Line #14. Over/Short This Month (if #5, #7 & #13 are not equal, enter difference here) -** if a remittance for this cycle was incorrect, the difference should be listed here. If the total is a shortage, the amount should be added to the next remittance. If the total is an overage, the amount should be subtracted from the next remittance.

- **Line #15. Other Remittances (NOT DUE PER LEVEL PAYMENT BILLING STATEMENT)-**This line should not be included in any total or part of the report's documentation. This line is to track additional amounts remitted by the Sub-servicer to clear up shortages not billed.

8. Form MMP03 - Principal Reconciliation

- **Sub-servicer** - List Sub-servicer name.

- **Sub-servicer Number** - the three (3) digit computer code assigned by DHCD.

- **Series Code** - the three (3) character alpha/numeric computer code assigned by DHCD or the bond series name. (Example: 069 or 1984 Second)

- **Line #1. Total per CDA Level Payment Billing Trial Balance** submitted to the Sub-servicer with the level payment billing statement. The beginning figures on line 1 are picked up from the total line of the trial balance sent to the Sub-servicer, with the billing statement. These figures are the ending figures (plus new purchases) from the previous cycle. **DO NOT** attempt to use figures from the billing statement as they may not be the same and will throw you out of balance.

- **Line #2. LESS TOTAL NUMBER OF PAID-IN-FULL LOANS AND TOTAL LEVEL PAYMENTS OF LOANS PAID-IN-FULL THIS CYCLe (attach Form MMP06 to document).** On the lines provided, you must list the total number of loans paid-in-full and the total of their monthly level payments. These figures **MUST** agree with the total indicated on Form #MMP06. This action will take the loan out of the beginning control figure. Form #MMP09 must be completed and mailed to CDA at the time of payoff to document figures here and on Form #MMP06 (repurchased loans should be reported as paid-in-full).

- **Line #3. LESS LOANS FORECLOSED THIS CYCLE.** On the lines provided, you must list all loans foreclosed during the current cycle. You will need to list the CDA loan number, the final principal balance, and the monthly level payment. This action will take the loan out of the beginning control figure (short sales should be reported as foreclosures).

- **Line #4. LESS LOANS PURCHASED, BUT NOT SETUP BY SUB-SERVICER**. You must list any loan purchased by CDA, and the loan's level payment, that is not included in the Sub-servicer's trial balance. Again, this action will remove the loan from the beginning control figure. Remember to complete and attach Form #MMP05, if payments are due on these loans.

- **Line #5. LESS PRINCIPAL PAYMENTS Received (include Paid-In-Full Principal collected).** You must list the total principal payments collected during this cycle. Remember to include payoff money. THIS TOTAL MUST EQUAL THE TOTAL USED ON LINE #8 OF THE MMP02 -MONTHLY CASH RECONCILIATION. Complete and attach Form #MMP07 to document the total.

- **Line #6. OTHER DIFFERENCES (Explain).** To arrive at this figure, you must subtract the totals listed in lines #2, #3, #4 and #5, from the beginning control figures (line #1). The sum of the figures should equal the Sub-servicer's trial balance totals (line #7). If they do not equal the Sub-servicer's trial balance totals, the difference should be listed on line #6. Any difference listed must be accompanied by an explanation.

It is inevitable that small differences, usually resulting from payment spread calculations, will occur. If these differences DO NOT exceed our $2.00 tolerance per series, they need not be individually accounted for. However, if consistent discrepancies exist, or the difference is greater than $2.00, you will be asked to adjust your individual loan balances.

Significant discrepancies must be investigated and adjusted as they occur. If you feel CDA Finance is in error, please supply us with the following information:

- CDA's loan number(s), for the loans(s) involved.
- The cycle when the difference occurred.
- The reason you feel CDA Finance is in error.
- The amount of the difference.
- A loan history, listing the correct activity.

The most common discrepancy is the different methods used to perform calculations. **CDA uses a 30 day month and a 360 day year for ALL calculations**.

- **Line #7. Totals per Sub-servicer's Trial Balance** - The figures listed on line #7 MUST agree with the ending total on the Sub-servicer's trial balance. Complete and attach Form #MMP08 to document the totals.

9. Form #MMP04 - Prepaid Installments, Curtailments' and Additions to Amount Due.

- **Prepaid Installments Received This Month** - Prepayments are complete (principal & interest) payments paid in advance. In this section of the MMP04, you must list each loan prepaying installments during the reporting cycle. Each prepaid installment MUST be listed by CDA's eleven digit loan number. The loans MUST be listed in order by the transaction date. Each transaction MUST be listed as a separate item. DO NOT LUMP MULTIPLE PREPAYMENTS TOGETHER AS ONE TRANSACTION. DO NOT REPORT PARTIAL PAYMENTS. If you receive three prepayments on one loan, list each separately by transaction date. Enter section total on #2A of Form MMP02.

- **Curtailments** - Curtailments are payments of additional principal only. In this section of the SF04, you must list each loan paying curtailments during the reporting cycle. The activity MUST be listed by CDA's loan number. The curtailments **MUST** be listed in order by transaction date. Each curtailment must be listed separately, for each payment received. (If a borrower paid three payments in advance and a curtailment with each payment, the three curtailments must be listed individually by transaction date.) DO NOT LUMP CURTAILMENTS TOGETHER AS ONE ITEM. This will cause a major difference in the amortization. ALWAYS INCLUDE THE DUE DATE OF THE PAYMENT THE CURTAILMENT WAS APPLIED TO. This action can also create a major difference in amortization**.** **CURTAILMENTS CAN NOT BE APPLIED TO A LOAN THAT IS DELINQUENT.** Enter the section total on line #2B of Form #MMP02.

- **Additions to Amount Due** - DO NOT USE THIS SECTION OF FORM #SF04 FOR ANY PURPOSE OTHER THAN THOSE LISTED HERE.

  Code #l - N/A

  Code #2 - N/A

  Code #3 - Amount Received, Greater Than Monthly Installment on a Maturing Mortgage. Often the last payment of a mortgage will not equal the regular monthly payment. If the final payment is greater than the regular monthly payment, list the difference between the amount paid and the regular installment here. Report this activity using the CDA loan number. Enter Section total on line #2C of Form #MMP02.

10. Form #MMP05 - Delinquencies and Payments Due, But Not Remitted.

- **Delinquencies on Loans Reported by Sub-servicer.** This section of the MMP05 must list by loan, any payment, or payments due, but not collected through the end of the reporting cycle. Each lack of payment activity MUST be listed in order by CDA's loan number. You must list the total delinquent amount per loan (principal plus interest). If a loan is more than one month delinquent, add the payments together as one. The total delinquent amount per loan must be divisible by the monthly constant. DO NOT REPORT PARTIAL PAYMENTS. Enter the section total on line #3A of Form #MMP02. (#3A + #3B = Total Delinquencies).

- **Delinquencies - Payments Due, But Not Remitted On Loans Purchased: Due to Loans Not Setup on Sub-servicer's System.** This section of the MMP05 must list, by loan, any payment or payments due, but not collected, through the end of the reporting cycle. Each lack of payment activity MUST be listed in order by CDA's eleven digit loan number. You must list the total amount due per loan (principal plus interest). If a loan is more than one month delinquent, add the payments together as one. The total delinquency amount per loan must be divisible by the monthly constant. DO NOT REPORT PARTIAL PAYMENTS. Enter the section total on line #3B of Form #MMP02. (#3A + #3B = Total Delinquencies)

11. Form #MMP06 - Miscellaneous Reductions and Loans Removed This Cycle.

- **Miscellaneous Reductions From Amount Due**. DO NOT USE THIS SECTION OF THE MMP06 FOR ANY PURPOSE, EXCEPT THOSE LISTED BELOW.

Code #1 - Reversal of curtailments applied in a prior reporting cycle.

Code #2 - Amount received less than monthly payment on a maturing mortgage. Often the last monthly installment of a maturing mortgage will not equal the regular monthly payment. If the final payment is less than the regular monthly payment, list the difference between the amount paid and the regular installment here. Report this activity using CDA's loan number.

Code #3 - Reversal of payments applied in a prior reporting cycle. When reversing curtailments, the correct paid-to-date will be the date of the payment that the curtailment was originally applied.

NOTE: When performing payment and/or curtailment reversals, **EACH** payment and/or curtailment **MUST** be reversed as a separate transaction. (Use the same

method as applying payments and/or curtailments.) Do not perform a net reversal/adjustment to correct an error requiring multiple reversals.

REMEMBER to include a loan history for any individual loan requiring a reversal of multiple transactions.

List the sum of all reversals on the line provided and on Line #3C of Form #MMP02.

- **Loans Removed This Cycle** - In this section of the MMP06, you must list each loan that paid-off or foreclosed during the current reporting cycle. This activity **MUST** be listed in order using CDA's loan number.

For each loan removed, list the following information: The CDA loan number, monthly level payment, payments not collected w/payoff, paid-to-date at payoff, principal collected per payoff, interest collected per payoff, total principal + interest, Y = yes or N = no to indicate if this action involves a foreclosure.

- **Monthly Level Payment** - List the regular monthly level payment for each loan paid-in-full. Include the sum of this column on the line provided.

- **Payments Not Collected** - This figure equals the total payments due CDA (or BILLED but not processed due to payoff or foreclosure during the current cycle). These payments were collected as a part of the payoff and MUST be removed from the beginning control total. Include the sum of this column on the line provided.

Example: If a loan paid-off during the August '02' cycle, with a paid-to-date at payoff of *6-1-02* and actually paid-off on *8-31-02*, there would be two (2) payments due on the loan at the time of payoff. (The *7-1-02* and *8-1-02* payments are due). In this example, the payments not collected would equal 2 (times) the monthly level payment.

- **Principal (collected per payoff)** - List the total principal collected, per each payoff.

- **Interest (collected per payoff)** - List the total interest collected, per each payoff.

- **Total Principal + Interest** - List the sum of the principal + interest collected, per each payoff.

- **List the sum of** -The monthly level payments, payments not collected, total principal + interest, and the total number of loans removed on the lines provided.

- List the total level payments and the total number of loans removed on line #2 of Form #MMP03.

- List the total payments not collected on line #3D of Form #MMP02.

- List the total (principal + interest) on line #2D of Form #MMP02.

12. Form #MMP07 - Collection Report.

All monies collected during the current reporting cycle, including loans paid-in-full, MUST be listed in order using CDA's loan number. For each loan number, list all payments and/or curtailments in order, by the transaction date. Each payment and/or curtailment MUST be listed as a separate transaction for each loan.

DO NOT LUMP MULTIPLE CURTAILMENTS and/or PAYMENTS TOGETHER AS ONE CURTAILMENT, PAYMENT, OR WITH OTHER TYPES OF TRANSACTIONS This will cause major differences in amortization. If the curtailments and/or payments are lumped together and a discrepancy occurs, CDA will have no choice but to assume the Sub-servicer’s payment spread is incorrect.

For each transaction, please remember to list the Sub-servicer loan number, CDA’s loan number, transaction date, paid-to-date, principal payment, interest payment, and service fee as required.

Enter total principal payments on line #8 of Form #MMP02. Enter total interest payments on line #9 of Form #MMP02. Enter total servicing fee earned on line #10 of Form #MMP02.

COMPLETE AND ATTACH FORM SF07 TO DOCUMENT YOUR TOTALS. REMEMBER DO NOT INCLUDE FORECLOSURE MONEY ON THIS FORM.

13. Form #MMP08 - Trial Balance.

On this form, you MUST list the end of cycle Mortgagor information, in order, by CDA's loan number. Include the Sub-servicer loan number, CDA loan number, paid-to-date, ending principal balance, monthly constant (or monthly Level payment), and escrow balance for each loan. PLEASE REMEMBER TO INCLUDE THE TOTAL LOAN COUNT PER THIS SERIES.

Enter the total loan count, total ending principal balance, and total monthly constant, per this series, on line #7 of Form #MMP03. Complete and attach Form #MMP08 to document the total.

14. Form #MMP09 - Loan Paid-In-Full Statement. (Instructions given on *Cash Remittance, Reporting and Cutoffs*)

15. Form #MMP10 - Soldiers and Sailors Civil Relief Act – Notice of Interest Rate Change

If Mortgagor requests a reduced interest rate and is determined by the Sub-servicer to be eligible, an automatic adjustment in their mortgage interest rate to 6.0% may be made. Information about the adjustment (effective dates of military assignment, new interest rate, new level payment amount) must be included in the monthly ABS report that is sent to

16. Penalties and Remedies Sections - Sub-servicer Reports and Remittances to CDA Finance

Sub-servicer is responsible for remitting to CDA principal and interest payments, prepayments, and other payments. A Sub-servicer is also obligated to provide CDA with reports in a manner, format and timeframe specified by CDA.

The Sub-servicer that fails to provide these remittances and reports within the time required violates its responsibility and is subject to the penalties specified in this manual. CDA retains the right to offset any penalties due against any amount due to Sub-servicer.

CDA reserves the right to change the inadequate reporting penalties and all other remedies at any time and at its sole discretion.

Delayed Remittances

Any delays in the remittance of any funds due to CDA will be subject to a penalty. The penalty is calculated for the delayed period based on the amount of the delayed remittance and the prime rate that was in effect on the first business day of the month in which remittance was due, plus 3%. However, in no instance would the amount of penalty be less than $250.

End-of-month Reporting Format

The cutoff date for the monthly reporting of all loan transactions is as of the close of business on the last business day of the month. Monthly reports shall be sent by the Sub-servicer so as to reach CDA by the fifth (5th) calendar day of the following month. CDA requires Sub-servicers to transmit the monthly report in electronic format as an attachment to an e-mail or any other format and media acceptable to CDA. If the Sub-servicer is temporarily unable to furnish CDA the monthly report electronically for any reason, the Sub-servicer shall immediately notify CDA. CDA will then accept the required data temporarily on a hard copy report. However, since CDA will then be required to manually input the data as opposed to relying on electronic input, a service charge equal to the monthly

servicing fees on the underlying loan accounts will be billed to the Sub-servicer for each month the problem persists.

If the Sub-servicer submits data electronically but the data is unusable for any reason including, but not limited to, incorrect file layout or data format, CDA may require the Sub-servicer to resubmit the file if such re-submission could be done within the timeframe specified in this Servicing manual. If, however, the file is resubmitted in good form after the due date specified in this Servicing Manual the Sub-servicer becomes subject to remedies outlined in the Inadequate Reporting section.

Inadequate Reporting

If an end-of-month report submitted by the Sub-servicer to CDA is late or contains inaccuracies such report is deemed inadequate. For the first instance of late or inaccurate reporting in any 24 (twenty four) month period a warning letter is sent to the managing officer of the institution with a reminder of penalties to be assessed for repeated offenses. For the second instance of late or inaccurate reporting in any 24 (twenty four) month period, the Sub-servicer is charged a $500 inadequate reporting penalty plus $50 for each day the report remains late. For the third and each subsequent instance of late or inaccurate reporting in any 24 (twenty four) month period, the Sub-servicer is charged a $750 inadequate reporting penalty plus $50 for each day the report remains late. The assessment and collection of the penalties specified herein does preclude CDA from terminating the Sub-servicer in its sole discretion.

The following matrix summarizes penalties and corresponding offences.

Penalty Matrix

Note: the table below references the following penalty types:

#1 Greater of $250 or per diem charge at the prime rate plus 3% per annum assessed on the amount past due

#2 First occurrence within a 24-month period a warning letter is sent, second occurrence charge of $500 plus $50 for each day the report remains late, third and subsequent occurrences $750 plus $50 for each day the report remains late.

#3 Penalty equal to total servicing fees due to Sub-servicer for all loans reported incorrectly or required to be set up manually

	Delayed remittance	**Delayed reporting**	**Inadequate reporting**	**Unusable report**
Delayed remittance	#1	#1 and #2	#2 and #3	#1 and #3
Delayed reporting	#1 and #2	#2	#2 and #3	#2 and #3
Inadequate	#1 and #3	#2 and #3	#3	#3

reporting				
Unusable report	#1 and #3	#2 and #3	#3	#3

E. Reports and Remittances for DHCD Finance – State Loans.

Payments collected on State Loans must be deposited daily to DHCD's account. Each Sub-servicer will be evaluated monthly based upon their performance in remitting money within the required time frames and on the accuracy, completeness and timeliness of their reports.

1. Remittance Instruction:

Collections on all State Loans must be remitted by wire transfer or direct deposit to the Maryland State Depository Bank, currently Bank of America, daily.
Bank of America

ABA #540520134
Account #2000503243
f/f/c DHCD

- Detail to the daily deposit must be faxed or emailed to DHCD Finance's State Loan Accounting Dept. within (1) working day of each remittance. The detail must include by program and between single family and multi-family, principal, interest, and total remittance.

- Direct deposits require that a copy of the deposit ticket and customer receipt from the Bank be mailed to DHCD Finance, Central Finance, within (1) working day of each remittance. Mail to:

  DHCD – Finance and Administration
  7800 Harkins Road, Room 480
  Lanham, Maryland 20706

  - The Sub-servicer is required to send payoff statements to Mortgagors or their authorized agents upon written request free of charge. DHCD must be notified of any Single Family loan payoff within three (3) working days of fund receipt. The payoff notice must identify the loan, the amount of the payoff and include any original documents held by the Sub-servicer. This payoff notice must be sent separately from the actual remittance of funds to DHCD Finance.

2. Unidentified Collections: Any monies collected which do not represent a full monthly payment or cannot be identified as belonging to a particular account must be placed in an unidentified collections suspense account. Monthly analysis and reporting will be required for all items in the unidentified collections suspense account.

3. Reporting: Standard monthly statistical reports are to be available by the 5th working day of the following month. Exhibit B Form B12 provides examples of the format of each report required by DHCD.

4. Timely Response: Sub-servicer shall respond within 2 business days of receipt to all phone messages and written notifications; however, DHCD may need 24 hour turn around on some issues which are considered urgent.

SECTION 5-DEFAULT SERVICING

A. General Policy/Goal of Default Administration/Collections – All loans

The goal of all DHCD approved Sub-servicers is to preserve homeownership by assisting Mortgagors during periods of financial difficulty. Sub-servicers are to assume that Mortgagors want to maintain their obligations and shall offer every available option to them. The Sub-servicers should not question the Mortgagors' integrity at any time during the collection process. It should be assumed that Mortgagors do not want to lose their home and that the default or late payment has been caused by circumstances beyond their control. The threat of foreclosure is not to be used as a collection tool. All Mortgagors are to be counseled in all loss mitigation options in a manner which is intended to avoid foreclosure, as well as the associated loss to DHCD. Sub-servicers are required to conduct their collection activities within Industry-accepted practices and must be in compliance with the 2013 Mortgage Servicing Final Rules, Amendments to Regulation Z & X, and the Fair Debt Collection Act at all times. Additionally, Sub-servicers must monitor and follow all Mortgage Insurer/Guarantor guidelines, policies and procedures and maintain current copies of all Mortgage Insurer/Guarantor handbooks, procedures and Seller-Sub-servicer Guides.

B. Sub-servicer General Collection Responsibilities – All Loans

Sub-servicers must establish a system for servicing delinquent mortgages that follows the accepted standards used by prudent mortgage servicing companies. The Sub-servicers' system must include, at minimum, the following:

- An accounting system that alerts the appropriate department that a mortgage is delinquent.
- A Collection Department and Loss Mitigation staff that is familiar with all FHA, VA, RHS, MHF, private mortgage insurance, Freddie Mac and Fannie Mae procedural and reporting requirements.
- Counseling procedures to advise Mortgagors how to avoid or cure delinquencies/defaults;
- Guidelines for the individual analysis of each delinquency;
- An internal collection procedure manual;

- Instructions and adequate controls for sending delinquent notices, assessing late charges, returning partial payments, maintaining collection histories, reporting delinquencies to credit bureaus, etc.

- Management review procedures to evaluate both the Mortgagor's actions and the Sub-servicer's collection efforts before a final decision is made to either accept some form of repayment arrangement or to start liquidation proceedings;

- The Sub-servicer should devise a method for comparing their own delinquency and foreclosure ratios with those of others in the industry.

- It is preferred that Sub-servicers have an automated Loss Mitigation System which includes software which assists decision-making.

C. Billing Procedures – All Loans

Monthly payments on all DHCD loans are due on the first day of the month. Sub-servicers may use the same method of payment notification for DHCD loans as is used for other loans they may service.

At a minimum, the Sub-servicer must provide the Mortgagor with a monthly mortgage statement that includes all information required under the CFPB 2013 Mortgage Servicing rules. The monthly statement should clearly indicate the monthly amount due, the payment due date and the date after which a late charge will be assessed. The notification should also include the late charge amount. The notification must also indicate the location where payments are to be sent.

Monthly bills for multiple payments should not be sent to Mortgagors unless they are accompanied by a Notice of Mortgage Default which includes the steps necessary to cure the default.

D. Late Charges – All Loans

1. Billing - Sub-servicers are to provide Mortgagors with a late charge notice each time a payments is received past the late charge date. The notice must inform the Mortgagor of the amount of the late charge and how the charge is to be paid. The Sub-servicer should also include the balance of any deferred late charges.

2. Collecting Late Charges - The amount of the late charge is determined in the Mortgage Note or Deed of Trust (mortgage documents). Sub-servicers may neither compound nor capitalize late charges. Sub-servicers should not use the late charge penalty as a collection tool**.** Sub-servicers may not, under

any circumstances, return payments to Mortgagors which do not include late charges. (See *#3 Waiving and Deferring Late Charges*, below). Mortgagors are to be counseled as to the negative affect of making late payments to their credit rating or their ability to obtain future credit.

3. Waiving/Deferring Late Charges - Sub-servicers must have a written procedure in place for the waiver of late charges. This policy must allow for discretion in waiving such charges in situations where it is justified or customary. Waiving late charges should be considered in all cases where it is evident that the Mortgagor is experiencing financial difficulty. In cases where the Sub-servicer feels the Mortgagor is capable of paying the late charge, or when the Mortgagor has not advised the Sub-servicer of financial difficulty, the Sub-servicer should still accept the loan payment and defer the late charge. Sub-servicers should notify Mortgagors of any deferred late charge balance on a quarterly, semi-annual or annual basis. However, Sub-servicers may not return payments to Mortgagors for failure to pay a deferred late charge balance. Unpaid deferred late charges may be collected at the loan payoff or assumption to the extent allowed in the loan documents or State law.

E. Phone Calls – All Loans

Sub-servicers are required to contact Mortgagors by phone at least once a week during any period of default until contact is made, beginning at least by the 36th day of delinquency. By the 36th day of delinquency any live calls should include loss mitigation options if the mortgagor's circumstances warrant it (material adverse change in financial circumstances that may cause a long term delinquency); however, if the mortgagor's circumstances do not warrant loss mitigation discussion, it is the Sub-servicer's discretion on whether or not to discuss at this early stage. Calls prior to default are optional. Sub-servicers are required to contact Mortgagors both at home and at their place of employment. However, calls to the Mortgagor's place of employment may only be made within the limits of the Fair Debt Collection Act. Sub-servicers should make every effort, using all available resources, to obtain accurate phone numbers for all Mortgagors who are signors of the loan documents.

When dealing with a loan which has an origination date of less than one year from the time of default, it is imperative that the Sub-servicer attempt to obtain phone numbers for both the home and place of employment from the origination file. If successful in contacting these Mortgagors, it is **mandatory** that they be referred to a HUD-approved Counseling Agency.

Sub-servicers are not required to make evening or Saturday phone calls to defaulted Mortgagors. However, Sub-servicers must have a review procedure in place which clearly identifies defaulted loans with no Mortgagor

contact. These loans must be referred to a senior collector or Supervisor for special handling. Sub-servicers must designate these loans for evening or Saturday calls and must continue collection efforts until contact is made.

It is important to note that the DHCD may not approve a foreclosure recommendation from a Sub-servicer when no contact has been made with a Mortgagor during the course of a default. If, in the opinion of the DHCD, all reasonable efforts to contact the Mortgagor have not been made, the package may be returned to the Sub-servicer for additional servicing.

F. Late payment notices – All Loans

Sub-servicers must send a late payment notice to the Mortgagor by the 16th day of delinquency or by the late charge cut-off date. The notice should inform the Mortgagor of the late payment and advise them to contact the Sub-servicer if they are experiencing difficulty in making their payments.

G. Letters

1. All Loans - Sub-servicers are required to send a minimum of one letter a month to Mortgagors during each month of delinquency following a default until the loan is reinstated, a workout or payment plan is in place, or the loan is placed in foreclosure. A delinquency notice must be sent at a minimum of the 45th day of delinquency, which includes HUD Housing Counseling website and toll-free number, loss mitigation options, loss mitigation personnel contact names, addresses, and phone numbers. The letters must advise the Mortgagor of the seriousness of the situation and must include the total amount due for reinstatement. The letters must also include a phone number , address, and contact person or department where the Mortgagors may reach the Sub-servicer to discuss their situation. Sub-servicers must provide a toll-free number for Mortgagors who are outside their local dialing area.

2. State Loans - Sub-servicers must send the DHCD Loss Mitigation Letter (Appendix C Form C2) at the 65th day of delinquency**.** This letter must be sent with a list of the approved HUD Counseling Agencies.

3. **Bond Loans** - Sub-servicers must send the Mortgagors all letters or notices required by the Mortgage Insurer/Guarantor.

4. **Pre-file Mediation** - Sub-servicer is required to send the mortgagor an application to apply for a pre-file mediation hearing at the 61st day of delinquency. This notice may be combined with other notices and is not required to be sent again unless the mortgage is brought current.

H. Notice of Mortgage Default – All Loans

Sub-servicers are required to send all Mortgagors (1) a Notice of Mortgage Default letter (Appendix C Form C3) when a loan reaches the 31st day of delinquency. This letter must be sent no later than the 35th day of delinquency and may include a financial questionnaire or loss mitigation package to be completed by the Mortgagor. (2) The Maryland Notice of Intent to Foreclose can be sent to the mortgagor by the 61st day of delinquency but it required prior to foreclosure referral.

I. Notice to Mortgage Insurer/Guarantors – Bond Loans

All notices required by primary or pool Mortgage Insurer/Guarantors of a loan must be filed on a timely basis by the Sub-servicer. Sub-servicers will be fully responsible for any denial or curtailment of a claim due to failure to give proper notice to the Insurer.

J. Default Counseling – All Loans

Some DHCD Mortgagors may encounter financial difficulties early in the term of their mortgage and may not be aware of the consequences of a mortgage default. Default counseling is necessary for these Mortgagors at the first indication of financial difficulty to insure that the Mortgagor does not develop a pattern of late payments. Sub-servicers must offer counseling to all Mortgagors who contact them, especially to those Mortgagors who call **before** their payments are in default or who are early in the default process.

1. **Authorization to discuss Mortgagor's accounts**: Sub-servicers are required to speak to the Mortgagor or their designated agent. It is recommended that a Limited Power of Attorney or similar document be obtained by the Sub-servicer before speaking to anyone other than the Mortgagor or their attorney. Sub-servicers may speak with HUD Counseling Agencies at any time with proper written authorization signed by the Mortgagor.

2. **Establish the reason for default:** Establishing the reason for potential or actual mortgage default at an early stage is critical to the prompt resolution of problems. Sub-servicers must emphasize to the Mortgagor the importance of resolving the underlying reason for the default during the early stages of delinquency. The Sub-servicers must work with the Mortgagor to establish a relationship which will encourage the Mortgagor to communicate their problems to the Sub-servicer. Sub-servicers are cautioned against utilization of Installment Loan collection techniques when dealing with Mortgagors who are experiencing financial difficulty.

Simply collecting payments without attempting to resolve the underlying cause of the default may result in the creation of chronically late paying Mortgagors, and is not consistent with the policies of DHCD.

3. **HUD Counseling Agencies:** The use of HUD approved Counseling Agencies is mandatory in all instances where it appears that the Mortgagor is experiencing long-term financial difficulty. Additionally, all DHCD Mortgagors must be referred to HUD Counseling Agencies if they have previously been in foreclosure or broken previous repayment/forbearance plans. The loan collection history must clearly document this requirement.

4. **Discussion of DHCD Loss Mitigation Options** (Refer to *Section 6 Loss Mitigation Guidelines* for policies and procedures): Sub-servicers are required to offer default counseling and discuss all loss mitigation options with DHCD Mortgagors who are in default or may anticipate being in default. The Collection history notes must be clearly annotated to show that the Mortgagor has been advised of all loss mitigation options and the Sub-servicer has made sufficient attempts to offer default counseling. Sub-servicers are required to structure their Counseling/Loss Mitigation Department in a manner which is consistent with DHCD's goal to preserve homeownership and avoid foreclosure if at all possible. Each case is to be handled on an individual basis and based on the facts of that case only. Sub-servicers must insure that their staff is adequate, properly trained and familiar with the Fair Debt Collection Act. They must be proficient in the discussion of all loss mitigation options.

5. **Compliance with FHA/VA/RHS Collection/Loss Mitigation Requirements**: Sub-servicers must comply with all provisions of HUD Mortgagee Letter 00-05, dated 1/19/2000 and subsequent updates, as pertains to the discussion of Loss Mitigation Options with FHA Mortgagors. Sub-servicers must consistently offer DHCD Mortgagors the same Loss Mitigation options as are required for HUD-insured loans. Sub-servicers are also required to offer Loss Mitigation options to VA Mortgagors to the extent required by VA regulations but consistent with FHA and conventional loans.

The Department reserves the right to return foreclosure recommendation packages to Sub-servicers in any case where all appropriate loss mitigation options have not been discussed with the Mortgagor.

K. Category of Default – All Loans

In order to establish the extent of default counseling necessary, the Sub-servicer should have adequately trained staff to determine the Mortgagor's category of default. These categories are as follows:

1. OCCASIONAL - The cause of the default is usually temporary in nature. The Mortgagor can usually reinstate the loan within a relatively short time. Examples of the reason for default (RFD) might be:

- Temporary job loss (less than one month).
- Mortgage oversight. Mortgagor simply forgot to mail the payment.
- Death of a relative with related expenses, such as travel out of state or assistance with funeral expenses.
- Unexpected expenses such as higher than normal utility bills, minor car repairs, or the purchase or repair of a household item such as refrigerator, washer, dryer or dishwasher. Tuition expenses might also fall under this category.

2. DISTRESS - The cause of the default is of a more permanent nature. The Mortgagor may not be able to cure the default in a short time. Examples of the reason for default (RFD) might be:

- Death of spouse
- Drastic reduction of income such as long term unemployment or lay off. The Mortgagor cannot find a position offering a salary comparable to their previous compensation.
- Major unexpected expenses such as a new roof, heat pump or heating system, major car repairs, purchase of a new car or uninsured medical expenses.

3. CHRONIC: - The most difficult category of default to define. This Mortgagor is usually uncooperative. The default is usually caused by excessive use of credit or marital difficulties, both of which may be a direct result of the other. These Mortgagors have difficulty defining their priorities, often paying their unsecured or installment creditors instead of their mortgage.

It is extremely important to distinguish the difference between a Mortgagor who is constantly paying late as a convenience and the chronically defaulting Mortgagor. A Mortgagor who pays every 30 to 45 days is not necessarily a

chronic late payer. A chronically defaulting Mortgagor is more likely paying at 60 to 90 days. Their reason for paying in this manner is usually poor budget planning or excessive installment debt. The mortgage is no longer their most important bill or top priority.

The chronically late Mortgagor will send in two payments when three are due. They will not respond to notices, letters or phone calls. Their home phone number may be unlisted. If you are able to get them to contact you, they will usually refuse to discuss the reason for their repeated defaults.

If contacted, these Mortgagors must be referred to HUD Counseling Agencies or a qualified Consumer Counseling Agency and should be required to complete a detailed Financial Questionnaire to clearly analyze their financial situation and determine their ability to maintain their mortgage payments. Should they refuse counseling, the collection notes should be annotated accordingly.

L. Acceptance/Return of Payments

1. Partial Payments – All loans - (Less than a full monthly payment): Sub-servicers may return any payment remitted by a Mortgagor which is less than a full monthly payment. The payment must be returned with a letter advising the Mortgagor that partial payments cannot be accepted. The letter should also advise the Mortgagor to contact the Sub-servicer or a HUD Counseling Agency if they are experiencing financial difficulty and are unable to make full monthly payments.

2. **Full Reinstatement – All loans** - Sub-servicers are required to accept full reinstatement when it is submitted by a Mortgagor, regardless of the circumstances or past payment history of the account. **Full reinstatement shall be defined as all payments due, excluding the current month's payment. The Sub-servicer must accept full reinstatement even if it does not include late charges.** Sub-servicers may not return full reinstatement to Mortgagors simply because the Mortgagor refuses to discuss the reason for their default. **In such cases, the Sub-servicer must contact the appropriate DHCD Asset Management Officer assigned to a specific case and request permission to return a full reinstatement. The Sub-servicer must have prior written permission to return a full reinstatement to a Mortgagor.**

3. Partial Reinstatement

a. Bond Loans that are FHA insured - Sub-servicers must follow the guidelines of HUD Handbook 4330-1, Rev 5, dated 7/19/94, to determine if they must accept less than full reinstatement on FHA insured loans.

b. Bond Loans that are RHS or VA guaranteed - Sub-servicers must follow RHS/VA guidelines when determining if they must accept partial reinstatement on RHS/VA loans.

c. Bond Loans that are Maryland Housing Fund insured and State Loans - If a Mortgagor remits at least one half (1/2) of the total amount due, excluding late charges, **the Sub-servicer must accept the payments**. The Sub-servicer must send the Mortgagor a letter advising the Mortgagor of the remaining delinquency and requesting they contact the Sub-servicer or a HUD Counseling Agency if they cannot reinstate their loan or maintain their payments. The **exceptions** to this policy apply only to loans which are more than 4 months in default, loans in foreclosure, loans in default (paid 31 days or more late) for more than 6 months in a row, or cases where the Mortgagor has had excessive insufficient check problems. In those cases, the Sub-servicer may return the partial reinstatement to the Mortgagor with a letter.

Sub-servicers are prohibited from allowing payment processing personnel to arbitrarily return payments to Mortgagors. To insure compliance with DHCD policy as pertains to partial reinstatements, Collection or Loss Mitigation staff must review all delinquent payment remittances to determine their disposition.

Services cannot make exceptions to the above policy. Any unauthorized return of partial reinstatement that is not in compliance with the above-stated policy will be considered grounds for possible repurchase of the loan by the Sub-servicer.

M. Property Preservation – All Loans

1. Ordering Property Inspections - Sub-servicers should do property inspections as often as required by the Mortgage Insurer/Guarantor or FHA/VA guidelines. However, at a minimum, DHCD requires a property inspection to be made no later than the 70th day of delinquency, and whenever the Sub-servicer suspects the property is vacant. Inspections must be updated every 30 days thereafter so long as the account remains delinquent and the Sub-servicer has not been in contact with the Mortgagor to insure that that the property is occupied. Inspections must continue on all properties, even after a foreclosure sale has been held, until the property has

been conveyed to DHCD, the Mortgage Insurer/Guarantor, HUD, RHS, VA, or a third-party purchaser**.**

2. Reimbursement for Inspection Costs - The Sub-servicer will be reimbursed by DHCD for all outstanding inspection costs that were assessed once foreclosure has been completed and mortgage insurance claims are paid. Sub-servicers should be aware that Mortgage Insurer/Guarantors do not always reimburse in full for the cost of inspections**.**

3. Advising DHCD of Property Condition - DHCD must be informed of any major change in the property's status or condition, especially abandonment, disrepair, vandalism or damage of any kind. Sub-servicers must file a claim with the hazard insurance carrier when damage is discovered. DHCD must be sent a copy of the claim as well as notice of any payment or claim denial. Refer to *Section 3 General Loan Servicing – I. Hazard Insurance Coverage* of this Manual for procedures**.**

4. Property Abandonment - Failure to Occupy Property - The Mortgagor should be encouraged to remain in the property to help preserve any equity to the greatest extent possible. The Mortgagor should also be encouraged to list the property for sale if they cannot maintain their payments. If a property is found to be vacant, and posted with a "for sale" sign, the Sub-servicer must contact the realtor to determine the status of the listing and possible contact numbers for the Mortgagor. If the property is found to be rented, the Mortgagor should be advised to contact DHCD to apply for permission to rent the property. Refer to *Section 3 General Loan Servicing – P Non-Occupancy of the Mortgaged Property* of this Manual for procedures.

1. **Securing Vacant/Abandoned Property -** Should a property be found to be abandoned, the Sub-servicer should take immediate action to protect DHCD's interests by having the property secured. It is the responsibility of the Sub-servicer to determine that the property has been abandoned and is subject to possible vandalism or damage. Lock changes and boarding of the property should be done under Mortgage Insurer/Guarantor or FHA/VA guidelines and only after it is established the property is abandoned. The Sub-servicer is responsible for ensuring the property is protected against possible damage or weather conditions and must have the property winterized according to insurer or FHA/VA guidelines**.** FHA property preservation guidelines should be followed for CDA bond loans that are MHF insured or uninsured and for State loans that are in first lien position. Please contact DHCD Single Family Compliance Manager for guidance on all other State loans.

N. Collecting Under an Assignment of Rents – State Loans

The Sub-servicer of a delinquent mortgage secured by property that is being rented should diligently seek out instances in which enforcing an assignment of rents provisions would be appropriate, taking into consideration the policies of the Mortgage Insurer/Guarantor. Any rental income that is collected on a delinquent mortgage should be applied first to outstanding advances and reimbursable expenses, then to scheduled monthly installments**.**

Generally, the rental income can be applied toward the delinquency if:

1. The mortgage provides for an assignment of rents
Other arrangements to repay the delinquency cannot be made
This action will not create any new rights for the occupant that might impair DHCD's ability to foreclose the mortgage at a later date**.**

2. When the Sub-servicer believes that it is appropriate to pursue collection under the assignment of rents provision, it should recommend a specific action to DCHD by submission of a foreclosure recommendation package. DHCD will review the file and advise the Sub-servicer if they should proceed with the action**.**

O. Non-Monetary Defaults – All Loans

In accepting a mortgage loan, Mortgagors agree to many things other than repayment. There are non-monetary defaults of the mortgage which the Sub-servicer must enforce. These include, but may not be limited to, the following:

- Mortgagors failure to maintain adequate hazard insurance coverage
- Mortgagors failure to reside in the property
- Mortgagors failure to maintain the property and prevent waste or deterioration
- Mortgagors failure to pay taxes or other liens which could affect the security of the mortgage
- Mortgagors transfer of the property ownership to ineligible persons under the Federal Tax Code related to revenue bonds
- Mortgagors use of the property for business purposes not permitted under the Federal Tax Code related to revenue bonds
  - Seizure of the property by a federal or state law enforcement agency

Whenever the Sub-servicer becomes aware that one of these events has occurred, the Mortgagor must be sent a letter notifying them they are in violation of their mortgage loan agreement. If the problem has not been resolved within 30 days, the Sub-servicer should send a full report to DHCD with details of the violation and suggested action which should be taken.

P. Filing a Judgment - All Loans

DHCD may consider filing a judgment rather than foreclosure in cases where we are in first mortgage position and the property does not have any value, when we are in a junior lien position and there is insufficient equity in the property to foreclose and recover our loan, or when DHCD has an unsecured promissory note. If DHCD decides to file a judgment against the Mortgagor(s), we require the same information as contained in our foreclosure packages (see *Section 8 – Foreclosure Legal Action*) along with the payoff quotes from all senior mortgages. Once the referral package is received, DHCD will notify you of our decision:

1. Junior mortgages where DHCD also has the first mortgage, will be referred to the Office of the Assistant Attorney General to file a judgment. Please contact DHCD to determine any legal fees before accepting reinstatement or negotiating a repayment plan.

2. First mortgages or junior mortgages where DHCD does not hold the first mortgage and foreclosure is not financial feasible, will be referred to State of Maryland's Central Collection Unit for collection of the debt. Once the loan has been sent to CCU for collection, the Sub-servicer may not accept reinstatement, repayment plans, or any other workout without contacting State of Maryland, Central Collection Unit.

- If DHCD determines we cannot legally file a judgment or take further collection action due to bankruptcy, we will inform Sub-servicer.

- If the Mortgagor(s) are exempt from further collection due to DHCD's hardship policy (death of one or more of the Mortgagors, default due to disability, severe medical problems, high medical bills, or other serious hardship), DHCD will inform the Sub-servicer.

Q. Loan Write-off – All Loans

In order for DHCD to consider writing off a loan, we will require the Sub-servicer to provide the same information as included with a foreclosure recommendation along with a payoff quote for any senior mortgages. DHCD may consider writing off a loan under the following circumstances:

1. The loan is not secured by real estate:

- We are legally unable to collect the debt due to death of all debtors, filing of Chapter 7 Bankruptcy of all debtors, Chapter 13 bankruptcy protection, or when the estate does not have sufficient assets

- DHCD's Judgment Policy excludes a Mortgagor/debtor who meets certain hardship guidelines (death of one or more of the Mortgagors, default due to disability, severe medical problems, high medical bills, or other serious hardship where a Secretarial Determination has approved waiver of policy guidelines).

2. The loan is secured by real estate and:

- Documentation verifies there is little or no equity in the property. DHCD would recover very little principal or may end up paying foreclosure or holding costs and not recover any of our outstanding principal.
- The cost to carry the loan for taxes, ground rent, securing, servicing fees, market and sell the property, or inspect the property is not recoverable due to insufficient or no equity.
- The Mortgagor(s) or debtor(s) is currently protected by a Chapter 13 bankruptcy or no longer has any personal liability due to the discharge of a Chapter 7 Bankruptcy.
- DHCD's Judgment Policy excludes a Mortgagor(s) who meets certain hardship guidelines as stated above.
- The property has been condemned due to eminent domain.
- The property has been condemned due to deterioration, a disaster, or a hazardous substance and there is no legal recourse against the Mortgagor or another third party. It is not economically feasible to repair the property. The land has little or no value. Neither the Mortgagor's hazard insurance nor the Sub-servicer's force-place insurance cover the peril.

Within 30 days after receiving the referral package from the Sub-servicer, DHCD will send the Sub-servicer a letter with our decision.

R. Loan Acceleration – All Loans

DHCD loan documents require that an acceleration letter. (Appendix C, Form C4) and a Maryland Notice of Intent to Foreclosure letter, which meets current Maryland State law be sent to the Mortgagor before foreclosure proceedings can begin. Sub-servicers may use an acceleration letter which is approved by their legal Counsel and conforms to Maryland State Law that, at a minimum, informs the Mortgagor:

1. The entire amount to bring the loan current
2. That the entire loan balance may be considered due and payable if the loan is not brought current; and
3. The specific date (30 days) by which the loan must be brought current.

If they require mailing within the first 60 days of delinquency, the timing of the acceleration letter must meet Mortgage Insurer/Guarantor guidelines. In no case, however, will these letters be mailed later than the DHCD mandated 61st

day of delinquency. Acceleration letters must be sent certified and regular mail, to all parties who signed the loan documents, at the property and mailing addresses (if different).

If the loan has been accelerated and the Sub-servicer posts one or more payments, a new acceleration letter must be sent and a new Notice of Intent to Foreclosure may be required. The only exception is if the Mortgagor was on a signed forbearance agreement (format approved by Sub-servicer's legal counsel) that specifically states that all previous notices remain in effect.

6. DHCD SINGLE FAMILY LOSS MITIGATION GUIDELINES

MMP Work-out/Move-out Protocols 8/15/21010

A. Overall Delinquency Management - Notwithstanding all the work-out/move-out options, DHCD and Sub-servicer have certain basic parameters for expediently working with mortgagors. These parameters, as described below, always need to be coordinated with the respective mortgage insurer.

- DHCD wants to ensure that no loan is more than 120 days delinquent without one of the approved modification plans in place or an approved move-out option being implemented; otherwise, a foreclosure referral notice should be sent to DCA. All efforts will be made that DHCD's protocols are congruent with the requirements of the various mortgage insurers. Consistent with the tenets of DHCD efforts to keep families in their homes, if a loss mitigation strategy is still being evaluated after 120 days, these efforts should be continued. However, Sub-servicer should make every effort to ensure that loss mitigation cases are resolved one way or another before 120 days.
- For PMI- insured loans, if Sub-servicer does not provide the referral to start legal action by the 150th day of delinquency, DHCD requires approval in writing from the PMI to delay legal action, unless an approved loss mitigation workout is approved.
- Any loan that is delinquent more than 150 days and does not have an approved loss mitigation workout requires a separate detailed explanation monthly report to be sent to DHCD. DHCD will review this case and provide specific instruction to Sub-servicer on how to proceed with the case within 5 business days.

- Borrower credit counseling and/or HUD housing counseling should always be recommended in order to ensure the borrowers' financial needs are dealt with on a holistic basis. DHCD will provide a list of HUD approved housing counselors. Such counseling is essential for loans which are chronic defaults and/or distressed circumstances, such as 2 or more foreclosure referrals, multiple broken promises to pay, multiple broken forbearance plans, death or serious illness of the Mortgagor. The notes in the collection history must document the referral to housing counseling
- Sub-servicers are required to follow the new 2013 Mortgage Servicing Final Rules, amendments to Regulations Z and X when reviewing loss mitigation to not violate the dual tracking portion of these regulations. The Sub-servicer should have written policies and procedures to insure compliance to the new servicing rules which include initiation of foreclosure, resumption of foreclosure, setting the foreclosure sale, and holding the foreclosure sale.
- Sub-servicers are required to discuss loss mitigation guidelines with the Mortgagor by the 90th day of delinquency. The notes in the collection history must document why each option was considered or denied.
- Sub-servicers are to send out a Cash Incentive Program solicitation letter for all conventionally insured loans between 60 and 100 days of delinquency.
- Sub-servicers are not to refer Mortgagors to DHCD. Sub-servicers are to contact DHCD with any questions or policy clarification and relay the information to the Mortgagor.
- Any application for loss mitigation which requires DHCD approval should be forwarded to DHCD Single Family Collections. If sent electronically, it should be sent via a secure method to protect the mortgagor's personally identifiable information.

Loss Mitigation efforts: All MMP delinquent homeowners need to be evaluated to see which of the following work-out/move-out options are most appropriate for the borrower, neighborhood, and DHCD. First and foremost all efforts must be initially directed at keeping the borrower in the home. Second, if one of the myriad of work-out options is not financially feasible or acceptable to the borrower then an amicable move-out option should be explored. Third, and only as a last option, if none of the work-out or move-out options can be implemented an expedient foreclosure should be started. For many of the MMP mortgages, once a move-out or foreclosure is completed DHCD will have to dispose of the real estate owned (REO). The first step with a delinquent borrower is to try to collect all arrearages from the borrower that will immediately bring them current. If collection is not a viable option to bring them current, a loss mitigation package must be sent to the borrower. All loss mitigation packages sent out, received, and reviewed will be tracked in the Sub-servicer system, with weekly reports to DHCD.

Reporting and tracking loss mitigation cases to DHCD:

Loss Mitigation packages should be sent to borrowers immediately (i.e., within 24 hours) via regular mail with a return envelope (every effort should be made to make this process electronic).

- If after 10 days from the date of the letter, the package is not returned or is returned but is incomplete or insufficient, Sub-servicer will make at least 2 attempts to reach the borrower within a 5 day period. If these attempts to reach the borrower are unsuccessful, Sub-servicer will proceed with other collection efforts and start the foreclosure process at the appropriate time.
- DHCD will pick 10% of the loans from the previous monthly delinquency report, with completed loss mitigation packages. Sub-servicer will scan and email this sampling to DHCD. DHCD will review these packages in conjunction with Sub-servicer's review.
- Within 30 days of receiving a completed loss mitigation Package, Sub-servicer will make a recommendation for the most appropriate options, as outlined below to pursue. Sub-servicer will also provide DHCD with the appropriate reporting to track how the various options are being deployed.

WORKOUT OPTIONS

Forbearances:

- Since these borrowers remain in a delinquent status until the repayment plan is complete; it is essential that data is compiled on these cases to enable DHCD to compile an "adjusted delinquency" number. The number of repayment plans along with the plans that are current is an essential for tracking these cases.
- This strategy is administered at Sub-servicer; they are responsible for providing DHCD with all required data described above. DHCD will test 10% of these cases to ensure they were properly implemented and approved.

Modification Plans (all loans)

- Data on the status of all modification plans will be maintained by DHCD; numbers will be maintained on approved cases that are current with the agreed-upon payments before finalization. Ongoing delinquency statistics on finalized modification plans will be reported by Sub-servicer on a monthly basis.

Work-out versus Move-out

Once the completed loss mitigation package is submitted to Sub-servicer, an evaluation of viable solutions is performed to determine whether the borrower is a good candidate for one of the work-out or move-out options. Below is a matrix that summarizes these options.

Loss Mitigation Package Review							
A. Work-out Options					B. Move-out Options		
Mortgage Protection Coverage	Repayment Plans	Simple Modification Plans	Complex Modification Plans		Pre-foreclosure		Post Foreclosure
			FHA Partial Claims	PMI Advance Claims	Short Sales	DIL	

B. Forbearance/Repayment plans - Based on the income and expenses and other information in the loss mitigation package, determine if the borrower can reasonably catch-up on their arrearages within 6 months. This is best suited for borrowers who are 30-90 days delinquent and a 1 ¼ to 1 ½ payment per month structure will result in the borrower coming current in 3 to 6 months.

1. Bond Loans - Sub-servicer is to follow Mortgage Insurer/Guarantor guidelines. Sub-servicer has delegated authority to approve forbearance plans on behalf of CDA for FHA, VA, and Rural Housing Service loans.
2. State Loans, uninsured Bond loans, & MHF insured loans - Forbearance plans may include temporary suspension of payments, graduated payments, and plans with fixed payments that include part of the delinquent amount. Sub-servicer may approve forbearance plans with a maximum term of one year for loans no more than 6 months delinquent without DHCD Single Family Collection's approval. A review of income and expenses should demonstrate the Mortgagor's ability to adhere to the plan. Informal, verbal forbearance plans of short duration (less than 3 months) are acceptable unless the Mortgagor has broken a previous forbearance plan. Forbearance plans of longer duration (3 months or more) or for Mortgagors with a previous broken forbearance plan must be in writing. **Sub-servicers are encouraged to refer Mortgagors to HUD-approved housing counseling agencies** for budget counseling. If legal action has started, legal fees may be included in the plan.

DHCD must approve forbearance plans where the length of the plan is more than one year or the loan is more than 6 months delinquent. *Housing counseling is required on all forbearance applications submitted to DHCD.* DHCD may consider full reinstatement after the

foreclosure sale but before ratification of the sale. DHCD will not consider a forbearance plan after the foreclosure sale. DHCD will review the documentation and respond in writing. The following information must be submitted when requesting approval of a forbearance plan as noted above:

- Sub-servicer's written forbearance plan recommendation, including terms
- Letter from the Mortgagor detailing the reasons for default
- Completed Delinquency Status Form 6A
- Financial forms listing income and debts/expenses
- Verification of employment (written VOE or two most recent paystubs) for all jobs, for all Mortgagors
- Most recent two months of checking and savings statements for all Mortgagors;
- Federal income tax returns for the last two (2) years for all Mortgagors
- Verification that the Mortgagors have received housing counseling related to the current delinquency
- Recent credit report for all Mortgagors

Unemployment Repayment Plans/Mortgage Protection Coverage (some PMI loans only)

- This option is only applicable to certain PMI loans within specific timeframes. It covers 6 months of mortgage payments while the borrower is unemployed.
- Sub-servicer will work with each PMI to identify and flag within the system all loans (both current and delinquent borrowers) that have Mortgage Protection Plans. By identifying these cases in advance, the benefits of the coverage can be put in force with minimum wait time.
- If covered by one of the PMI Mortgage Protection Coverage Plans, Sub-servicer will work with the borrower to file the appropriate claims to ensure the loan is brought current.
- If there is more than one person on the loan then the mortgage payment may be prorated and one of the work-out strategies below may still need to be deployed.
- Data on the number of claims and status of payment is required on an ongoing basis.
- Need to investigate the potential of making retroactive claims for borrowers previously unemployed.
- If a PMI Mortgage Protection Plan is not available on a loan, an Unemployment Repayment Plan for 3 months (with a 3 month extension), can be considered Sub-servicer. After the borrower is re-employed, one of the repayment or modification plan options below can be considered, if needed.

C. Loan Modification and Advance Claims

Sub-servicers are responsible for obtaining approval from the Mortgage Insurer/Guarantor before submitting modification applications on all loans except Maryland Housing Fund insured loans.

DHCD's goal is give the mortgage customer a fresh start by bringing the customer current on the mortgage payments and, whenever possible, to resize their mortgage payment to affordable levels, preferably within 31 – 33% of their gross monthly income. DHCD will consider a loan modification when the reason for delinquency is beyond the Mortgagor's control, such as unemployment, illness, divorce/separation, accident, or permanent reduction of income. The Mortgagor's income cannot be sufficient for a forbearance plan (unless the length of the forbearance plan is unrealistic). A review of income and expenses must demonstrate the Mortgagor's ability to make the modified mortgage payments. If the mortgagor has received a prior loan modification, the Director of DCA Single Family Operations must approve the loan. DHCD will follow HUD's guidelines of requiring a second, documented, and separate reason for default from the first reason for default. The Mortgagor must receive housing counseling related to the current delinquency. Sub-servicers should use mortgagor insurer guidelines to determine Mortgagor's financial eligibility for a loan modification. DHCD may use HUD's guidelines to determine approval for loan modifications. Terms for loan modifications depend on the loan program.

1. Bond Loans - Simple loan modifications, temporary or permanent loan modifications, FHA HAMP, RHS HAMP, loan modifications in conjunction with Advance Claims are all tools used to restructure the mortgagor's mortgage payment to an affordable level. For most cases the loan must be at least 2 months delinquent; however, DHCD does have several plans for current mortgagors – Imminent Default or the Advance Claim. **It is a requirement the property be owner occupied for any loan modification, advance claim, or HAMP workout.** Delinquent interest, escrow expenses, and legal fees can be capitalized, if needed. The maturity date on Maryland Mortgage Program loans can be extended 10 years for a maximum 40 year term. If the Mortgagor does not qualify for the payment based on a new capitalized loan, DHCD will consider a loan modification where the delinquent principal and interest payments are deferred and paid as a lump sum at loan maturity or paid in monthly payments after loan maturity. A promissory note or second mortgage for the deferred delinquent interest will be required. The forbearance plan can have payments credited directly to the escrow account to credit all or part of the escrow shortage. Additional monthly principal and interest payments not paid during the term of the forbearance may also be capitalized**. Permanent interest rate changes will only be considered if there is a permanent loss of income such as death of co-Mortgagor, the Mortgagor is on retirement income, or permanent disability.** *Default due to separation, divorce, or spousal abandonment does not qualify for interest rate reductions.* Temporary reductions of the interest rate

may be granted for Mortgagors who have a 15% or greater loss of income. See the "Imminent Default" and "Unemployment" policies. A reduction of the monthly mortgage payment is possible through the CDA Advance Claim. All programs are designed to bring the customer's payment to an affordable level, within 31 – 33% housing ratio.

(a) FHA/VA/RHS Loan modifications - The Sub-servicer has delegated authority on behalf of CDA to approve loan modifications, partial claims, FHA, VA, RHS HAMP loan modifications, unless there is an interest rate reduction. All loan modifications with interest rate reductions require CDA approval. On a cases-by-case basis CDA will consider limiting the PMI insurance exposure to the original principal amount if the capitalization would result in an increased principal balance. Without approval from DHCD, no PMI-insured loan term can be extended for the greater of: 1) 5 years; or, 2) greater than the original amortization period. Entire modification plan process should be completed within 45 days.

- **FHA Loan modifications/FHA HAMP:** CDA has given Sub-servicer delegated authority to approve loan modifications as long as the interest rate remains the same. CDA has a waiver from FHA to allow loan modifications without interest rate reductions. A copy of this waiver is available upon request.
- **VA Loan modifications/VA HAMP**: CDA has given Sub-servicer delegated authority to approve loan modifications as long as the interest rate remains the same. VA Circular 26-11-5 states a State Housing Finance Authority is not required to reduce interest rate on loan modifications.
- **RHSLoan modifications/ RHS HAMP**: DHCD has given Sub-servicer delegated authority to approve loan modifications as long as the interest rate remains the same. DHCD is required to follow RHS guidelines with respect to the interest rate for loan modifications.

(b) Conventional Insured loan modifications and CDA Advance Claims – Sub-servicer must obtain CDA approval for all conventionally insured loan modifications. CDA's current programs for loan modifications for conventional insured start with repayment plans and simple loan modifications. If the customer has expressed and documented a financial hardship making the monthly payments under the current terms of the mortgage, cannot afford the mortgage payment under a repayment plan or simple loan modification, Sub-servicer will evaluate and submit for CDA's approval for other loan modification options, mentioned below. **Loan modification Options:**

- **Simple Loan Modification –** Interest, escrow, and legal fees may be capitalized. Interest rate remains the same, unless there is permanent loss of income such as death, disability, etc.. The loan term is maximum of 40 years from the first payment date on the mortgage. Any terms past 40 years require CDA approval and the loan modification must be recorded at the locate county or city court. Below are various available **Simple Loan Modifications**:

- **Unemployment/Underemployment Program** – Same as above; however, the loan may be up to 60 days delinquent at time of application.

- **No Trial Plan Loan Modification** – a version of the simple loan modification (subject to mortgage insurer approval), where a customer who has a good payment history prior to the current delinquency does not have to make trial payments, but can start immediately with the loan modification and bring the account current. Good payment history such as: (1) Previous delinquency history not more than 60 days delinquent.(2) If previous delinquent was more than 60 days late in the past, the delinquency was more than 5 years ago and the customer has no more than 2 or 3 30 day late payments per year over the last 3 years.(3) Maximum delinquency over a certain period of time - 60 days over the last 5 years. If previous delinquency was 3 years ago, we could consider it, if reason for default was unemployment, divorce, separate, or other CLEAR financial hardship. This is meant to be a guidelines and not hard and fast rules.

- **Imminent Default Policy – for all MMP loan insurance types -** DHCD's primary goal of the Imminent Default initiative is to keep CDA customers in their homes who are experiencing financial hardship but are current with their monthly mortgage payments. CDA's top priority will be the use of loan modifications with a temporary reduction in interest rate to further DHCD's goal of preserving home ownership during this period of economic challenge. All options offered are subject to mortgage insurance approval. The private mortgage insurance advance claim or short claim will not be eligible; however, the FHA HAMP program is being utilized. A short sale or deed in lieu of foreclosure will only be considered in cases of severe financial hardship that prevents the customer from making even reduced monthly payments. Income and expenses will be carefully scrutinized to separate a mortgagor who has a genuine hardship

and a mortgagor who is attempting a “strategic default” or fraud. These customers would fall into strict criteria for reason for default, income documentation, and expense documentation.

(1) . Loan Modifications: Reductions in interest rate will be temporary and no longer than 2 years or the end of the interest only period, whichever occurs first. The housing ratio will be as close to 33% as possible and the maximum debt ratio will be 50%. At the end of the temporary reduction in interest rate, the payment will automatically change to the original note rate. The customer will have to re-apply to remain eligible for the preferred rate.

(2) Short Sales and Deeds in Lieu of Foreclosure: Every effort will be made to tailor a loan modification for the customer. In the event of a significant loss of income, CDA may consider a short sale or deed in lieu of foreclosure, subject to mortgage insurer approval. The loss to CDA from a short sale or deed in lieu of foreclosure will need to be repaid to CDA via a promissory note with monthly payments at the note rate. Any DSELP second mortgage will need to be repaid for the same number of years as the CDA promissory note at the rate of 5%.

(3) . Advance/Short Claims with Loan Modifications: Advance or short claims for loans with private mortgage insurance are not eligible; however, the FHA HAMP program is available.

(4) Qualification and documentation requirements are as follows:

- Reason for default – The customer had an involuntary reduction in income which can be clearly documented. The customer cannot have excessive long term debt, such as in excess of 15% of the gross monthly income. The reasons for default that would not be considered are excessive credit use, irresponsible spending habits, unemployment or abandonment of spouse/significant other who is not on the mortgage loan, private school or college costs, and other expenses or living choices over which the customer has a choice.
- Housing Counseling – may be required for customers who would benefit from a counseling literacy class or need a debt management plan to afford the mortgage payments.
- How has the mortgagor kept the property current? - If the customer has used savings, 401K, or money from relatives, they will have to document this with bank statements, cancelled checks, etc. The customer will have to demonstrate a minimum of 90 days financial hardship.
- Expense documentation
  i. Credit report – all loans listed with a balance above $300 must be listed on the income and expense sheet with a monthly payment. All judgment not paid must have a written

payment plan submitted and included in the budget. Collection accounts that are non-medical that are over $500 must be included?? Medical collection accounts over $1,000 ($10,000, $20,000) must have written payment plans?

ii. Bank statements – will be closely reviewed for expenses not listed on the monthly financial income/expense worksheet.
iii. Food – If the amount for food is below FNMA's suggested amount, bank statements will be reviewed to document spending.
iv. One year's utility bills for gas/oil/electric heat and electric lights.
v. Long term debts – if they have excessive debts or if reducing the long debt debts will help the customer afford the mortgage payment, the customer may be required to enter into a debt management plan through a company like CCCS to decrease the long term debt ratio.

- Income documentation – The customer must have at least a 15% decrease in income from the loan application. There must be a likely prospect the mortgagor will have increased income within the next 2 years.
  i. Two year's tax returns – is there a non-mortgagor spouse on the tax return whose income is not being considered or reported
  ii. Bank statements
  iii. Pay stubs with explanation for all deductions
  iv. Review of income tax deductions – may need to decrease taxes taken out of gross pay
  v. Voluntary contributions to 401K or pension plans – customer may have to cancel this or lower this to no more than 2% of gross income.
  vi. Apply for a loan from 401K pension plan
  vii. Rental income from a source that cannot be documented for less than one year will not be considered.
  viii. Self-employment – will require one or two year's tax returns. Newly self-employed would require business bank statement or profit and loss statement showing at least 6 (9 months, 1 year?) of income.
  ix. Overtime and part time jobs - minimum amount of time on the job and average the additional income?
  x. Unemployment income will not be considered permanent income.
  xi. If the customer is unemployed, a phone call will be made to the last known employer to confirm the customer no longer works at the company.

- Default of mortgage payments after loan modification has been granted: If the customer defaults on the modified monthly mortgage payment, they will be eligible for all non-retention options. CDA and the Sub-servicer will move quickly to process the non-retention option or start legal action.

- **Complex Modification Plans; with Partial/Advance Claims (all loans; except VA and Rural)**

A. FHA (Partial Claims)	B. PMI (Advance Claims)
• Follow guidance as provided under FHA's Home Affordable Loss Mitigation Option. • Partial claim cannot exceed 30% of the unpaid balance at time of default (total Partial Claim covers 12 months of PITI). • No change in MMP interest rate; loan terms can be extended to 360 months. (NOTE: the extension of loan terms will have an impact on CDA cash flows; monthly reporting on FHA partial claims needs to be forwarded to CDA Finance.) • Total first mortgage payment (PITI) is initially based on a 31% front-end ratio; back-end ratios cannot exceed 55%. *(CDA may explore with FHA if a CDA partial claim will be acceptable to get the borrowers below either the front or back end ratios.)* • Sub-servicer will handle the modifications and coordinate all required actions, including handling the title search and work on any subordination requests. DHCD will approve each case, and test the underlying paperwork on 10% of the cases. DHCD will provide Sub-servicer with a revised FHA-HAMP Worksheet.	• CDA has to work with each individual PMI to develop some general guidance; most work-outs will be done on a case-by-case basis. • The borrowers must demonstrate that the reason they need assistance is because of loss of income. • Advance claims by the PMI will not be typically more than 25% of the total potential claim at the time of work-out. • The PMI Advance Claim and CDA Principal Write-down (or deferment of principal) will allow the total mortgage payment (PITI) not to exceed 33% with a back-end ratio not to exceed 50%. • The borrower must have a 2 month trial payment plan before the Advance Claim from the PMI is received. • Sub-servicer will pre-approve cases for this option and refer them to DHCD. DHCD will initially handle the modifications and coordinate as needed with Sub-servicer. (Sub-servicer will handle the title search and work on any subordination requests). • Insurance coverage and premiums will remain in effect, unless DHCD agrees to a different work-out option with the PMI. The PMI will only be responsible for any subsequent claims up to the 35% coverage. • The PMI and CDA Advance Claims remain as a "soft" debt on the property ahead of all previous subordinate debt (recoveries received will be prorated

• The borrower must have a 3 month trial payment plan (4 months for an imminent default mortgagor). • The $1,250 incentive payment from FHA will be provided to Sub-servicer if the modification is done within a timely manner. • Insurance coverage and premiums will remain in effect. • The Partial Claim remains as a "soft" debt on the property ahead of all subordinate debt. • If needed because of other debt issues, the borrower needs to work with pre-approved credit counseling agencies (HUD-certified) to ensure other debt is properly managed.	between CDA and the PMI). • If needed because of other debt issues, the borrower needs to work with pre-approved credit counseling agencies (HUD-certified) to ensure other debt is properly managed. • The borrower needs to agree upfront to give a Deed-in-lieu if the new loan plan does not work (i.e., miss 2 payments). • If the property is in need of rehabilitation and the borrower is eligible, the homeowner can be referred to CDA Single Family for resources to finance any needed repairs.

- **CDA Advance Claim – For conventionally insured loans only -** This hybrid loan modification combines an advance claim with a loan modification. The mortgage insurer pays up to 25% advance claim. The balance between 35% and the actual percentage of clam paid remains in effect for mortgage insurance coverage. The customer will continue to pay mortgage insurance premiums, which may be the same or lower.
    a. Mortgagor Qualifications - The goal is to bring the mortgage payment down to 33% of the customer's monthly income as long as the debt ratio is 50% or less. Slight variations to these ratios will be considered on a case by case basis. This workout is used for situations where the customer has a 15% or more loss of income (unemployment, underemployment, divorce, separation, permanent disability, medical, etc.) and currently have a high housing ratio (in excess of 33%) or entered into the mortgage with a high housing ratio. Customers whose reason for default is high long term debt or have overuse of credit cards are not good candidates for this option as the many of the mortgage insurers exclude this situation. A customer may be referred to a debt management company like Consumer Credit Counseling Services (CCCS) to lower their long term debt in order to qualify for this option. (CCCS) may be able to negotiate the offer a monthly debt plan that will lower the

customer's monthly unsecured card payment by 25-50% and lower their overall debt ratio to 50%.

b. Mechanics of the workout - The mortgage payment is lowered by moving a portion of the amortizing principal balance to a 0% non-amortizing, deferred loan. The mortgage insurer is asked to participate by paying an advance claim of up to 25% of the expected mortgage insurance claim payment loss, CDA will use alternative CDA funds to move an additional portion of the principal balance from amortizing to 0% non-amortizing. Then the loan is modified to base the monthly mortgage payments on the amortizing portion of the principal balance. For example, a $250,000 loan at 6% could be modified with an advance claim as follows: mortgage insurer pays $65,000 and CDA moves $35,000 from amortizing to non-amortizing. The loan is modified as follows: the principal balance is changed from $250,000 amortizing at 6% to $150,000 at 6% and $100,000 is payable at 0%, deferred until refinance, sale, or original maturity date of the loan. CDA services the non-amortizing portion of the principal balance in the amount of $100,000 on behalf of the mortgage insurer and CDA. All collections with regard to the non-amortizing portion of the principal balance are split between mortgage insurer and CDA on a 65% / 35% basis. The principal and interest payment will change from $1,498.00 to $899.33.

- **CDA Short Claim** – The short claim works like the Advance Claim. The difference is (a) the mortgage insurer has opted to pay an advance claim of their maximum amount and cancel the mortgage insurance coverage or (b) the mortgagor does not qualify for an advance claim but will afford a short claim that does not have a monthly mortgage insurance premium, and requires the full 25% advance claim to bring the mortgage payment to an affordable level. Since there will not be any mortgage insurance coverage, CDA Bond requires the first mortgage balance be 80% of the current appraised value. If the customer's mortgage payment at 80% of the appraised value is less than 33%, there will be a second amortizing mortgage, and a third deferred, non-amortizing mortgage. CDA 0% bonds will be used to bring the first mortgage down to 80% of the current appraised value. The principal balance of the customer's first and second amortizing mortgages will be based on the 33% monthly payment affordability. The Advance Claim template will calculate these amounts.

The second mortgage interest rate will be the same as the first mortgage interest rate.

c. State funded loan program loan modifications – Loan modification terms for state funded loans differ depending on the loan program.

d. All Loans programs - If the new principal balance exceeds the original principal balance, the loan modification may need to be recorded**. If the new maturity date exceeds 40 years from the closing date the loan modification agreement will need to be recorded**. A title search, appraisal, or subordination agreement for junior mortgages may be required. If the property has junior liens and DHCD has determined the loan modification must be recorded, it will be the Sub-servicer's responsibility to obtain subordination approval from the junior lien(s). Escrow expenses, legal expenses, etc. may be capitalized. The modification may be combined with a repayment plan to be used to bring the escrow account current before processing the loan modification. Sub-servicer must submit the following documentation to DHCD for approval:

- Completed Delinquency Status Form 6A (see Attachments)
- Letter from the Mortgagor detailing the reason for default
- Approval of Mortgage Insurer/Guarantor, if not MHF insured or uninsured
- Financial form listing income and debt/expenses
- Verification of employment (written VOE or two most recent paystubs) for all jobs, for all Mortgagors
- Most recent two months of bank savings and checking statements for all Mortgagors
- Copy of a current credit report for all Mortgagors
- Federal income tax returns for all Mortgagors for the last two (2) years
- Verification that the Mortgagor has received housing counseling related to the current delinquency
- Written documentation of hardship (letter, bills, receipts, etc.)
- Two years of payment and collection history
- Copy of Deed of Trust and Deed of Trust Note
- Appraisal required for Advance and Short Claims (DHCD can order desktop appraisal for $50).

DHCD will review the information and forward a decision to the Sub-servicer in writing. The Office of the Assistance Attorney General at DHCD or Servicer will prepare any required loan modification documents. Servicer may have delegated authority to sign loan modification documents behalf of DHCD. The loan modification documents will be forwarded to the Sub-servicer to obtain the Mortgagor's signatures. Sub-servicer will forward the original executed documents back to DHCD. Sub-servicer is responsible for

having documents recorded if it is determined that the loan modification agreement and any subordination agreement must be recorded. Not all loan modification agreements must be recorded.

D. Refinancing – CDA currently offers a FHA streamline refinancing program and CDA MMP Conventional Refinance Program. Rates and terms can be found on CDA's website at mmprogram.org.

1. **Bond Loans –** Any delay of legal action to allow refinancing is subject to mortgage insurer approval.
2. **State Loans, uninsured Bond loans, and MHF insured Bond loans** - If the loan is no more than 5 months delinquent, Sub-servicer may request that DHCD delay legal action an additional 90 days while the Mortgagor attempts to refinance. If the Mortgagor makes additional payments, more time may be granted. DHCD will require the following documentation:

   - Completed Delinquency Status Report Form 6A (see Attachments)
   - Last 2 year's payment and collection history
   - Written request to defer legal action
   - Copy of the application for refinancing from the lending institution

3. **Sale or Assignment of Mortgage – Sub-servicer to coordinate and manage sale or assignment programs for defaulted loans, such as the FHA SFLS 601 program.**

Borrower Move-out Options *(generally for PMI loans only)*

Once it is determined that a work-out option is not viable, Sub-servicer will try to work with the borrower to implement one of the move-out options below. If the borrower is more than 6 months delinquent, written approval is required by DHCD and the respective mortgage insurer in order to give the 60-90 days to obtain a Contract of Sale on the home

E. Sale of the property

1. Bond loans – Sub-servicer is to follow mortgage insurer instructions.
2. State Loans, Bond uninsured, and MHF insured Bond loans - Sale of the property should be strongly encouraged if the Mortgagor no longer lives in the property, cannot afford the mortgage payment, or has defaulted on

several payment plans. If the loan is no more than 5 months delinquent but not yet in foreclosure, the Sub-servicer may request that DHCD delay legal action an additional 90 days if the Mortgagor can provide evidence that the property is on the market or has a fully ratified Contract of Sale. Additional time may be granted to sell the property if the Mortgagor can continue making full or partial payments while the property is listed for sale. If the loan is in foreclosure and the Mortgagor has a fully ratified Contract of Sale on the property, DHCD will consider placing legal action on hold. The following documentation must be submitted to DHCD for approval:

- Delinquency Status Form 6A requesting DHCD delay legal action (see attachments)
- Letter of explanation from the Mortgagor detailing the reason for default
- Last 2 years' payment and collection history
- Copy of the listing agreement, if property is not sold yet
- Comparable sold properties, if property is not sold yet
- Copy of the fully ratified Servicing Agreement of Sale, if sold
- Buyer's pre-qualification letter

Sub-servicer will be sent written approval or denial of the request to delay legal action. When proceeds from settlement are received, the Sub-servicer is to forward the funds to DHCD or the Trustee within 48 hours, as any other payoff (Refer to *Section 4 – Reporting and Remittance Requirements* for instructions to remit payoff funds).

F. Short Sale

1. Bond Loans - Sub-servicer is to follow Mortgage Insurer guidelines.
(a) The Sub-servicer has delegated authority to approve short sales on behalf of CDA for FHA, VA, and Rural Housing Service loans. However, if there is a DSELP loan, Sub-servicer must apply to DHCD for approval to convert the DSELP from a mortgage to a promissory note. Sub-servicer is to inform CDA of the short sale approval by sending a Form 6A, copy of proposed HUD I, the approval letter from Sub-servicer and mortgage insurer, if applicable.
(b)DHCD must approve all short sales for conventionally insured loans, uninsured and state funded loans. To qualify for a short sale, the loan must be at least 60 days delinquent, unless the Mortgagor documents the financial or medical hardship to continue making payments. If our loan is in junior position and the first mortgage is in default, we will consider a short sale as well. Other extenuating circumstances may be considered on a case by case basis. The property does not need to be owner occupied. DHCD must be the only mortgage/lien on the property; otherwise, a written agreement must be obtained from the junior lien holder(s) agreeing to a short sale of their loan(s).

The Mortgagor may list the property for sale at an amount less than the full payoff without DHCD's prior approval. If the loan is no more than 5 months delinquent, the Sub-servicer may request that DHCD delay legal action an additional 90 days while the property is listed for sale. Additional time may be granted to sell the property if the Mortgagor can continue making full or partial payments. DHCD may still decide to initiate foreclosure or deed in lieu of foreclosure during this time. If the loan is in foreclosure and the Mortgagor has a Contract of Sale on the property, Sub-servicer may place legal action on hold once mortgage insurer and DHCD have approved the short sale. The Contract of Sale sound have a clause that it sale is subject to mortgage insurer and investor approval.

Conventional insured loans and uninsured loans - If the loss from the short sale will be less than 35% follow mortgagor insurer guidelines. If the loss from the proposed short sale is greater than the mortgage insurance coverage of 35%, the following policies also apply:

(1) The property must be listed with a licensed real estate agent.
(2) Bogman is to order a title report
(3) As soon as the Sub-servicer receives a listing agreement on a delinquent loan, they are to order a Fannie Mae approved appraisal.
(4) If the appraisal is 70% or less than the current principal balance, the Sub-servicer is to forward the listing agreement and appraisal to DHCD .The mortgagor is required to start the listing price at appraisal value, unless DHCD approves a lower starting price.
(5) The short sale transaction must be an "arm's length" transaction. Immediate family is excluded from participating in a short sale.
(6) As soon as the Sub-servicer receives a Contract of Sale, a short sale application should be forwarded to Single Family Collections with all documentation, listed under B, below.
(7) Preference will be given to buyers who are owner occupants rather than investors.
(8) DHCD may consider allowing money from the sale of the home to go toward buyer's reasonable and customary settlement costs for buyers who are owner occupants. DHCD may consider paying reasonable and customary settlement costs for buyers who are investors when accepting the contract is in the best financial interests of DHCD; however we reserve the right to deny paying buyer closing costs. DHCD may allow seller paid concessions to investor buyers if sales prices are at the appraised value and/or properties are more suitable to be sold to investors because of property condition and/or neighborhood decline.
(9) The sale price less any seller concessions, such as money toward owner-occupant buyer closing costs, should be within 15% of the appraised value unless other adverse market conditions exist such as:

a. Insufficient comparable homes that clearly document value
b. Many comparable homes on the market for sale at less than the appraised value which document declining neighborhood values
c. Glut of comparable homes for sale in the immediate neighborhood, apartment complex, or condominium development.
d. Home has been listed for sale at appraised value or within 15% under appraised value for more than 3 months.

(10) Contracts where decreases in value are due to mortgagor neglect or mortgagor inflicted damages may not be accepted.
(11) DHCD always has the right to an inspection of the property and an appraisal performed by a DHCD appraiser.
(12) CDA would prefer the mortgagor agree to a deed in lieu of foreclosure in case the property does not sell.
(13) CDA's approval of the short sale is subject to approval from the mortgage insurance company.
(14) Financial contribution toward MMP loan loss as a result of the short sale: - If the mortgagor does not document a financial hardship, CDA may require a financial contribution in the form of a cash contribution or a promissory note amortized at the same rate of interest as the MMP mortgage. If the mortgagor agrees to pay via a promissory note, the promissory note will be serviced by the Sub-servicer.
(15) In order to review the request for a short sale, CDA requires the documentation, listed below. All documentation requested in conjunction with a short sale request must be provided to the Sub-servicer within 10working days or the short sale request may be denied.

- Copy of HUD I with estimate of net proceeds
- Completed Delinquency Status Report Form 6
- Letter of explanation from the Mortgagor detailing the reason for default
- 2 years collection and payment history
- Financial form listing income and debts/expenses
- Verification of employment (written VOE or two paystubs) for all jobs, for all Mortgagors
- Two month's checking and savings statements (including retirement accounts, stocks, bonds, etc.) for all Mortgagors
- Federal income tax returns for all Mortgagors for the last two (2) years
- Fannie Mae approved appraisal
- Payoff statements for all mortgages/liens
- Copy of listing agreement
- Copy of the Contract of Sale

- Copy of buyer's pre-qualification approval letter
- Short Sale worksheet need to be filled out
- Cash Incentive Template for conventional mortgage insured loans.
- If approval is required from MHF or CDA Finance, a memo will be provided giving a summary of the reason for default, particulars of the loan, and property value information.
- A fully executed "Arm's Length Transaction" form must be signed
- DSELP agreement signed by mortgagor agreeing to repay the DSELP second mortgage via a promissory note at 5% for 5 – 20 years.
- If there are junior mortgages, a written agreement to repay the debt and/or forgive the debt must be included.
- If DHCD determines no significant financial hardship exists, mortgagor may be required to repay a portion of the CDA MMP loss via a promissory note and/or cash contribution.

(16). Approval Authorization

- Approval for all short sales is required from the mortgage's specific private mortgage insurance company and DCA management.
- If the loan is MHF insured, the Director of DCA must also approve the short sale.
- If the short sale loss is greater the maximum 35% private mortgage insurance claim, approvals are required from the private mortgage insurance company, DCA management and the Director of CDA Finance.

2. **DHCD DSELP second mortgages** – If there is a DSELP loan that cannot be paid off from the settlement proceeds or from mortgagor's funds, the mortgagor must sign a promissory note for the balance of the outstanding DSELP. Board of Public Works approval is required to release the second DSELP mortgage in exchange for a promissory note. The terms of repayment will between 5 and 30 years at 5% interest, depending on the loan balance. The promissory note must be returned to DHCD after the short sale settlement. The DSELP promissory note will be sent to the State Master Sub-servicer to set the loan up for collection based on the terms of the promissory note. An e-mail will need to be sent to DHCD Finance notifying them to set up the DSELP loan under the State Master Servicing Agreement for payment of monthly servicing fees.
3. **Payment of Cash Incentives for completion of a successful short sale for conventionally insured loans**- An e-mail authorizing payment of cash incentives should be sent to Sub-servicer to pay the mortgagor. An e-mail is to be sent to CDA Finance and DHCD Finance authorizing CDA Finance to pay any portion of the cash incentive that is earmarked for reduction of the DSELP loan. CDA will pay the cash incentive if the Sub-servicer has forwarded the written cash incentive paperwork or the Sub-servicer's notes

state the cash incentive program was offered. . See the information under G. MMP Work-out/Move-out Protocols under Cash Incentive Program.

4. **State or Federal funded Loans – MHRP, GHAP, and DSELP loans are not eligible for short sale without Board of Public Works approval.** The amount of the shortfall should be repaid by a promissory note. Both unsecured repayment and request for forgiveness of state funds requires Board of Public Works approval.

5. **Payment Instructions (for all loan programs no matter who insures/guarantees the loan):** The Sub-servicer must instruct the settlement company to forward a copy of the signed HUD I and a check for the agreed upon short payoff to:

Bond Loans:

WIRE INSTRUCTIONS

M & T BANK BUFFALO, NY
One M&T Plaza, Buffalo, NY
14203
ABA # 022 000 046
Account Name: Trust Division
Account #: 3088001950200

Mailing Instructions:

Community Development Administration
Finance Section
P.O. 2524
Landover Hills, MD 20784

State Loans:

Make check payable to:
Department of Housing and Community Development
P.O. Box 2521
Landover Hills, MD 20784

NOTE: Any funds available over the agreed upon short payoff proceeds must also be forwarded as instructed above and not disbursed to the buyer or the seller.

Upon receipt of the agreed upon sale proceeds and copy of the signed HUD 1 Settlement Statement, copy of signed promissory note for DSELP & mortgagor's forwarding address, if applicable, DHCD will issue a certificate of satisfaction and consider our loan paid in full. DHCD will forward a copy of

the signed HUD I and check to the Sub-servicer. The Sub-servicer should file a mortgage insurance claim within 15 business days after receipt of the copy of the HUD1 and short payoff check. For uninsured loans the Sub-servicer is to send the escrow deficit bill to DHCD.

Sale of the property should be strongly encouraged if the Mortgagor is no longer in the property, cannot afford the mortgage payment, or has defaulted on several payment plans. If the Mortgagor wants to place the home for sale with a licensed Real Estate Agent or has a written offer to buy neither of which will generate enough proceeds to pay the loan in full, the Sub-servicer may request that DHCD approve a short payoff of the loan.

The AMO will review the package and make a recommendation. The Manager Single Family Collections or the Default Supervisor will review and initial. The recommendation will be presented to the Director, SFO, REO Committee, or Director DCA for final approval authority. The Sub-servicer will receive written approval or denial of the short sale request. The maximum allowable Realtor's commission for a short sale is 6%.

H. Deed in Lieu of Foreclosure

1. **Bond loans – Sub-servicer is to follow Mortgage Insurer/Guarantor guidelines for approval of a deed in lieu of foreclosure (DIL).**
2. **Government insured Bond loans - Sub-servicer has delegated authority to approve deeds in lieu on behalf of CDA for FHA, VA, and Rural Housing Service. However, if there is a DSELP loan, Sub-servicer must apply to DHCD for approval to convert the DSELP from a mortgage to a promissory note.** Sub-servicer is to inform CDA of the Deed in Lieu of foreclosure approval by sending a Form 6A with copy of the approval letter from Sub-servicer and mortgage insurer, if applicable. If the loan has a DSELP, the DSELP agreement must be signed by the mortgagor and forwarded to CDA with the 6A notice.
3. **For conventionally insured loans Bond loans,** Sub-servicer is required to forward a package to DHCD (Refer to Section 8A Foreclosure Referral Requirements) including the property condition inspection report (pictures inside and out) and keys once the mortgage customer has moved out of the property. DHCD will review the property condition inspection report, and if the condition of the property is approved, will forward the DIL paperwork to be processed by DHCD's contract foreclosure attorneys. CDA Finance, Assistant Manager, or Manager Single Family Collections must approve the DIL if the loan is uninsured or the mortgage insurer is not taking title to the property. Sub-servicer is to monitor the process and should file a mortgage insurance claim after the deed has been recorded in compliance with Mortgage Insurer/Guarantor times frames.
4. **State Loans, uninsured loans, and MHF insured loans –** In order to qualify for a DIL, the loan must be at least 60 days delinquent unless the Mortgagor has documented their inability to continue making payments. Other extenuating circumstances may be considered on a case by case basis. The property must be free of other liens and mortgages and in a condition acceptable to DHCD. DHCD *may* consider a DIL for small liens (under $1,000). The Mortgagor must attempt to sell the property for at least 90 days. This requirement may be waived due to extenuating circumstances. The property does not have to be owner occupied. The property must be vacant or will be vacant (exact time depends on how delinquent the loan, if loan is being listed for sale first, etc.) once the DIL paperwork is signed and forwarded back to DHCD's attorneys. The Sub-servicer should submit the following documentation:

   - Completed Delinquency Status Report Form 6A (see Attachments)
   - Letter from the Mortgagor detailing the reason for default
   - Last 2 year's payment and collection history
   - Completed Statement of Mortgage Debt (see Attachments)

- Financial form listing income and debts/expenses
- Verification of employment (written VOE or two paystubs) for all jobs, for all Mortgagors
- Two months bank statements
- Two years Federal Income Tax Returns
- Documentation of Mortgagor hardship (letter, bills, receipts, etc.) as applicable
- Written letter signed by all Mortgagors on Deed of Trust, requesting the deed in lieu and agreeing to sign whatever documents are required; and
- If property is listed with a Realtor, a copy of the listing agreement and Realtor market analysis
- Uninsured loans and private mortgage insured loans (where mortgage insurance company is not taking title to the property and paying 100% claim) requires an inspection by DHCD REO section.
- Uninsured loans and private mortgage insured loans may require a BPO.

DHCD will issue a **CONDITIONAL** written approval which will be subject to a title search, the property being vacated, and an inspection by DHCD's REO section determining that the property is in a condition acceptable to DHCD. DHCD will forward the file to a DHCD contract attorney to start legal work. The attorney will prepare the paperwork and send the documents to the Mortgagor for signature. Once all conditions are met, the property is vacant, and the signed documents have been returned to the attorney, the deed in lieu will be recorded. After recordation, DHCD will issue a certificate of satisfaction and consider our loan paid in full. Sub-servicer is to forward their escrow deficit bill to Single Family Collections for reimbursement.

Conventionally insured loans are eligible for CDA's Cash Incentive Program. See the information under G. MMP Work-out/Move-out Protocols under Cash Incentive Program.

I. CASH INCENTIVES FOR CONVENTIONALLY OR UNINSURED LOANS ONLY NOTE: In the pre-foreclosure stage there are several variations on how borrowers may participate in DHCD's version of "Cash-for-Keys" (i.e., Cash Incentive Program). DHCD's Cash Incentive Program (CIP) is somewhat complicated by the fact that DHCD may have subordinate debt on the property, and how this subordinate debt is handled may impact on the borrower's cooperation in the process. As such, a few tenets of the DHCD version of CIP are listed below. These should be used in concert with the specific amounts shown under Short Sales and Deed-in-lieu (DIL). All CIP options will need to be approved by the PMIs, if the payments are to be included in the claim. A defaulted borrower is eligible for a cash incentive pre and post foreclosure. The amount allowed for payment to the defaulted borrower is determined by which option is chosen, if there is a DHCD second Down payment and Settlement Expense Program loan (DSELP), how delinquent the loan is, and how long the workout takes. Generally the payment allowed is higher for short sales and deed in lieu than for properties that have gone through the foreclosure process. Payments are subject to the following conditions being met by the defaulted borrower:

- Loan is delinquent
- This is not a "strategic default"
- Surrender the keys and vacate the premises on the agreed upon date, or before.
- Leave the property empty, in good condition and clean (broom swept)
- Not vandalize the property
- Mortgage Insurer must agree in writing to not pursue a deficiency judgment from the mortgagor.

Procedure:

A legally drafted "letter of agreement" needs to be presented to the defaulted borrower. The aforementioned conditions, any additional conditions deemed necessary specific to the property, the agreed to cash incentive amount and any specific application of the agreed to cash need to be contained in a letter of agreement. The Cash Incentive Program letter of agreement will be signed and dated by the defaulted borrower and CDA or CDA's Sub-servicer.

On the agreed to vacate date or before, a CDA official or designee will take possession of the keys to the premises and inspect the property for compliance. If all property related terms of the letter of agreement have been met, this information will be communicated to the CDA designated officials to begin processing of the agreed to payment. The cash incentive will be paid when the deed in lieu of foreclosure has been recorded and property inspection approved

or once the short sale settlement has occurred. If any of the conditions have not been met, that should be communicated in details and pictures to the appropriate CDA staff. This information will be officially communicated to the defaulted borrower explaining reasons for denying or reducing the cash incentive.

1. **Cash Incentives Pre-foreclosure**

   Once it is determined that a home retention work-out option is not viable, Sub-servicer will try to work with the borrower to implement one of the move-out options below. If the borrower is more than 6 months delinquent, written approval is required by CDA and the respective mortgage insurer in order to give the 90 days to obtain a Contract of Sale on the home or the approve a deed in lieu of foreclosure.

   There are several variations on how borrowers may participate in CDA's version of CIP for short sales and deeds in lieu of foreclosure. The CIP is somewhat complicated by the fact that CDA may have subordinate debt on the property, and how this subordinate debt is handled may impact on the borrower's cooperation in the process. As such, a few tenets of the CDA version of CIP are listed below. Please use these in concert with the specific amounts shown under short sales and Deeds in lieu. All CIP options will need to be approved by the PMIs, if the payments are to be included in the claim.

   - No matter the scenario, the borrower will get at least $*2,000* in cash if they participate in a Short Sale or DIL.
   - If the loan has a CDA DSELP loan (or other CDA subordinate Debt), the CIP payment (except the agreed upon amount paid directly to customer) will be used to extinguish the CDA subordinate debt. If in some cases, if there is a DSELP balance remaining, the borrower will need to sign a promissory note setting out the terms to repay the balance of the DSELP owed.
   - If there is not a DSELP loan on the property, the maximum CIP amount is up to $5,000.
   - In addition, to providing money under CIP, CDA and the PMI will not pursue any deficiency judgments for its losses from the borrower if they agree to pre-foreclosure work-out plan (this is subject to approval by the respective PMI).
   - Premium grants paid to the borrower at closing by CDA will not be accounted in the subordinate debt calculations.
   - Sub-servicer will work with any other governmental or employer entities if other subordinate debt, related to down payment and closing costs, may exist. CDA will assist Sub-servicer in reaching agreements with employers that participated in CDA's "match" down

payment assistance initiatives to get these entities to write the debt off or at least consider a promissory note.

- In order to be eligible to participate in a short sale and receive money under the CIP, the property must be listed by the 90th day of delinquency, CDA must approve the short sale contract and the borrower must agree to provide a Deed-in-lieu before the process starts if the home does not sell within 90 days. Settlement cannot be more than 60 days from the date of the CDA approved contract of sale without CDA approval. *Loans cannot be in foreclosure*.

Short Sales:

- Short Sale Settlement occurs 60 – 120 days from listing date and the CIP agreement is $5,000:
  Example 1: $5,000 DSELP loan: Sub-servicer will pay $3,500 to the borrower, CDA will credit $1,500 to the DSELP and the borrower will sign a promissory note for the remaining $3,500 DSELP balance. Example 2: No DSELP: Sub-servicer will pay$5,000 to the borrower. NOTE: in either example CDA will reimburse Sub-servicer the amount paid to borrower.
- Short Sale Settlement occurs 121 – 150 days from listing date and the CIP agreement is $4,500:
  Example 1: $5,000 DSELP loan: Sub-servicer will pay $3,000 to the borrower, , CDA will credit $1,500 to the DSELP and the borrower will sign a promissory note for the remaining $3,500 DSELP balance. Example 2: No DSELP: Sub-servicer will pay $4,500 to the borrower. NOTE: in either example CDA will reimburse Sub-servicer the amount paid to borrower.
- For Short Sale Settlements which occur 151 days or more from the date of listing, the borrower will be eligible for a cash incentive of $2,500.

Deed in Lieu of Foreclosure:

- After 90 days from the listing date: with no acceptable contract or a failed short sale contract, CDA will require the customer to participate in a Deed-in-lieu and the borrower will be allowed up to 75 days to vacate the property to be eligible for the CIP in the amount of $4,000.
  Example 1: $5,000 DSELP loan: Sub-servicer will pay $2,500 to the borrower, CDA will credit $1,500 to the DSELP and the borrower will sign a promissory note for the remaining $3,500 DSELP balance. Example 2: No DSELP: Sub-servicer will pay

$4,000 to the borrower. NOTE: in either example CDA will reimburse Sub-servicer the amount paid to borrower.

- No Short Sale Attempt (requires mortgage insurer approval for DIL), CIP $3,500.00 payment; the borrower will be allowed up to 60 days from the date of default to vacate the property to be eligible for the CIP.
  Example 1: $5,000 DSELP loan: Sub-servicer will pay $2,000 to the borrower and CDA will credit 1,500 to the DSELP, and the borrower will sign a promissory note for the remaining $3,500 DSELP balance. Example 2: No DSELP: Sub-servicer will pay $3,500 to the borrower. NOTE: in either example CDA will reimburse Sub-servicer the amount paid to borrower.

2. Cash Incentives available after legal referral but prior to the foreclosure sale is held:

<u>Short Sale:</u>

- Short Sale settlement occurs 60 days from contract date and the CIP agreement is $3,500: *Example 1: $5,000 DSELP loan: Sub-servicer will pay $2,500 to the borrower, CDA will credit $1,000 to the DSELP and the borrower will sign a promissory note for the remaining $4,000 DSELP balance. Example 2: No DSELP: Sub-servicer will pay 3,500 to the borrower. NOTE: in either example CDA will reimburse Sub-servicer the amount paid to borrower.*
  - Settlement occurs 61 – 90 days from contract date and the CIP agreement is $3,000:
    Example 1: $5,000 DSELP loan: Sub-servicer will pay $2,000 to the borrower, CDA will credit 1,000 to the DSELP and the borrower will sign a promissory note for the remaining $3,000 DSELP balance. Example 2: No DSELP: Sub-servicer will pay $3,000 to the borrower. NOTE: in either example CDA will reimburse Sub-servicer the amount paid to borrower.

<u>Deed in Lieu of Foreclosure:</u>

- Failed Short Sale, CIP agreement $2,500, and the borrower will be allowed up to 30 days to vacate the property to be eligible for the CIP.

Example 1: $5,000 DSELP loan: Sub-servicer will pay $1,500 to the borrower, CDA will credit $1,000 to the DSELP and the borrower will sign a promissory note for the remaining 4,000 DSELP balance. Example 2: No DSELP: Sub-servicer will pay $2,500 to the borrower. NOTE: in either example CDA will reimburse Sub-servicer the amount paid to borrower.

3. **Post Foreclosure -** Sub-servicer will send out letters on all conventional loan foreclosures after the sale date advising the mortgagors they have 30 days to advise the foreclosure attorney if they wish to receive a cash payment in lieu of going through the eviction process. The mortgagor should notify the foreclosure attorney within 30 days of the sale date that they are interested in the Program. The mortgagor will vacate the property and send the keys to the property and the Agreement to the foreclosure attorney within 60 days of the sale date. The foreclosure attorney will retain a copy of the Agreement and forward the original Agreement and keys to the DCA ~~(Janice Chappel)~~ REO Manager. The foreclosure attorney will also forward a copy of the Agreement to Sub-servicer for their file

    - The borrower will be eligible for a relocation payment of $2,500, if they vacate the property within 60 days of the foreclosure sale and $1,500 prior to the eviction proceedings.
    - The payment will be made after a satisfactory inspection of the property.
    - DHCD will evaluate other resources for the borrower, such as rental assistance programs that DHCD may administer, to ensure a “soft” landing.
    - The handling of DSELP or other DHCD subordinate loans will be done in accordance with the handling of other MMP foreclosures.
    - DHCD will pursue deficiency judgments for its losses.
    - DCA will inspect the property within 10 business days. If the property is vacant and in acceptable condition, DCA will so advise Sub-servicer and the foreclosure attorney that the funds can be disbursed to the mortgagor and Sub-servicer will disburse the funds. This can be done by e-mail to avoid more paperwork. Sub-servicer should then disburse the funds within 3 workings days. The keys will be retained by DCA who will notify Sub-servicer of the key code. The Sub-servicer will use the key code to have the locks changed.
    - **If the property is not acceptable**, DCA will notify Sub-servicer of the reason why the property is not acceptable and Sub-servicer will advise the foreclosure attorney to proceed with an eviction action. Sub-servicer will advise the mortgagor that their request to participate in the Program has been denied. The keys will be retained by DCA.
    - Sub-servicer will continue routine inspections of the property until the mortgage insurance claim is paid.
    - No evictions or cleaning/securing of the property shall take place until the sale is ratified, regardless of any cash for keys decision.

J. FORECLOSURE MEDIATION POLICY – OCTOBER 27, 2010

There are 4 DHCD staff that have authorization to negotiate at the foreclosure mediation staff other than Sub-servicer, Inc.

Team Leader Loss Mitigation, 301-429-7641
Gary Masseaux, Manager Single Family Collections 301-429-7664
Assistant Manager, Single Family Collections
Jean Archer, Director Single Family Operations 301-429-7659

A. Requests for postponements of mediation hearing during the mediation hearing. Unless the customer is in an accident or hospitalized (or similar life event), DHCD is not authorizing our contract law firm to agree to an extension of the mediation hearing. The mortgage insurers are curtailing interest on the claims for loans taking too long in the foreclosure process. DHCD will not approve requests for postponement of the medication hearing for reasons such as:

- Customer does not have written documentation of new job, overtime, lower or alternative payment with creditor(s), debt consolidation plan, etc.
- New job has not been started yet or a promised promotion has not occurred.
- Promise to pay money at a later date

F. **Documentation Requirements** – Maryland Law requires all documentation be received by the servicing company 20 days prior to the foreclosure mediation date and at the very latest, documentation must be faxed to the servicing company three days prior to the foreclosure mediation date.

1. Documentation of income and expenses will follow the Maryland Office of Administrative Hearings, "Required Document Exchange".
2. Self-employment documentation – DHCD requires a minimum of six months profit and loss statement accompanied by bank statement which lists the deposit of self-employed income.
3. All collection accounts and unsecured creditors (other than medical) over $3,000 must have a payment plan or payment amount included in the budget.

C. Loss mitigation options and ability to "approve" at the mediation hearing: All loss mitigation will be subject to mortgagor insurer approval. Sub-servicer has delegated authority to negotiate on behalf of FHA and does not need DHCD approval. Sub-servicer will follow mortgage insurer instructions as to the "waterfall" of options being offered. Based on income, the mortgagor will be offered first a repayment plan (one payment plus a portion), loan modification, deed in lieu of foreclosure, or foreclosure sale "cash for keys". Advance or short

claims (other than FHA/HAMP), FHA pre-foreclosure sales, and short sale options are not available at mediation. DHCD and the mortgage insurers will not allow foreclosure to be cancelled for a short sale (unless a contract is received and approved by investor and mortgage insurer) or for a payment plan that is based on partial monthly payments.

1. Simple loan modification. If the customer has at least $100 surplus income and Sub-servicer has ability to approve on behalf of the mortgage insurance company, the workout can be approved. Foreclosure sale will be cancelled, if all written documentation is provided.

2. FHA HAMP – Sub-servicer has delegated authority from FHA to approve this option.

3. Deed in Lieu of Foreclosure. If Sub-servicer is able to pre-approve for the mortgage insurance company, we will consider a deed in lieu of foreclosure. Title must be clear of all liens, judgment, or junior mortgages, other than DHCD DSELP. Written documentation must be brought to the mediation that Condo fees and Homeowner association fees are paid current. DHCD will cancel foreclosure sale, if the only outstanding item is receipt of keys and inspection. The customer has 30 days to vacate from the hearing date and the workout is subject to DHCD inspecting the property and approving the property condition. A cash incentive of $1,500 may be paid for a completed deed in lieu of foreclosure, unless the loan is government insured (VA, FHA, RHS).

4. Foreclosure sale & Cash for Keys. If the customer does not qualify for a loan modification and does not want a DIL, Sub-servicer should offer $,1500 cash for keys for the *private mortgage insured loans* under the terms of the Workout Move out Protocols (attached)

SECTION 7 – BANKRUPTCY

Unless otherwise directed by this Section, all bankruptcy actions must be performed by an attorney under contract with DHCD's Office of the Attorney General. DHCD, through the Office of the Attorney General, has contracted with private law firms for legal services related to foreclosure and bankruptcy matters. The sub-servicer may choose a law firm from CDA's current list of law firms under contract and notify DHCD of this action. The servicer should refer the cases on an equal basis, such as by last 2 or 3 digits of the loan number.

A. NOTICE OF BANKRUPTCY FILING – All Loans

When a Mortgagor files a bankruptcy petition, the Sub-servicer must take all actions necessary to protect DHCD's interests. The initial step in this process is to direct our attorney to take the appropriate action under the Bankruptcy code. There are three types of Bankruptcy filings. They are a Chapter 7, 11 or 13. Chapter 11 is normally a business or commercial filing and would be unusual for the DHCD portfolio.

- Chapter 7 - A liquidation procedure where a Trustee is appointed to collect debtors' assets, minus any state-allowed exemptions, and sell them to distribute any proceeds to creditors.

- Chapter 11 - A reorganization proceeding. This type of filing is usually done by a business or commercial enterprise with a substantial amount of debts/liabilities, and would be unusual for the DHCD portfolio.

- Chapter 13 - A wage earner reorganization. The Mortgagor's loan arrearage or delinquency will be made part of a reorganization plan, with the arrearages usually being repaid over a period of 3 to 5 years. The Mortgagor will pay post-petition payments directly to the Sub-servicer. All pre-petition payments are made to the Trustee to be paid to the various creditors.

1. Notice of Chapter 7 Bankruptcy Filing

Upon receipt of a notice of a Chapter 7 Bankruptcy filing by a Mortgagor, the Sub-servicer must promptly file a Proof of Claim and Statement of Mortgage Debt on behalf of DHCD **only if the bankruptcy case lists assets.** If the bankruptcy is a "no asset" case, the Sub-servicer does not have to file a Proof of Claim. If the loan is delinquent or becomes delinquent, the Sub-servicer should refer the case to one of DHCD's contract law firms to file a Motion to lift stay and notify DHCD of this action. The Sub-servicer should also

recommend a motion to lift the automatic stay when it appears that there is no equity in the property or the Mortgagor indicates that they are going to abandon the property.

2. Notice of Chapter 13 Bankruptcy Filing

Upon receipt of a notice of a Chapter 13 bankruptcy filing by a Mortgagor, the Sub-servicer will promptly file a Proof of Claim and Statement of Mortgage Debt on behalf of DHCD. Should the proposed plan bring the account current within 5 years or less, and the post-petition payments are current, the Sub-servicer should consent to the plan on DHCD's behalf. If the plan does not bring the loan current, or if the post-petition payments are not current, the Sub-servicer should file an objection to the plan through an assigned DHCD Contract attorney.

In a chapter 13 filing, the Mortgagor is required to make regular, or post-petition payments within 30 days of the filing date. These payments must be applied to the Mortgagors account by the Sub-servicer as the current month's payment. Upon confirmation of the plan by the Court, the Sub-servicer should begin receiving payments from the Trustee. These payments are to be applied to as pre-petition payments to cure the delinquency, or plan payments.

B. MOTION FOR RELIEF FROM AUTOMATIC STAY PROCEDURES – All Loans

1. **Chapter 13** - In a Chapter Bankruptcy 13 proceeding, when a Mortgagor becomes two (2) months delinquent on their post-petition payments, the Sub-servicer must request a motion to lift the automatic stay. The Sub-servicer is to notify DHCD of this action.

2. **Chapter 7** - If the Mortgagor filed Chapter 7 and the loan is delinquent, the Sub-servicer must also request a motion to lift the automatic stay. The Sub-servicer is to notify DHCD of this action as well.

3. **Attorney assignment** – Sub-servicer shall assign the case to one of DHCD's contract law firms on an equal assignment basis such as per the last 2 or 3 digits of the loan number. DHCD should be notified of the law firm assignment.

C. FORECLOSURE AFTER AUTOMATIC STAY IS LIFTED

1. **Bond Loans and State Loans in first mortgage position -** The attorney for DHCD must notify the Sub-servicer of the results of a motion to lift stay hearing within 5 business days from the date of the hearing.

Should the motion be successful, the Sub-servicer is to immediately notify the attorney to restart the foreclosure action unless further collections is appropriate, a new Maryland Notice of Intent to Foreclosure must be sent, or the Sub-servicer has approved a workout. Sub-servicer must initiate or resume foreclosure within 90 days of bankruptcy termination for uninsured first mortgages. Sub-servicer must follow Mortgage Insurer/Guarantor guidelines to initiate/resume foreclosure. Should the motion be denied, the attorney must notify the Sub-servicer of the failed motion, along with the reason cited by the court.

2. **State Loans in junior lien positions –** Do not initiate or resume foreclosure without the permission of the DHCD Asset Manager Officer from Single Family Collections assigned to the particular loan program.

D. ABUSIVE FILING ACTIONS – All Loans

Mortgagors filing multiple chapter 13 bankruptcy filings must be monitored by the Sub-servicer for possible "In Rem" or prospective relief from the court. If a sole Mortgagor has filed more than one case, and if a husband or wife have filed more than two cases, and if they failed to make post-petition payments during the previous case or cases, then the Sub-servicer must instruct the attorney to ask for prospective relief for the court in the current case.

However, in most cases where it is only the second or third filing and the debtor has made most of the post-petition payments during the previous cases, the Sub-servicer should wait until the Mortgagor misses one payment before requesting the attorney file an "In Rem" motion for relief. The "In Rem" motion will allow the attorney a period of 180 days to complete the foreclosure action during which the Mortgagor cannot file another chapter 13 bankruptcy.

Should a Mortgagor file a Chapter 7 Bankruptcy during the 180 day period, it is usually not necessary to stop the foreclosure action, but the Sub-servicer is required to notify the attorney of the chapter 7 filing and insure the foreclosure may continue.

E. BANKRUPTCY ATTORNEY FEES – All Loans

Upon completion of a bankruptcy case, approved bills will be forwarded to the Sub-servicer for payment. These expenses should either be included in the mortgage insurance claim, or collected from the Mortgagor if the loan is subsequently reinstated.

SECTION 8 - FORECLOSURE AND LEGAL PROCEEDINGS

A. Foreclosure Initiation Time Frames

1. Sub-servicers are required to follow the new 2013 Mortgage Servicing Final Rules, amendments to Regulations Z and X when reviewing loss mitigation to not violate the dual tracking portion of these regulations. The Sub-servicer should have written policies and procedures to insure compliance to the new servicing rules governing the commencement of foreclosure, resumption of foreclosure, setting the foreclosure sale, and holding the foreclosure sale.

2. **All Maryland Mortgage Program (Bond) first mortgages -** DCA Single Family Collection staff must be a cc on the e-mail referral to the law firm when Sub-servicer authorizes foreclosure legal action to commence, place on hold, or close out the foreclosure case.

3. **State Loans** - Sub-servicers are to begin or resume foreclosure within 90 days of a Bankruptcy termination for uninsured loans unless the mortgage is in a junior lien position. <u>Sub-servicers may not initiate foreclosure legal action on state funded loans without CDA approval as the state mortgage may not be in first lien position.</u>

4. **Bond Loans** - Sub-servicer must follow FHA, VA, RHS, MHF, or other private Mortgage Insurer/Guarantor guidelines to initiate or resume foreclosure within insurer time frames. Sub-servicer will indemnify or repurchase loans when times frames or other Mortgage Insurer/Guarantor guidelines were not met during the foreclosure process. Prior to recommending foreclosure, the Sub-servicer must have sent all required notices and made contact with the borrower as required by the mortgage, the DHCD servicing Manual, and the Mortgage Insurer/Guarantor. The Sub-servicer has full authority to send all notices required by Mortgage Insurer/Guarantors without further approval from DHCD.

B. Foreclosure Referral Requirements – All Loans

Sub-servicer must have a foreclosure review committee or similar process in place to insure that all potential referral cases are reviewed and approved by management prior to submission to DHCD. The review process must be documented in the loan collection history or notes.

DHCD reserves the right to return a foreclosure recommendation package to the Sub-servicer when it is evident from the collection history or notes that the Mortgagor was not given adequate default counseling or offered all appropriate loss mitigation options.

Sub-servicer must contact the law firm assigned to the case, to determine the status of all foreclosure recommendations and any associated costs or fees before accepting reinstatement or initiating any loss mitigation action.

1. Foreclosure Recommendations – All Loans

Should the Sub-servicer agree to accept a forbearance plan, reinstatement or a request for a short payoff after foreclosure has been recommended or initiated, they must notify DHCD in writing per the monthly delinquency report; however, the Sub-servicer shall notify DHCD in writing any time foreclosure legal action is started or halted. It is also the responsibility of the Sub-servicer to insure that they collect all outstanding attorney fees and costs should they accept reinstatement.

2. Subsequent Legal Referrals

- **Bond Loans and State Loans that are in first mortgage position** - If a DHCD approved attorney has already been selected for a previous legal referral and the loan was not brought current, the Sub-servicer may forward future referral requests for that particular loan directly to the same attorney unless instructed otherwise by DHCD. The Sub-servicer must advise DCA Single Family Collections in writing any time foreclosure legal proceedings have been initiated or halted.

- **State Loans that are in junior lien position** - Sub-servicer is required to forward all referral requests to foreclose on junior liens to DHCD for review. Sub-servicer may not initiate or resume foreclosure without DHCD approval.

C. Servicing after Foreclosure has been Initiated

1. Mortgagor Notification All Loans - Within five business days of receipt of the notice of assignment to an attorney from DHCD, the Sub-servicer must advise the Mortgagor by letter of the referral. This letter must include the name, phone number and address of the attorney. The Sub-servicer must inform DHCD, in writing or by e-mail, of any forbearance or reinstatement.

2. Payment of Escrow Items All Loans - Sub-servicer is required to advance all escrow disbursements during the course of the foreclosure action. Sub-servicer is not authorized to pay homeowner association (HOA) or condo fees prior to the foreclosure sale. The HOA or condo fees may be paid after the sale and included on the Mortgage Insurer/Guarantor's claim. .

3. Property Preservation All Loans - The Sub-servicer is to continue monthly inspections and all property preservation from the foreclosure sale

until : (a) vacant properties - the Deed is recorded to CDA/DHCD, the mortgage insurer/guarantor, or a third party purchaser; (b) however if the property is occupied, until the eviction is complete and property cleaned out. (see post-foreclosure section D for more details on property preservation requirements after foreclosure sale). . If the property is found to be vacant during the foreclosure process, the Sub-servicer is to secure and winterize the property and obtain forced-place hazard insurance in accordance with Mortgage Insurer/Guarantor guidelines. It is the responsibility of the Sub-servicer to protect the property from damage or vandalism. On conventional insured loans, if the property is found to be vacant after completion of the foreclosure process, the Sub-servicer is to contact the REO Manager of Single Family Compliance for direction. For government insured loans, please follow the insurer/guarantor guidelines. The Sub-servicer will be reimbursed for any expenses incurred to the extent allowed by the Mortgage Insurer/Guarantor. For State Loans under the MHFP Program, follow FHA guidelines for property preservation and protection. If amounts exceed FHA guidelines, please contact Single Family Compliance to obtain approval. For State loans other than MHFP loans, follow FHA guidelines up to a $500 limit. Sub-Servicer should contact the Manager Single Family Compliance for direction for any preservation costs exceeding $500.

4. Notice of Property Damage to DHCD All Loans - The Sub-servicer is required to notify DHCD immediately of any damage to a property. A claim must be filed with the hazard insurance carrier in the name of the Sub-servicer or DHCD. A damage report must be submitted to the Single Family Compliance Sr. Claims Analyst if estimated damage is above $5000.

5. Reinstatement & Legal Fees – All Loans - The full reinstatement must be accepted by the Sub-servicer up until the day of the foreclosure sale. The Sub-servicer must contact the foreclosure attorney to obtain all fees and costs. The Mortgagor should then make payment directly to the attorney, who will deduct their fees and costs and forward the remaining funds to the Sub-servicer. Sub-servicer cannot refuse to accept full reinstatement prior to the foreclosure sale. It is also strongly suggested that Sub-servicer waive or defer late charges in deserving cases. Upon reinstatement, the Sub-servicer place any legal fees or costs in escrow. The Sub-servicer should immediately notify the attorney that reinstatement has been received. The attorney will then submit an itemized bill to OAG, which will forward the bill to the Sub-servicer for payment.

6. Mortgage Insurer/Guarantors – Bond Loans - upon initiation of foreclosure proceedings, Sub-servicer are responsible for providing the designated attorney with any documents required to comply with Mortgage Insurer/Guarantor guidelines.

7. Loss Mitigation – All Loans - Loss mitigation efforts must be continued by the Sub-servicer even after foreclosure proceedings have been initiated. Loss mitigation efforts are to be pursued in accordance with *Section 6 Loss Mitigation of this Manual*. Sub-servicer has full authority within DHCD guidelines to accept or reject a borrower's request for forbearance. All decisions must be in accordance with the Mortgage Insurer/Guarantor's guidelines.

8. Monitoring Foreclosure Activity – All Loans - After foreclosure has been initiated, the Sub-servicer must be in contact with the attorney or trustee and monitor the following:

- The progress of the foreclosure, reporting all problems/delays to DHCD in writing
- The efficient completion of foreclosure proceedings and subsequent acquisition of clear and marketable title, including eviction of the occupant of the property
- Compliance with all Mortgage Insurer/Guarantor requirements
- Payment of any lien certificate fees or tax sale redemption over $3,000 requires DHCD's prior approval

9. Soldiers and Sailors Civil Relief Act – All Loans - Sub-servicer are responsible for insuring compliance with all provisions of the Soldiers and Sailors Civil Relief Act, both before and after the initiation of any foreclosure proceeding.

10. Providing Information to the Foreclosure Counsel or Trustee – All Loans - The Sub-servicer must provide written reinstatement or payoff figures to the attorney or trustee for foreclosure accounts. Sub-servicer must provide this information within three business days of request. Sub-servicer is solely responsible for the accuracy of said documents.

11. Foreclosure Sale and Bidding Instructions

a. Bond Loans (excluding MHF Insured/Bond Uninsured) - The Sub-servicer and attorney must comply with the requirements of the Mortgage Insurer/Guarantor when setting sale dates. Notice of the sale date must be given to and bidding instructions obtained from the Mortgage Insurer/Guarantor in accordance with their requirements**.** In accordance with current private mortgage insurance procedures, DCA will require a drive-by appraisal, not a brokers price opinion, be conducted on properties secured by a conventional loan insured by a private mortgage insurer for any loan originated after January 2005. Should the appraised value be LESS THAN 70% of the principal balance of the loan, the servicer is to forward a copy of the appraisal to DCA for review and coordination of the value to be used to

establish the basis for the bid. The appraisal should be forwarded to the attention of the REO Supervisor at least five (5) working days prior to the foreclosure sale date. The attorney will bid on behalf of DHCD according to the instructions provided by the Sub-servicer unless an insurer representative attends the sale. If there are no higher bids than the minimum bid established by the Mortgage Insurer/Guarantor, the property will be acquired in the name of The Community Development Administration (CDA) of the Department of Housing and Community Development of the State of Maryland or such other name as DHCD shall advise the Sub-servicer. **If the loan is Maryland Housing Fund Insured or if there is no Mortgage Insurer/Guarantor, the Sub-servicer is to follow instructions under <u>b. State Loans</u>, below.**

b. State Loans/MHF Insured/Bond Uninsured Loans - the Sub-servicer is to instruct the Contract law firm handling the foreclosure sale to contact the REO Coordinator of DHCD's Compliance Section for bidding instructions at least 10 business days prior to the foreclosure sale date. The Coordinator will need a copy of the Statement of Mortgage Debt that reflects current debt and cost figures. If there are no higher bids than the minimum bid established, the property will be acquired in the name of the Department of Housing and Community Development (DHCD) of the State of Maryland (State Loans), Community Development Administration of the Dept. of Housing Community Development (Bond Loans), or such other name as DHCD shall advise the Sub-servicer. Servicers will not be reimbursed for unauthorized appraisals or BPOs related to bidding.

c. **State Loans in junior mortgage position** - the Sub-servicer is to contact the REO Coordinator of DHCD's Compliance Section, as detailed above, and **the sale must be advertised as subject to payoff of the first mortgage**. If there are no higher bids than the minimum bid established, the property will be acquired in the name of the Department of Housing and Community Development (DHCD) of the State of Maryland or such other name as DHCD shall advise the Sub-servicer.

~~d.~~ **Bond Loans insured by VA -** Servicers are to follow the VA Guidelines when calculating the bid amount. If the VA bid results in a full payoff to CDA, please follow the VA bidding instructions. If the VA bid will result in a loss to CDA, please contact the DCA Single Family Compliance Department for validation of the bid and further instructions. CDA reserves the right to take the property into its REO inventory to market. If such an instance occurs, CDA will notify the servicer to file a guaranty claim with the VA for the maximum guaranty. VA bidding e-mails should be sent to the Assistant Manager of Single Family Compliance with a copy to the Manager of Single Family Compliance.

D. POST FORECLOSURE SALE SERVICING

1. Foreclosure Attorney's Fees and Legal Costs - Foreclosure action may be concluded or interrupted by the occurrence of one of the following;

- Final ratification of the audit filed in the proceeding
- Dismissal of the foreclosure action upon the account being brought current
- Acceptance/initiation of a Loss Mitigation action
- Filing of a bankruptcy action

The Servicing Agreement attorney will forward an itemized bill to the Sub-servicer for payment. This should be included in the mortgage insurance claim and either advanced by the Sub-servicer or charged to the Mortgagor. Sub-servicer should contact OAG if any legal fee billings are not received within the time frame specified in their servicing agreement.

2. Results of the Sale - Within three business days following the sale, the attorney is to notify the Sub-servicer and DHCD of the sale results, including the sales price and the identity of the successful bidder. The Sub-servicer must contact the attorney if this information is not received within 3 business day after the sale. The attorney must then notify the Sub-servicer and DHCD when the sale is ratified. If a third party purchased the property, the attorney must notify the Sub-servicer and DHCD of the settlement date. If the case is a Deed-In-Lieu conveyance, the attorney must advise the Sub-servicer and DHCD of the date that the Deed-In-Lieu is to be recorded.

3Sale Ratification, Eviction and Deed Recording

a. Bond Loans (except MHF Insured and Uninsured)- Once the Sub-servicer receives notice the foreclosure sale has ratified, the Sub-servicer is required to verify occupancy. If the property is occupied, you must request the attorney to proceed with the eviction, unless the Mortgage Insurer/Guarantor is willing to take title while the property is occupied. If the property is vacant, the Sub-servicer must secure the property and follow the Mortgage Insurer/Guarantor's guidelines on the cleaning, winterizing, key requirements, and recording the deed to the Mortgage Insurer/Guarantor. The Sub-servicer is responsible for payment of any taxes and/or lien certificate bills necessary to have the deed recorded.

b. MHF, State Funded and Uninsured Loans – Within 30 days of notice of the foreclosure sale ratification date, the Sub-servicer is required to verify occupancy. Within 30 days of verification that the property is occupied, the Sub-servicer must request the attorney to proceed with the eviction. If the property is vacant or becomes vacant at the time of eviction, the Sub-servicer must secure the property within 30 days of the

notification of vacancy. Securing the property includes but is not limited to, lock change, boarding as needed, have the trash and debris removed and winterize the property. You may follow FHA guidelines on the cost of property preservation and protection. If cost of property preservation and protection exceeds FHA amount, you must submit an estimate to DHCD Single Family Compliance for approval prior to having the work completed. Once the property is vacant and secured, the Sub-servicer is required to advise the DCA Asset Management Claims AMO of the MASTER KEY number via immediate e-mail or provide the new key if it is not a MASTER KEY within 10 business days of the vacancy and securing of the property. After DHCD has inspected the property, we will request the deed be recorded into the name of CDA/DHCD as appropriate. Sub-servicer is required to pay any taxes and/or lien certificate bills in order for the attorney to have the deed recorded.

c. Evictions – All eviction actions are to be conducted in compliance with insurer/guarantor guidelines and local jurisdiction laws or ordinances. In addition to these requirements, all evictions shall include the removal of ALL trash, debris or personal property. In the event the costs of removing debris or trash will exceed the investor guidelines, the Sub-servicer shall contact the investor/guarantor for instruction.

All properties being conveyed to DHCD, Community Development Administration or the Maryland Housing Fund will be cleared of all debris and trash. Should the cost of removal exceed $500, the Sub-servicer will contact the DCA REO Department for approval.

4. Third Party Sale – **All Loans** - If the property was purchased by a third party, the Sub-servicer should continue regular inspections and advise DHCD, if any damages are discovered. Once the sale has ratified, the Sub-servicer is responsible for monitoring and facilitating timely settlement of the 3rd party sale. Proceeds from the 3rd party sale are to be forwarded directly to DHCD along with a copy of the HUD1. Bond Funded proceeds are to be forwarded to CDA Finance at P.O. Box 2524, Lanham, MD 20706 and State Funded proceeds are to be forwarded to DHCD Finance at P.O. Box 2521, Lanham, MD 20706. Once the 3rd party settlement has taken place, the Sub-servicer is to cancel all property preservation, hazard insurance coverage and should not pay any further escrow expenses. It is the responsibility of the 3rd party purchaser to handle any evictions, not the Sub-servicer.

5. IRS Reporting - **All Loans** - Sub-servicer is required to file form 1099-A and/or 1099-C, as required by the Internal Revenue Service.

6. POST FORECLOSURE PROPERTY PRESERVATION – The sub-servicer is to continue all property inspections until the Deed has been recorded to CDA, DHCD, Mortgage Insurer/guarantor or third party purchaser **if the property is vacant**. **If the property is occupied**, the subservicer is responsible for inspections until the eviction has taken place and/or the property becomes vacant. For government insured loans, sub-servicer is to follow appropriate mortgage insurer guidelines. For all conventional loans, the subservicer must notify DCA REO department once the eviction and securing has taken place. At that time DCA REO department will notify subservicer to cancel property preservation with their vendor.

7. Payment of Escrow and corporate bills – The Servicer will continue to pay escrow and corporate bills until deed is recorded to mortgage insurer or third party sale has settled unless the property is occupied. If the property is occupied, the Servicer will continue to pay eviction attorney bills, property inspections, etc. until the property is vacant and secured.

E. PENALTY FEES FOR DELAYS IN THE LIQUIDATION PROCESS – All Loans

DHCD will periodically review Sub-servicer's efficiency for timeliness of processing foreclosures. If a pattern of delays or single delay of significant magnitude is found, DHCD may impose a penalty fee. The penalty fee will be based on the outstanding principal balance of the loan(s), interest rate on the loan(s), length of the delay past normal processing times, and any additional costs that are directly attributable to the delay. If the additional cost due to the delay is substantial, such as in the case of a property severely damaged and/or hazard claim not processed timely, DHCD may request the Sub-servicer repurchase the loan or indemnify DHCD for any loss. Any monetary penalty will be deducted from Sub-servicer's escrow reimbursement from the loan involved or from another loan. We will not enforce penalties or will reverse a penalty if the Sub-servicer provides a reasonable explanation for the delay; however, the Sub-servicer must indemnify us for all losses, expenses, judgments, costs, and attorney fees that we sustain as a result of its failure to submit this information to us in a timely manner. DHCD expects the Sub-servicer to accomplish the following liquidation tasks in the following timelines:

- Referral for foreclosure - Sub-servicer must refer a case to DHCD or DHCD's Servicing Agreement attorney to initiate legal action within Mortgage Insurer/guarantor time frames. For uninsured loans, if the Sub-servicer does not have an active loss mitigation workout, foreclosure must be initiated by 6th month of delinquency. If the loan was in bankruptcy, the Sub-servicer must resume foreclosure within 30 days of the bankruptcy termination or within 5 business days

following the expiration of required legal notices. If loss mitigation failed, Sub-servicer is to enter into another loss mitigation agreement or initiate foreclosure within 30 days or within 5 business days following the expiration of required legal notices.

- Foreclosure sale - The foreclosure sale must be held in accordance with Mortgage Insurer/guarantor guidelines. For uninsured loans, the sale must be held within 5 months of referral.

- Securing/winterizing - A vacant property must be secured and winterized within 30 days of its being found vacant.

- Eviction proceedings - Within 30 days of the sale being ratified, the Sub-servicer must inspect the property for occupancy and request eviction proceedings be initiated, if occupied.

- Property cleanout - Within 30 days of the sale being ratified and property becoming vacant, Sub-servicer is to clean out property per Mortgage Insurer/Guarantor guidelines.

- Conveyance to Mortgage Insurer/Guarantor - Within 30 days of sale ratification and property becoming vacant, Sub-servicer is to convey property to Mortgage Insurer/Guarantor or DHCD (for uninsured properties). **VA loans should be conveyed within 15 days of ratification of sale regardless of occupancy status.**

- Mortgage Insurance Claims - Sub-servicer is to file mortgage insurance claims within the following timeframes:
  FHA/VA- within 30 days of title approval letter or 30 days of short sale or third party settlement
  Private MI and MHF- within 30 days of ratification or short sale or third party settlement or deed in lieu record date
  RHS- within 30 days of settlement of REO sale, short sales and third party sales. Within 30 days of deed in lieu record date

- Hazard Insurance Claims – Hazard insurance claims should be resolved within 60 days. In addition to any monetary penalty, DHCD may require the Sub-servicer to repurchase the loan if the hazard claim has not been filed or resolved within six (6) months.

- Mortgage Insurer/Guarantor Timelines for Liquidation Process. Please follow Mortgage Insurer/Guarantor guidelines if Mortgage Insurer/Guarantor guidelines are stricter than the timeframes noted above.

B. SECTION 9 – MORTGAGE INSURANCE CLAIMS AND ESCROW REIMBURSEMENT

A. MORTGAGE INSURANCE CLAIMS – Bond Loans

Sub-servicer is required to submit the mortgage insurance claims according to the Mortgage Insurer/Guarantors guidelines. Sub-servicer are required to:

- Sub-servicer must promptly process the claim for any mortgage insurance benefits on behalf of CDA. See Section 8E.for details
- List CDA as payee on all claims
- Use CDA's payee number, #19435-0-9993, on all FHA claims
- Properties acquired through foreclosure in connection with FHA or VA Mortgage Loans, Sub-servicer must arrange for prompt transfer of the property to FHA or VA within the required time period set forth by FHA or VA, file the necessary notices and satisfy all FHA or VA requirements.
- For RHS and private mortgage insurance companies, the Sub-servicer must follow their guidelines and requirements as to the disposition of the property.
- Address for all CDA Maryland Mortgage Program mortgage insurance claim funds are to be forwarded to CDA Finance via wire:

WIRE INSTRUCTIONS

M & T BANK BUFFALO, NY
One M&T Plaza, Buffalo, NY
14203
ABA # 022 000 046
Account Name: Trust Division
Account #: 3088001950200

Documentation needed by DHCD Single Family Compliance for acquisitions by the Mortgage Insurer/Guarantor include:

- Copy of claim to insurer
- Copy of explanation of benefits or advice of payment claim check or checks
- Request for expense reimbursement form as applicable
- If the loan is insured by MHF, the original claim must be submitted to DHCD Single Family Compliance

B. Reimbursement of Sub-servicer Advances

1. Bond loans - Once the Mortgage Insurer/Guarantor has paid the mortgage insurance claim, DHCD Single Family Compliance will:

- Review the expense claim and the amount paid
- Determine the amount of the reimbursement
- Prepare and forward to the Sub-servicer, a spread sheet explaining the reimbursement

Escrow reimbursements may be reduced or denied due to the Sub-servicer failure to comply with the mortgage insurer's requirement or the requirements of this Manual.

Effect of Non-Compliance - Failure to expeditiously process and file mortgage insurance claims per Mortgage Insurer/Guarantor guidelines will be considered a default under the Servicing Agreement and may result in the Sub-servicer being required to pay the claim and/or absorb any outstanding expenses up to and including a complete payoff, if the claim and/or conveyance is denied due to Sub-servicer delays.

2. State Loans - Escrow Reimbursement request should be submitted directly to DHCD Single Family Compliance. Your request should include the following:

- Fannie Mae claim form 1015
- Payment history
- Copies of all attorney bills
- Copies of all property preservation bills
- Copies of all inspections
- Hazard insurance Declarations page and/or bill
- Verification of tax payment (screen print is acceptable)

- Name and address of ground rent holder, if applicable

3. DHCD Allowable Expense Limits

- All attorney fees and cost, provided the attorney was approved and assigned by DHCD.
- Property inspections one every 30 days @ $20.00 per inspection. Any inspections ordered after conveyance date to Mortgage Insurer/Guarantor or the loan removal date will not be reimbursed
- CDA will reimburse for photographs supporting property preservation up to a total maximum amount of $30 per file.
- Taxes, all property preservation, ground rent, and hazard insurance incurred before the Servicer has been directed to remove the loan or to cancel preservation; as long as properly documented. Any of these expenses paid after the Servicer has been directed to remove the loan or to cancel preservation will not be reimbursed.
- Any cost or fees that DHCD request the Sub-servicer to pay and that cost was not a result of servicer error or negligence
- You may follow FHA guidelines as to the maximum allowable on property preservation and protection

The Sub-servicer has 1 year from the time the deed to DHCD has been placed on record to request reimbursement of advances. Any request received after the one year period will be denied.