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SUPERIOR COURT OF N.J.  
REC'D  
FEB 09 2011

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IN THE MATTER OF RESIDENTIAL	:	Administrative Order 01-2010 Docket No. F-238-11
MORTGAGE FORECLOSURE PLEADING	:	ADMINISTRATIVE ORDER
AND DOCUMENT IRREGULARITIES	:	DIRECTING SUBMISSION OF
	:	INFORMATION FROM
	:	RESIDENTIAL MORTGAGE
	:	FORECLOSURE PLAINTIFFS
	:	CONCERNING THEIR
	:	DOCUMENT EXECUTION
	:	PRACTICES TO A SPECIAL
	:	MASTER
	:	CERTIFICATION OF
	:	JEROME P. KEELEN

JEROME P. KEELEN, the Director of the Single Family Division of the New Jersey Housing and Mortgage Finance Agency ("Agency") hereby certifies as follows:

1. I am the Director of the Single Family Division of the Agency. In this capacity, I am fully familiar with the mortgage lending and foreclosure procedures of the Agency which holds about 16,000 first mortgage loans on single family homes in New Jersey.
2. I am filing this response on behalf of the Agency which has been directed by the Acting Administrator of the Courts to demonstrate affirmatively that there are no irregularities in the handling of its residential foreclosure proceedings.

### Status of the Agency

3. The Agency was created by the New Jersey Legislature under N.J.S.A. 55:14K-1 et seq (the “Act”) as a body corporate and politic that is in but not of, the New Jersey Department of Community Affairs. The Agency is authorized by the Act to make residential mortgage loan financing available either directly or through funding eligible loans purchased from mortgage lenders that participate in the Agency’s lending programs

4. The Agency has since 1978 issued tax-exempt Mortgage Revenue Bonds (“MRB”) pursuant to Section 103 of the Internal Revenue Code, as amended, with the proceeds used to purchase loans made to income-eligible first-time home buyers and urban target area home buyers. In addition, pursuant to N.J.S.A. 43:16A-16 11et seq., the Agency is the statutorily appointed administrative agent for the Police and Fire Retirement System’s (“PFRS”) mortgage program. The PFRS statute permits PFRS pension funds to be invested in mortgage loans made to its active members.

### Servicing the Agency’s Loans

5 The Agency contracts with professional loan servicing companies to handle the day to day interactions with borrowers on behalf of the Agency. These interactions include a range of activities including collection and posting of monthly payments, loan accounting, escrow and payment of property tax and insurance, loan pay-offs and prepayments, preparation of IRS 1099 forms, mortgage delinquency control and initiation of foreclosure

The Agency has two kinds of contractual relationships with servicers. The first is the “master-servicing” relationship under which the Agency is the “master-servicer”. A “master-servicer” owns the right to service specific mortgage loans, but retains for a per loan per month flat fee, the services of a professional loan servicing company, called a “sub-servicer” to handle

servicing activities. When in the role of master- servicer, the Agency retains the right to service the loans and is responsible for funding shortfalls in escrows for property taxes and insurance in addition to approving mortgage loan workouts and initiation of foreclosure and sheriff's sales. The Agency is a master-servicer for the majority of the MRB mortgage loans and all of the PFRS loans.

6. The other type of servicing arrangement is when an outside entity is the servicer of an Agency loan. The Agency is the owner, but not servicer or master-servicer, of MRB loans it purchased before 1997 when mortgage lenders were permitted to retain the servicing rights to loans purchased by the Agency. Loan servicers with retained servicing rights are responsible for funding escrow short-falls, but still must report all servicing activities to the Agency and request Agency approval for mortgage workouts and initiation of foreclosure. Loan servicers are paid a percentage of each loan, which in the Agency's case is an annual three-eighths (3/8th) of one percent (1%) of the outstanding principal balance of the loan.

7. The Agency currently owns and/or services (contracting with sub-servicers and servicers) about 16,000 first mortgage loans. These loans include about 9,300 MRB loans owned and master-serviced by the Agency, 1,300 pre-1997 MRB loans owned by the Agency but being serviced by third parties and about 5,400 loans owned by the Police and Fire Retirement System and master-serviced by the Agency. The Agency is also the master-servicer for a small (currently less than 20 loans) Fannie Mae guaranteed portfolio owned by the New Jersey savings banks' non-profit lending arm, Thrift Institutions Credit Institution Corp. ("TICIC").

8. The Court, by means of its January 31, 2011 Supplemental Administrative Order, requested information about servicers of residential mortgage loans, including such loans which are being serviced on behalf of the Agency. The Agency has retained servicers for

approximately 1,300 pre-1997 MRB loans. With respect to the approximately 1,300 pre-1997 MRB loans, the Agency has servicing contracts with Cenlar FSB for 298 loans, Huntington Mortgage Inc for 36 loans, Aurora Financial Group, Inc. for 287 loans and Valley National Mortgage Services Inc. for 686 loans.

9. The Agency also has sub-servicing contracts with the following entities: Cenlar FSB for 2,770 PFRS loans, Aurora Financial Group Inc for 2,869 PFRS loans, Dovenmuehle Mortgage Inc. for 4,687 MRB loans and Aurora Financial Group, Inc. for 4,715 MRB loans.

10. In summary, the mortgage loans owned or administered by the Agency are subject to the control of the Agency with respect to authorization to initiate foreclosure proceedings.

#### Ownership of Agency Loans

11 The Agency has funded and currently owns about 10,600 MRB loans. Less than 2% of these loans have been made directly to borrowers by the Agency. The rest of the MRB loans have been purchased directly from private lenders who are contractually authorized to participate in the Agency's lending programs. Participating lenders and the purchase of loans are subject to the Agency's Guide for Participating Lenders and a Mortgage Purchase Agreement. Essentially, the Agency commits to purchase loans made by these lenders that conform to the Internal Revenue Code and the Agency's guidelines. The loans are 30-year term with a fixed rate. Copies of the Guide for Participating Lenders and the Mortgage Purchase Agreement are attached as Exhibit A and Exhibit B, respectively.

12. The PFRS mortgage loans are also purchased subject to the Guide for Participating Lenders and the Mortgage Purchase Agreement (See Exhibits A and B attached hereto), plus the Fannie Mae Seller's Guide rules, as applicable.

13. Before the Agency acquires any of these loans the lender must provide the Agency with a complete loan file and an Assignment of Mortgage recorded in the Assignment Book of the county where the mortgaged property is located. See Mortgage Purchase Agreement at Exhibit B, subsection 4(b)(5). The Agency maintains these mortgage loans as “whole loans” which means that it does not securitize and sell them on the secondary market. The Agency then becomes the master-servicer and engages the services of sub-servicing contractors for the day to day servicing of such loans under the supervision of Agency staff servicing officers.

14. Prior to 1997, the Agency permitted lenders to retain the right to service loans that they sold to the Agency. This practice was terminated in 1997 and the Agency now, and since that time, has not released servicing rights to any loans the Agency acquires for itself or for any loan the Agency administers for the PFRS. The 1,300 pre-1997 loans were all purchased with standard Assignments of Mortgage and are subject to all the same Agency procedures and oversight as the post-1997 loans master-serviced by the Agency.

15. In summary, for both the MRB loans and the PFRS loans, the Agency buys loans directly from the lender that made and closed the loan. Ownership of each of these loans is evidenced by a recorded Assignment of Mortgage to the Agency or to the Agency “as administrative agent for the PFRS Board of Trustees ”

#### Delinquency Management and Foreclosure Approval Procedures

16. The Agency currently contracts with three sub-servicers that provide day-to-day servicing of the majority of the loans that the Agency owns or that the Agency services for the PFRS. The Agency also has servicing agreements with four servicers that handle about 1,300 loans that pre-date 1997. Regardless of which servicer or sub-servicer is providing loan servicing, all loans are subject to oversight and consent from the Agency’s servicing staff before

any loan workout or foreclosure action can be commenced. The Agency employs within its Single Family Division a servicing manager and a staff of five servicing officers. Additional supervision of loan servicing is provided by a Division Director and an Assistant Division Director of the Single Family Division of the Agency.

17. All delinquencies are monitored by Agency servicing officers in accordance with the Agency's Servicing Guide (attached hereto as Exhibit C) and Forms 173 (Individual Loan Servicing Report) (attached hereto as Exhibit D) and 173A (Default Recommendation) (attached hereto as Exhibit E). Forms 173 and 173A are required to be filed monthly for every loan that becomes 60 days or, in the case of Federal Housing Administration ("FHA") or Veterans Administration ("VA") insured loans, 90 days delinquent, (hereafter called "serious delinquencies" or "seriously delinquent loans"). The Agency servicing officer assigned to that loan file must review the reasons for the serious delinquency including any hardship that the borrower may express. The servicing officer must review any possible mortgage forbearance or other relief that is requested or recommended. Agency servicing staff are in regular telephone and e-mail communication with their servicer counterparts and are knowledgeable about the facts and circumstance of every seriously delinquent loan and foreclosure proceeding. The Agency's servicing officers must approve every recommendation to declare a borrower in default, including a recommendation to initiate foreclosure proceedings. The monthly 173 and 173A reports that the servicer or sub-servicer are required to file for every loan delinquency provide a framework for the Agency staff to verify that the delinquency amounts shown on the Agency records match the delinquency amounts shown on the records of the servicer or sub-servicer.

18. The sub-servicers and servicers, subject to the Agency's consent, choose private foreclosure counsel to represent the Agency in foreclosure litigation. The Servicing Guide (See

Exhibit C at Section 2.107) requires the servicer or sub-servicer to comply with the timely filing of the notice requirements of the Fair Foreclosure Act (“Notice”).

19. The Agency receives copies of each foreclosure complaint and interim pleadings which are required to be provided to the Agency under the Servicing Guide (Exhibit C, Section 2.108). However, the Agency does not receive these pleadings until after they are filed with the Court. The certification of amount due on the loan is supplied by the servicer or sub-servicer as well as the amount of costs and fees. Prior to the entry of Administrative Order 01-2010, the Agency staff did not check the accuracy of the amounts due in the complaint, the certification of amount due, the Notice or other related foreclosure pleadings. The Agency relied on the monthly reconciliation between its business records and the records of the servicer or sub-servicer as the Agency expected that the servicer or subservicer would use those reconciliation figures in the foreclosure pleadings to set forth the principal balance including interest due on the mortgage. The Agency relied on the Agency staff review of the amounts due on the mortgage against its business records which are reconciled monthly with the servicer’s and sub-servicer’s reports as the basis for the accuracy of the amounts due under the mortgage in the foreclosure pleadings. The Agency does not review for accuracy the affidavit of costs to recover out of pocket costs, such as title search fees and other related out of pocket costs as these costs are known by foreclosure counsel.

20 The Court Rules at 4:64-2 (b) allow the affidavit of amount due to “be supported by computer-generated entries”. The Agency uses a MITAS electronic bookkeeping system to keep track of the principal and interest due on its mortgage. If the servicer or sub-servicer makes an error in a data entry that does not match the Agency’s business records on a delinquent account, the MITAS electronic bookkeeping system will prevent the servicer or sub-servicer from making

entries until the error is corrected. It is this computer data generated by the MITAS electronic bookkeeping system that is sent to foreclosure counsel by the servicer or sub-servicer to generate the affidavit of the amount due.

21. The foreclosure counsel is responsible for requesting a “Military Status Report” from the United States Department of Defense Manpower Data Center prior to certifying that the defendants are not engaged in military service.

22. The Agency staff is in direct contact with the employees of the servicers and sub-servicers who are responsible for preparing the certifications of amounts due. In most cases the signers of the certification are known to Agency staff. Large sub-servicers may have an employee unknown to the Agency staff sign certifications and the Agency cannot state what information that sub-servicer’s employee is relying on. Since the entry of Administrative Order 01-2010, Agency staff has been asked to provide staff certification of the facts to be pleaded with regard to the amount due under the mortgage. At least one sub-servicer has requested Agency staff to sign the certifications of amount due.

23. In summary, the Agency’s servicer’s and sub-servicers are required to provide Agency staff with a monthly written analysis of every delinquency. Agency staff is fully apprised of the facts and circumstances of every serious delinquency and servicers and sub-servicers can take no substantive action or proceed to foreclosure without the consent of Agency staff.

Effect of Notice to the Bar Re: Emergent Amendments  
to Rules 1:5-6, 4:64-1 and 4:64-2

24. Since the issuance of the Court’s Order of December 20, 2010, the Agency has been requested by various foreclosure counsel to have Agency staff execute certifications or

affidavits confirming the amounts due and other factual information contained in the foreclosure pleadings and court filings. The Agency staff has knowledge of the amount due under the mortgage based on telephone and e-mail contacts with the servicing staff employees and its own business records which are monthly reconciled with those of the servicers and sub-servicers. However, certain information appearing in the foreclosure pleadings is provided by foreclosure counsel from title searches or cost advances, for example, and cannot be verified by the Agency staff. It is anticipated that there will be a uniform statement acceptable to the Court that will differentiate between information that is within the Agency's ability to provide or verify and information provided by foreclosure counsel and other parties which it must necessarily rely upon. In the meantime, the Agency is working with foreclosure counsel and servicers and sub-servicers to provide such statements as are within the Agency's capacity to provide to foreclosure counsel in order to comply with the Administrative Order 01-2010 and the related Notice to the Bar dated December 20, 2010.

25. In summary, the Agency staff is willing and able, within the limits of its scope of actual knowledge, to supply such statements of personal knowledge as may be necessary to establish appropriate and accurate certifications about each borrower's loan file to permit the Agency to proceed to judgment as a foreclosure plaintiff.

I hereby certify that the foregoing statements made by me are true and correct to the best of my knowledge, information and belief; I am aware that if any of the foregoing statements made by me are willfully false that I am subject to punishment.

Dated: February 9, 2011



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Jerome P. Keelen  
Director, Single Family Programs  
New Jersey Housing and Mortgage Finance Agency

EXHIBIT  
A

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**  
**MORTGAGE PROGRAM**  
**POLICY AND PROCEDURES**  
**FOR PARTICIPATING LENDERS**

Revised: June 8, 2010

## SELLER'S GUIDE

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## PART I GENERAL

This Seller's Guide is applicable to all Mortgage Programs.

SECTION 1.1 DEFINITIONS

ACCOUNTING GUIDE. The guide, as it may be amended from time to time by the Agency, containing the mortgage accounting rules governing the Seller's Guide and the Servicing Guide and incorporated as part of the Servicing Guide.

AGENCY. The New Jersey Housing and Mortgage Finance Agency (HMFA)

BRIDGE LOAN. A form of an interim loan, generally made between a short term loan and a permanent (long term) loan, in the event that the borrower needs to have more time before taking the permanent, long term financing.

CO-SIGNER. An individual who signs the Mortgage Note, but not the Mortgage, with the Mortgagor and is equally responsible for the terms of the Mortgage Loan but does not have an interest in the property

CO-MORTGAGOR An individual who signs the Mortgage Note and the Mortgage and is equally responsible for the terms of the Mortgage Note and Mortgage Loan with an interest in the property

CODE The Internal Revenue Code of 1986, as amended, together with the U.S. Treasury Regulations appurtenant thereto, letter rulings of the Internal Revenue Service and interpretations of the Code supplied by the Agency's bond counsel and courts of competent jurisdiction. In particular, Section 143 of the Code sets forth basic requirements for Qualified Mortgage Revenue Bonds.

COMMUNITY HOMEBUYER PROGRAM. A variation of the Home Buyer Program that permits expanded underwriting guidelines and certain other requirements as set forth in the Term Sheet.

DELEGATED UNDERWRITER An employee or owner of participating lender who meets the Delegated Underwriting Criteria established by the Agency for delegated underwriting and who is authorized by the Agency to underwrite and to make underwriting decisions about loans to be purchased by the Agency without prior Agency approval or re-underwriting except for issues related to Tax and Program Compliance.

DIRECT ENDORSEMENT LENDER. Participating Lender approved by HUD to originate, underwrite and close loans with FHA insurance without prior approval from HUD

ELIGIBLE PROPERTY A permanently affixed lawful residential building, together with the land or common interest in the land and common areas in which it is located, in the State of New Jersey which is (i) an existing Single Family Dwelling (ii) a newly constructed Single Family Dwelling which has

never been occupied; (iii) a 2-4 family dwelling that has been used as a residence for the previous five years; or (iv) a 2 family dwelling located in a Target Area that will be used for residential purposes (need not meet the five year requirement). Properties may be under fee simple, condominium or cooperative owners. Properties must not exceed the Agency's maximum permitted purchase price. A property shall not qualify as an Eligible Property if any portion is used or intended to be used for non-residential purposes unless a waiver has been granted in advance. A building in which the mortgagor cannot legally occupy a unit within sixty days of closing shall not qualify as an eligible property.

ESCROWS. Payments required to be made under the terms of a Mortgage Loan by Mortgagor and to be paid into an escrow account to cover expenses, which shall include, but not be limited to, all taxes and special assessments, as well as hazard and flood insurance premiums, and mortgage insurance premiums

FHA. Federal Housing Administration

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

FIRM COMMITMENTS TO MORTGAGORS. Firm Commitments to Mortgagors must be similar to the type the Seller would ordinarily provide prospective homebuyers where financing was not provided from the proceeds of a tax-exempt bond.

FNMA. Federal National Mortgage Association (Fannie Mae).

HBP. Home Buyers Program. The first-time and urban home buyer residential mortgage loan purchase program to be financed from time to time by the issuance of Qualified Mortgage Revenue Bonds.

INTERNET LOAN RESERVATION (ILR) SYSTEM. The Agency's internet based loan registration system through which Sellers register their loans with the Agency, track status, and receive approval to proceed to loan closing.

LOAN GUARANTY CERTIFICATE. VA form 26-1899, or equivalent successor, evidencing guaranty of mortgage loans by the Veterans Administration.

LOAN NOTE GUARANTEE. Form RHS 1980-17, or equivalent successor, evidencing guaranty of mortgage loans by the Rural Housing Services..

MI. A mortgage insurer licensed to do business in the state and qualified to provide insurance on mortgage loans purchased by FNMA/FHLMC, and approved by the Agency

MITAS. Computer platform currently used by the Agency.

MORTGAGE INSURANCE CERTIFICATE. FHA insurance evidenced by the FHA Mortgage Insurance Certificate.

MORTGAGE LOAN. A first purchase money loan evidenced by a note which is secured by a first mortgage lien on an Eligible Property, subject only to liens of taxes or assessments which are not delinquent, building restrictions or other restrictive covenants or conditions, joint driveways, sewer rights, party wall, rights-of-way or other easements or encroachments, provided that none of the foregoing, in the opinion of the Agency, materially affect the security for the Mortgage Loan

MORTGAGE POOL INSURANCE. Supplemental Mortgage Insurance coverage provided by a Mortgage Insurance company that insures the Agency against loan losses in excess of the loss coverage provided by the primary mortgage insurance coverage.

MORTGAGE PURCHASE AGREEMENT. That certain agreement between the Agency and the Seller to which the Agency agrees to purchase from Seller Mortgage Loans in accordance with the Seller's Guide and applicable Term Sheet

MORTGAGE SERVICING AGREEMENT. An agreement between the Agency and servicer under which the servicer agrees to service Mortgage Loans purchased by the Agency in connection with the Mortgage Program. Note that the Mortgage Servicing Agreements are in place for loan portfolios that predate the current requirement that all servicing is acquired by the Agency as part of the mortgage purchase. When the Agency is master servicer of a loan portfolio the subservicers of such portfolios are subject to the terms and conditions of a subservicing agreement with the Agency.

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

MULTIPLE UNIT DWELLING. An existing building which consists of two, three or four residential dwelling units one of which must be occupied by the Mortgagor. Dwelling units mean a single unified combination of rooms that is designed for residential use by one family. All 2-4 family dwellings outside of Target Area must have been occupied as a residence for at least five years immediately preceding the closing date, provided, that a unit may have been vacant during such period if the unit was, from the time previously occupied as a residence, continuously held out for residential use and not occupied for any portion of such period in connection with a commercial or business use. If located in a Target Area, may be a 2 family dwelling that does not have to meet the 5 year requirement

PRIOR APPROVAL. The approval given by the Agency after review of documents evidencing compliance with the Mortgage Loan eligibility and processing requirements of the Seller's Guide; upon which the Seller may issue a Firm Commitment to Mortgagor.

PROPERTY VALUE. The lower of (i) the appraised value of the property securing the Mortgage Loan at the time the Mortgage Loan is closed or (ii) the purchase price paid for the property by Mortgagor

PURCHASE DATE. The date upon which payment is made to the Seller with respect to any Mortgage Loan sold to the Agency by the Seller under the Mortgage Purchase Agreement

RECAPTURE. The Code requirement applicable to Mortgage Revenue Bond funded Mortgage Loans closed on or after January 1, 1991, with tax exempt bond financing are subject to a repayment of the interest savings to the IRS if a property is sold within the first nine (9) years after closing. The maximum recapture amount is 6.25% of the original loan amount or 50% of the net appreciation. For more complete information, see the discussion of Recapture on the Agency's website.

RHS. U. S. Department of Agriculture Rural Development.

SELLER. A mortgage lender who has entered into a Mortgage Purchase Agreement with the Agency.

SELLER'S GUIDE. This guide, as it may be amended from time to time by the Agency, containing the rules governing the delivery of Mortgage Loans purchased by the Agency from the Seller under the Mortgage Purchase Agreement.

SINGLE FAMILY DWELLING. A residential building designed for use by one family, or a unit designed for residential use by one family. the owner of which unit owns an undivided interest in the underlying real estate. The term Single Family Dwelling may include a single unit condominium or factory made housing that is permanently affixed to real property. The term also includes property, owned in common with others, which is necessary or contributes to the use and enjoyment of such a structure or unit

STATEWIDE. The geographical designation for loans originated throughout the state but outside of the Target areas.

TARGET AREA (also, "Eligible Neighborhood" or "Urban Target Area") Any of the geographical areas of the state which are eligible in accordance with Section 103A of the Internal Revenue Code of 1954 and Section 146 of the Internal Revenue Code of 1986, as amended, and the regulations thereunder

TERM SHEET. The written terms and conditions prepared by the Agency for each of its loan products. The Term Sheets describe the loan type and loan parameters and conditions that have to be met for the loan to be purchased by the Agency.

VA Veteran's Administration

1.2 Amendments

This Seller's Guide may be amended or supplemented from time to time. The updated Seller's Guide will be posted on the Agency's website and forwarded by bulletin to the Sellers.

1.3 Reliance on Seller's Warranties

The Agency expressly relies on each Seller to satisfy fully each of the warranty requirements set forth in the Mortgage Purchase Agreement at all times as they pertain to the Seller and to the Mortgage Loans delivered or to obtain a written waiver from the Agency

1.4 Disclosure

Seller shall comply with all requirements of applicable State and Federal laws including, but not limited to, the Fair Credit Reporting Act, Equal Credit Opportunity Act (ECOA), Real Estate Settlement Procedure Act, (RESPA), S.A F.E. Mortgage Licensing Act (federal and New Jersey) and the Truth in Lending Act

1.5 Compliance with FHA/VA/RHS/MI Requirements

Lenders must comply with all requirements that FHA, VA, RHS and the Mortgage Insurer have for mortgages that they insure or guarantee. The lender must not take any action that might prevent us from recovering the full amount due under the VA or RHS guaranty, or the full claim under the FHA or MI insurance contract. Failure to provide various certificates of insurance within 120 days of loan closing will subject the mortgage to repurchase by the originating lender.

## PART II REQUIREMENTS FOR DISTRIBUTION OF LOAN FUNDS

SECTION 2.1 PRELIMINARY REQUIREMENTS

2.101 Terms of Sale Each sale of a Mortgage Loan to the Agency shall be subject to the following terms and conditions:

- (a) As of the Mortgage Loan closing date:
1. The Mortgage Loan was lawful under all applicable local, state and federal laws, rules and regulations which govern the affairs of the Seller and the Mortgagor, including without limitation all applicable real estate settlement procedures, truth-in-lending and anti-discrimination laws.
  2. The Seller has complied and the Mortgage Loan complies with all the terms, conditions and requirements of the Seller's Guide unless any such terms, conditions and requirements have been waived by the Agency in writing
  3. The Mortgage Loan application was taken and the related Firm Commitment to Mortgagor was made. The Mortgage Loan was made to finance the purchase of an Eligible Property and all improvements so financed have been fully completed or monies have been placed in escrow. The Mortgage Loan shall have been closed by the Seller and shall not be made to refinance an existing mortgage loan, except in the case of qualified rehabilitation loans.
  4. The Seller has no knowledge of any improvement or condition on or affecting the real property encumbered by the Mortgage Loan that now violates any law, regulations or code including, without limitation, applicable building, zoning and environmental protection codes and laws or regulations. Nor does the Seller know of any proposed or scheduled changes to laws, codes or regulations or local conditions that would materially affect the intended use or value of the property encumbered by the Mortgage Loan.
  5. The Seller has no knowledge of the real property subject to the Mortgage Loan having unrepaired damage caused by waste, fire, earthquake, windstorm, flood, tornado, wood boring insects or other causes.
  6. The Seller has no knowledge of any condemnation proceeding being instituted or threatened against the real property or improvements thereon
  7. The Seller has no reason to believe that any representation or warranty set forth in the Mortgagor's Affidavit (HMFA 300) or the Property Seller's Affidavit (HMFA 161) is untrue or incorrect, or has become untrue or incorrect between the time of making and the time of loan closing. Nor does the Seller have any knowledge that the Mortgagor is not a first-time home buyer, if such status is required, or is not income eligible or does not intend to personally reside in the mortgaged property

8. The Seller has no knowledge of any facts or circumstances, economic or otherwise, which may have an adverse effect on the credit of the Mortgagor, the prospect of prompt payment of the Mortgage Loan or the value of any security thereof.
9. Mortgagor escrows have been established in compliance with RESPA and as required by the Agency. The Agency requires a two month "cushion" using the disbursement date of the escrow item.

(b) As of the Purchase Date:

1. The Mortgagor is not more than 15 days delinquent in the payment of any installments of principal, interest or other amounts due under the terms of the Mortgage Loan. The Seller must provide to the Agency, prior to loan purchase, a complete Mortgage Loan history
2. No term, covenant or condition of the note evidencing the Mortgage Loan and the mortgage securing the Mortgage Loan has been waived, altered or modified except as consented to in writing by the Agency
3. All necessary documents have been executed and the Seller has taken all steps to perfect the Agency's legal and record title to, and to protect the Agency's interest in, the Mortgage Loan
4. The lien of, or estate created by, the Mortgage Loan has not been satisfied, subordinated or impaired, in whole or in part except for payment of principal and interest to purchase date. No part of any mortgaged property has been released therefrom, other than releases agreed to in writing by the Agency
5. If a warehouse lender has provided the Seller with funding to "table fund" the Mortgage Loan, no lien shall have been recorded in favor of the warehouse lender. If the warehouse lender requires a bailee letter from the Agency, it shall have first executed HMFA #725 Warehouse Lender Representatives and Covenants regarding bailee letters.

(c) As of the Delivery Date:

1. Each mortgage, financing statement and any other document required to be registered, recorded or filed in a public office to perfect the mortgage lien has been duly and timely filed, registered or recorded in the proper public office in order to give constructive notice thereof to all subsequent purchasers or encumbrancers

2. The Seller has complied and the Mortgage Loan complies with all the terms, conditions and requirements of the Seller's Guide unless any such terms, conditions and requirements shall have been waived by the Agency in writing.

By acceptance of payment for each Mortgage Loan on its respective Purchase Date, the Seller shall be deemed to have represented and warranted that all such conditions will have been met as of the respective dates set forth above

- 2.102 Purchase Price. The purchase price limits for Mortgage Loans to be acquired by the Agency are set forth in the applicable Term Sheet, but in no event will exceed the maximum purchase price authorized by the Code.
- 2.103 Application Fee. The application fee includes actual expenses incurred by the Seller for the cost of credit reports, appraisal, flood certification and a review of documents by an outside attorney. In addition to the costs recited in the first sentence, other permitted origination costs up to \$325 may be charged to the Mortgagor by the Seller' Note, however, that government insured loans do not permit the cost of the tax service fee to be charged to the Mortgagor and therefore for government insured loans the cost of the tax service fee, may not be collected from the Mortgagor and the permitted \$325 fee is reduced by the amount that is equal to the cost of the tax service fee
- 2.104 Points and Other Fees Seller shall not charge points or other financing fees on Mortgage Loans unless permitted to do so as specified in the applicable Term Sheet
- 2.105 Advertising Standards. Newspaper, radio or television advertising is an excellent method of informing the public of the availability and benefits of the Agency loans. Certain guidelines are required by the Agency for such advertisements.
- (a) Ads should indicate the benefits of Agency loans Lower interest rate, low downpayment, maximum term, as well as the fact they are available throughout the State of New Jersey.
  - (b) Ads should be directed toward homebuyers rather than home sellers for example, phrases similar to "now is a good time to sell while rates are low.. ." should not be used
  - (c) If a Seller is advertising Agency loans plus its other loans or services, the ad must clearly indicate that the terms for the Agency loans refer to those loans only. Advertising of Agency loans should be separate and distinct from other advertising of lending services within the same ad For example, a headline which features the lower interest rate should not be used if it implies that such rate applies to other loans offered by the institution.
  - (d) Advertisement should not include the statements "no broker's fees," or "Government Program" (except as to specific reference to the New Jersey Housing and Mortgage Finance Agency)
  - (e) All advertisements that reference the Agency's mortgage program(s) must include the equal housing opportunity logo and indicate that the sponsor is an equal opportunity lender

- 2 106 Anti-Predatory Lending. It is the policy of the Agency not to originate, purchase or accept assignment of any predatory loan, and in particular any “covered home loan” or “high-cost home loan” as defined by the New Jersey Home Ownership Security Act of 2002 (“HOSA”), N.J.S.A. 46:10B-22. Therefore, the Seller has represented in the Mortgage Purchase Agreement that it will not sell or assign to the Agency any “covered home loan” or “high-cost home loan” as defined by the HOSA.

## SECTION 2.2 DISTRIBUTION OF FUNDS

### 2.201 Reservation Process

To qualify for a reservation of funds, the applicant must meet the following requirements:

- (a) Must provide a bona fide contract of sale executed by both the buyer and the seller of the property. The contract of sale must reflect a purchase price that is within the applicable purchase price limit. In case of FHA 203(b) insured loans, the contract must include a mortgage contingency clause. In addition, the contract must contain an FHA amendatory clause in its contract or as an addendum.
- (b) Must provide proof of income (three most recent pay stubs or Internal Revenue Service tax return form 1040) which appears to reflect the applicant's income eligibility and ability to meet the applicable income limits and to pay the anticipated monthly debt service on the Mortgage Loan.
- (c) Must have a tri-merge “middle” credit score as reported by TransUnion, Experian and Equifax of 620 or higher. If there are less than three reported credit scores the lowest score will be used.
- (d) Must sign the Mortgage Loan Reservation Acknowledgment Form (HMFA 306).
- (e) Must be a first time homebuyer except in a Target Area.

- 2 202 Reporting of Loans in Process. After Seller has prescreened an applicant for program eligibility and has taken a Mortgage Loan application, an authorized person of Seller will register the loan via the Internet Loan Reservation (ILR) System.

- (a) In order to reserve funds, Seller will need to access the Internet Loan Reservation (ILR) System with the following information:
  - \* name of each applicant
  - \* property address
  - \* zip code
  - \* county
  - \* social security number(s)
  - \* sales price
  - \* mortgage amount
  - \* target or non-target loan
  - \* new or existing property

- \* number of units
- \* family size
- \* annual income
- \* type of loan (i.e , FHA, VA or RHS)

- (b) A 6 digit loan number will be issued by the ILR system at the time of registration and must appear on the Transmittal Summary Form 1008 and all subsequent correspondence regarding the loan.
- (c) Seller may cancel a loan within 10 business days of registration via the ILR system. After that, Seller must notify the Agency in writing of any cancellation within two (2) business days. A copy of adverse action or consumer disclosure letter sent to the applicant must accompany cancellation.

2.203 Timely Reporting of Loans In Process. In order that the Agency can monitor the timely distribution of funds, all loans in process must be registered via the ILR System either on the same or on the next business day following the date the Mortgage Loan application is taken. Under no circumstances should the lender take more than 48 hours to register a loan. The Mortgage Loan interest rate will be assigned at the rate in effect at the time of loan registration, regardless of when the application was taken.

2.204 Reservation Period Upon Reservation, funds will be reserved for 90 days from the date of the loan reservation, EXCEPT that the reservation will be canceled if the loan package is not submitted by the Seller for Agency underwriting by the 45<sup>th</sup> day after the Reservation date. Loan packages must be complete and include the loan application, three (3) most recent years federal tax returns or IVES report (as permitted in Section 3.103), VOE, VOD, appraisal, credit analysis and such other documentation as are set forth in Section III. After the 90<sup>th</sup> day any loan not submitted for purchase will be automatically canceled. A loan may be extended for an additional 30 days immediately following the 45 day underwriting submittal period or the 30 days immediately following the purchase submittal. There will be a fee equal to 3/8 of 1% of the Mortgage Loan amount, to be paid by the Seller not the applicant, for each extension of the Mortgage Loan. Mortgage Loans that are canceled will not be extended, but may be resubmitted as new applications. If a canceled application is resubmitted within 60 days following cancellation, the origination fee from the HMFA to the Seller will be reduced by an amount equal to 3/8 of 1% of the Mortgage Loan amount. The Agency reserves the right, from time to time, to change the number of days outlined above and lenders will be notified accordingly. The Reservation Period for new construction will follow the same rules set forth in this Section, including cancellations, extension and fees, except that funds will be reserved for 180 days with an available 60 day extension period.

## PART III MORTGAGE LOAN ORIGINATION

SECTION 3.1 BORROWER ELIGIBILITY REQUIREMENTS.

3.101 No Corporate Ownership. Mortgagor must be an individual.

3.102 First Time Homebuyer. Unless the Mortgage Loan is made in a Target Area, the Mortgagor shall not have had a present ownership interest in a principal residence at any time during the three years prior to which the mortgage is executed. For the Agency's program, the three years consist of tax calendar years (January 1, through December 31). The sale of previously owned property must have occurred prior to three tax calendar years before the Mortgage loan closing.

For purposes of this section, interests which constitute present ownership interests include the following fee simple interest, a joint tenancy, a tenancy in common, or tenancy by the entirety; the interest of a tenant-shareholder in a cooperative; a life estate; a land contract; and an interest held in trust for the Mortgagor (whether or not created by the Mortgagor) that would constitute a present ownership interest if held directly by the Mortgagor. Interests which do not constitute present ownership interests include the following: a remainder interest; a lease with or without an option to purchase, a mere expectancy to inherit an interest in a principal residence, the interest that a purchaser of a residence acquires on the execution of a purchase contract; and an interest in other than a principal residence during the previous three (3) calendar tax years.

3.103 Tax Returns Required. To establish that the Mortgagor meets the requirements of 3.102, Seller shall examine true and executed (signed) copies of the Mortgagor's federal income tax returns for the previous three (3) years and determine whether the Mortgagor has taken a mortgage interest or a property tax deduction for his principal residence. If the Mortgagor cannot provide the documents at time of Mortgage Loan application, copies should be obtained from the Internal Revenue Service on IRS Form 4506, Request for Copy of Tax Return.

In cases where the Mortgagor filed Form 1040, Seller must obtain the Form 1040 plus all schedules. If the Mortgagor filed Form 1040A or Form 1040EZ, a verifying letter from the IRS will be required and full copies of their State Income Tax Returns will be required to determine if the Property Tax Deduction was taken. Where the Mortgagor was not required to file federal or state income tax returns, Seller should obtain a sworn statement from the Mortgagor to that effect which further attests that the Mortgagor had no interest in a principal residence during the past three years.

In lieu of supplying true and executed copies of the Form 1040 and attendant schedules, Seller may obtain and certify as a true copy the transcript for each of the prior three years applicable federal income tax returns as reported by the IRS' Income Verification Express Service (IVES). Seller must obtain the IVES report as, or from, an IRS approved IVES reporting agency. The IVES

report must show wages and other taxable income, adjusted gross income, filing status, deductions for property taxes or mortgage interest payments.

IVES may also be used to obtain Form 1040A or Form 1040EZ, however, for tax years when these forms were filed, full copies of the applicant's State Income Tax Returns for the past three tax calendar years must also be submitted.

3.104

Income Limits. An applicant shall be eligible for a Mortgage Loan if the applicant has an annual gross household income at the time of signing the Mortgage Loan application not in excess of the limit or limits established in the applicable Term Sheet established in accordance with the Code which shall govern in the event of a conflict in the maximum income limit between the Code and the Term Sheet. Income at the time of closing must not be over the maximum applicable income limits established in accordance with the Code, which will govern in the event there is an error in the Term Sheet. Total gross household income is for all mortgagor(s) and any other person who is expected to live in the residence being financed and to be secondarily liable on the mortgage. This would include a co-maker who will occupy the subject property.

(a) Calculating Annual Gross Borrower Income

For the purpose of determining income eligibility, the Seller shall use the annualized value of the applicant's current rate of monthly income. Annualized gross income is determined by multiplying gross monthly income by 12. Gross monthly income is the sum of monthly gross pay; any additional income from overtime, part-time employment, bonuses, dividends, interest, royalties pensions, Veterans Administration compensation, net rental income and other income such as alimony, child support, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts, and income received from business activities or investments

The income eligibility verification relied upon by the Seller cannot be more than 4 months old at the time of mortgage closing. If the mortgage closing does not occur within 4 months, current income verification will be required. If current household income exceeds the applicable income limits, the mortgage loan application will be rejected and any commitment issued by the Agency will be null and void

For Mortgage Loans on Multiple-Unit Dwellings, anticipated monthly rental income shall be excluded from the maximum income calculation, but 75% of the monthly rental income anticipated after the loan closing may be considered when calculating debt ratios

(b) Verification.

The Seller shall verify income through current pay stubs and/or written verification from all reported income sources. The applicant's Internal

Revenue Service tax return form 1040 from the previous year should also be used to verify income sources.

(c) Self-Employed.

Where an applicant is self-employed or is one of the principal owners of a business, the previous three years Federal Income Tax Returns shall be required as well as two years audited profit and loss statement.

3.105 Owner Occupancy. The Mortgagor must within sixty (60) days of Mortgage Loan closing occupy the mortgaged property as his/her principal residence. In the case of Multiple Unit Dwellings, only one unit of such must be occupied as the principal residence of the Mortgagor.

3.106 No Trade or Business. Mortgagor must not use or intend to use any portion of the mortgaged property in a trade or business, as a vacation home or investment, except for rental units in a Multiple Unit Dwelling

3.107 Requirements for Co-Signer. A co-signer of the note, as permitted by Section 3.206, who will not have an interest in the property, is not required to meet the borrower eligibility requirements of Section 3.1

3.108 Mortgagor's Affidavit and Property Seller's Affidavit Required. Every Mortgage Loan must be supported by a Mortgagor's Affidavit (HMFA 300) signed and attested by the applicant affirming, among other things, to the mortgagor's income and first-time buyer status and to the cost and intended use of the Eligible Property to be purchased. Every Mortgage Loan must also be supported by a Property Seller's Affidavit (HMFA 161) signed and attested by the seller of the Eligible Property affirming, among other things, the actual acquisition cost of the property that will be paid by the applicant. These affidavits are required to establish that Mortgage Loan is in compliance of the Code and are mandatory.

3.109 Other Real Estate Owned The Mortgagor may not own or have an interest in other real estate at time of loan closing or during the immediately preceding three years.

Exceptions will be considered only under the following circumstances:

- (a) Real estate is a vacation home not used as a primary residence by the Mortgagor
- (b) Real estate is vacant land
- (c) Real estate is non-residential, commercial or industrial in character  
When other real estate is owned, under exception (a) or (b) of the aforementioned acceptable situations, Seller will be required to obtain a certification from the Mortgagor indicating the type of property owned and the circumstances under which it is being held

- 3.110        Seller's Review and Warranty. Seller must verify the information contained in the Affidavits and required by this Section 3.1 as part of the processing for Mortgage Loan approval.
- 3.111        One Mortgage Reservation Only Applicants may not have more than one current reservation for an HMFA Mortgage loan.
- 3.112        Employee Mortgage Loan. Employees of Seller are eligible for Agency financing, however, they may have no part in the processing, underwriting, and/or closing of their own file.
- 3.113        Citizenship, Permanent and Non-Permanent Residents.
- (a) General Rule. Citizenship of the United States is not required for eligibility. HMFA will purchase loans made to 1) United States Citizens and also to 2) non-citizens who are Lawful Permanent Residents in the United States HMFA may also purchase loans made to 3) non-citizens who are Lawful Non-Permanent Residents depending upon the circumstances. When a mortgage loan applicant indicates on the loan application that he or she holds something other than U. S Citizenship, the lender must determine residency status from the documentation provided by the borrower
- (b) Who is a Citizen? A U.S. Citizen can be native-born, foreign-born or a naturalized person. Most U.S. Citizens achieve that status by being born in the U.S. Certain individuals born outside the U.S. are citizens because their parent(s) or adoptive parent(s) are U.S. citizens. Other individuals apply to become citizens through the Naturalization process. Information on who is a U.S. citizen and how to become a U.S. citizen is contained in the Immigration and Nationality Act, 8 U.S.C. § 1101 et seq.
- (c) Lawful Permanent Residents ("Green Card" holders). A Green Card gives a person lawful permanent residency in the U.S. A Lawful Permanent Resident is a foreign national who has been granted the privilege of living and working in the United States.
- HMFA will purchase a loan made to a Lawful Permanent Resident under the same terms and conditions as U.S. citizens. The lender must document the file with evidence of permanent residency and indicate on the loan application that the borrower is a Lawful Permanent Resident. Evidence of permanent residency is issued by the Bureau of Citizenship and Immigration Services (BCIS) (formerly the Immigration and Naturalization Service) within the Department of Homeland Security.
- (d) Non-Permanent Residents. These individuals are citizens or subjects of other countries who have been permitted entry to the U.S. pursuant to a VISA. They are non-immigrants in that they do not have the stated goal of making the U.S. their permanent residence. They enter the U.S. for a temporary period of time and are restricted to the activity or reason for which their VISA was issued. Certain types of VISAS permit extended non-permanent residency.

HMFA will purchase loans made to a Non-Permanent Residents with long-term VISAs, such as H-1B, L-1, O-1, and TN VISAs, provided the property will become the borrower's principal residence, the borrower has a valid Social Security Number and the borrower is eligible to work in the U.S. as evidenced by an Employment Authorization Document (EAD) issued by BCIS. If the authorization for temporary residency status will expire within one year and a prior history of residency status renewals exists, the lender may assume continuation will be granted. If there are no prior renewals, the lender must determine the likelihood of renewal based upon information from the BCIS. Persons with short term VISAs such as tourists, visitors, seasonal workers and student non-permanent residents are not eligible.

- (e) Non-Citizens with no lawful residency Non-U.S. Citizens who cannot demonstrate legal residency are not eligible for HMFA mortgages.

## SECTION 3.2 CREDIT AND PROPERTY UNDERWRITING REQUIREMENTS.

3.201 Cash Downpayment. The maximum loan-to-value ratio on all Mortgage Loans shall not exceed one hundred percent (100%), or such greater percentage as may be permitted by the Agency and mortgage insurers.

- (a) The excess of the purchase price of the property over the original loan amount of the Mortgage Loan must be paid from Mortgagor's liquid assets or cash equity. Seller must determine that the Mortgagor has sufficient cash assets by utilizing the Verification of Deposit Form (FNMA 1006) or 3 months bank statements

No secondary financing may be used for the downpayment or closing costs in the consummation of the loan, except with the approval of the Agency

- (b) Sellers will be required to obtain written verification of all deposit monies being held for the property purchase.
- (c) Funds which the Mortgagor receives as a gift toward downpayment or closing costs must be supported by a statement from the donor confirming the gift and stating that repayment is not expected. A gift cannot be considered unless the donor is a close relative, a close friend with a motivating interest in the Mortgagor, the Mortgagor's employer, or a legally constituted non-profit entity or religious organization. The donor can have no connection with the property seller, or the Seller, or seek repayment or a fee or contribution from any party to the transaction or the financing of the transaction
- (d) Closing costs may be paid by either the Mortgagor or the seller of the property

- (e) Certain prepaid settlement costs must be paid by the purchaser of the property in order for the mortgage to be eligible for purchase. These costs include.
  - o interest charges covering any period after the settlement date;
  - o real estate taxes covering any period after the settlement date;
  - o Hazard insurance premiums; and
  - o the escrow accruals required for renewal of the mortgage insurance premium.
- (f) Seller's concessions or contributions of up to 3% of the lesser of the sales price or appraised value are permitted. Note that the amount of the seller's concession or contribution must not be offset by increasing the amount of secured mortgage financing
- (g) The maximum loan-to-value ratios for FHA, VA or RHS loans must be in compliance with their guidelines.

3.202

Secondary Financing. Secondary financing is not permitted. However, in cases where the Mortgagor has fulfilled the requirements specified in 3.201, the Mortgagor may request approval for financing from another government or non-profit source such as a federal, state, county or local government deferred downpayment assistance loans. Unless specifically agreed to otherwise by the Agency, the secondary financing must be subordinated to the Agency's secured first and second mortgages and the terms must be specified in the loan application and be approved in advance of closing by the Agency.

3 203

Mortgage Insurance.

- (a) Mortgage Insurance issued by an MI is required on all Home Buyers Program (HBP) loans where the loan-to-value ratio is greater than 80%. The coverage required is indicated on the applicable Term Sheet. Premiums may be financed provided the final loan-to-value does not exceed 100% or greater as may be permitted by the Agency and the mortgage insurer. The MI coverage is based on the total LTV ratio, not the borrower's downpayment. No insurance coverage may be canceled without prior written consent from the Agency, or as required by law. FHA 203(b) insurance is acceptable in lieu of private mortgage insurance. The terms and conditions of the insurance will be in accordance with the 203(b) program guidelines. ONLY participating lenders with Direct Endorsement Approval may originate Agency loans with FHA insurance. MI companies must be on the Agency's approved MI list.
- (b) MI Declination. Sellers must notify the Agency of any refusal by an MI to provide the required coverage for any reason other than unsatisfactory credit or property considerations.

- (c) Full Force and Effect As of the closing date, such insurance must be in full force and effect, or fully committed if the practice of the MI company is to issue policy coverage after closing. If the policy is not in full force and effect or for any reason the MI company declines to insure the loan after purchase, including but not limited to first or early payment delinquency or default, the Seller will be obligated to secure the required MI insurance or repurchase the loan. The benefits of such mortgage insurance must run to the Agency and nothing must have been done or omitted to impair the rights or remedies of the Agency. Loans with MI commitments that
- (d) No Commissions. In connection with the placement of such mortgage insurance and to Seller's knowledge, the MI shall not cause or permit any consideration or thing of value (other than the protection provided by its mortgage insurance), including but not limited to, any commission, fee or other compensation to be paid to or received by: (i) any mortgage lender, the deposits or accounts of which are insured by the Federal Deposit Insurance Corporation, (ii) any officer, director or employee of such lender or any members of the immediate family of such officer, director or employee; (iii) any insurance agency, corporation (other than the insurer), partnership, trust or other business entity (including any service corporation, whether organized for profit or otherwise) in which an insured lender or any officer, director, employee or any members of the immediate family of such officer, director or employee has any direct or indirect ownership or financial interest, or (iv) any designee, trustee, nominee or other agent or representative of any of the foregoing. This requirement applies to any commission, fee or other compensation paid or received regardless of whether such commission, fee or other compensation was paid or received before or after the mortgage insurance placed in connection therewith was written.
- (e) FHA Mortgage Insurance Cost. The maximum insurable mortgage is based on the lower of the statutory dollar limit or the appropriate loan to value ratio or the applicable purchase price under the bond program whichever is less
- (f) VA Mortgage Guaranty. The maximum mortgage guaranty permitted by VA or the applicable purchase price under the bond program whichever is less.
- (g) RHS Mortgage Loan Guarantee. The maximum mortgage guarantee permitted by RHS or the applicable purchase price under the bond program whichever is less
- (h) Mortgage Pool Insurance. The Agency may contract with a mortgage insurance provider or providers for mortgage pool insurance coverage for loans that are not otherwise insured by FHA, VA or RHS insurance or guarantees. In addition to assuring that primary mortgage insurance requirements are met, when pool insurance is required, it is the Seller's

responsibility to secure a pool insurance certificate of coverage for each Mortgage Loan that is not otherwise insured by FHA, VA or RHS

3 204

Credit Underwriting Guidelines. Evaluation by Seller of each Mortgagor's creditworthiness must be done on a case-by-case basis. All standards for determining effective income must be applied to each Mortgagor in the same manner. The following are guidelines to indicate proper considerations in ascertaining that the Mortgagor's creditworthiness is sufficient. These guidelines are not intended as requirements or rules that must apply in all cases; however, the Agency considers them to be sound general principles in underwriting credit.

- (a) Monthly Housing Expense-to-Income Ratio. The Agency will normally require that monthly housing expense (first mortgage payments plus escrows) not exceed 28% for a conventional loan, 29% for an RHS guaranteed loan, 31% for a FHA insured loan, or 33% for Community Home Buyer Program of Mortgagor's "stable monthly income," as defined in clause (e) below.

If Mortgagor is purchasing a condominium or PUD unit, the monthly condominium or PUD fee (homeowners' association dues) for common elements/property charges and maintenance, excluding unit utility charges, must be included in the monthly housing expense when calculating the above ratio.

- (b) Monthly Debt Payment-to-Income Ratio. The Agency will normally require that the total amount of monthly housing expense (referred to in clause (a) above), plus all other monthly payments on all installment debts having remaining terms of more than ten (10) months do not exceed 36% for a conventional loan, 41% for an RHS guaranteed loan, 43% for an FHA insured loan, or 38% for Community Home Buyer Program of Mortgagor's "stable monthly income." Alimony, child support and pension loans are considered long term monthly obligations, unless such obligations terminate in less than ten (10) months
- (c) Monthly Housing Expense-to-Income and Debt-to-Income Ratio for VA Loans The maximum Debt-to-Income Ratio is 41% provided there is sufficient residual income to satisfy the VA regulations
- (d) Compensating Factors. There are many underwriting considerations that justify the use of higher debt-to-income ratios. When such factors exist, we do not object to the use of higher underwriting ratios for any mortgage. Generally, the lender should be more flexible in using a higher ratio for the monthly housing expense to income comparison than it uses for the total obligations-to-income comparison. A higher monthly housing expense-to income ratio or a higher total obligations-to-income ratio (or both) may be acceptable for mortgages that have loan-to-value ratios of 90% or less, if the borrowers

- are making a large downpayment toward the purchase of the property, or have a strong equity position in a property that is being refinanced;
- have demonstrated an ability to devote a greater portion of income to basic needs like housing expenses;
- have demonstrated an ability to accumulate savings and to maintain a good credit history or a debt-free position;
- have potential for increased earnings and advancement because of their education or job training, even though they have just entered the job market;
- have net worth substantial enough to evidence their ability to repay the mortgage;

In order for the use of higher qualifying ratios to be approved for mortgages that have loan-to-value ratios above 90%, not only must the borrowers fall into one of the above categories, but also one of the following conditions must exist.

- The borrowers have financial reserves that can be used to carry the mortgage debt. Part of the savings must be in the form of liquid assets that equal at least two months of PITI payments;
- The borrowers have demonstrated an ability to devote a greater portion of their income to housing expenses (but the housing expense for the subject mortgage should not exceed the borrowers' previous housing expenses), excellent payment histories on any prior mortgage obligations, and acceptable credit histories,

Lenders must support and document all decisions regarding the underwriting ratios - whether they rely on the above compensating factors or others.

- (e) Stable Monthly Income And Other Income Considerations. Stable monthly income is Mortgagor's gross monthly income from primary employment base earnings plus recognizable secondary income. Secondary income of any Mortgagor, such as bonuses, commissions, overtime, or part-time employment, should only be recognized in "stable monthly income" if such items of secondary income are typical for the occupation, substantiated by Mortgagor's previous two years' earnings and continuation is probable based on foreseeable economic circumstances.

On Multiple-Unit Dwellings, the Agency recognizes that rental income will be generated from the tenant occupied units. Future rental income is not considered part of gross annualized household income for purposes of determining income eligibility under the Code. However, 75% of future net rental income may be included in income for

purposes of determining household debt ratios. The Agency defines net rental income as the property's gross monthly rental, less allowance for the owner occupant's unit, vacancy factor and operating expenses. Note that affordable housing units sold pursuant to the State's Uniform Housing Affordability Controls or other programs may have different rules for application of rent. On all Multiple-Unit dwellings the Agency requires that Seller complete an Operating Income Statement (FNMA 216) on the property. Seller will be required to send this form to the Agency with the Prior Approval documentary package. Rental income should not exceed that which is reasonable and customary for the area in which the property is located as defined by the appraisal report.

All Mortgage Loan applicants must disclose income from alimony, child support or maintenance payments and Seller agrees to consider such payments as income to the extent that they are likely to be consistently made. Factors which Seller may consider in determining the likelihood of consistent payments include, but are not limited to, whether the payments are received pursuant to a written agreement or court decree, the length of time the payments have been received; the regularity of receipt; the availability of procedures to compel payment, whether full or partial payments have been made, the age of any child; and the creditworthiness of the payor, including the credit history of the payor where available to Seller under the Fair Credit Reporting Act or other applicable laws. Seller agrees to submit to the Agency evidence adequate to support its determination.

Items such as education, training, technical skills, occupation and past employment history should be taken into account on a case-by-case basis in determining "stable monthly income". Income necessary to qualify a Mortgagor can be verified by a Verification of Employment Form (FNMA 1005) or current pay stubs. If there has been a change in employment within the past two years, an additional verification must be obtained confirming the Mortgagor's previous employment. In cases where Mortgagor is self-employed, the minimum acceptable documentation to verify income would be profit and loss statements from the last year end prior to application for the Mortgage Loan and tax returns from the previous three years.

- (f) Mortgagor's Credit Reputation In addition to the above guidelines, Seller must determine that Mortgagor's housing payments plus other obligations do not constitute an undue strain on Mortgagor's ability to make all such payments promptly and that a credit reputation is evidenced which would be commonly acceptable to private institutional mortgage investors. The following additional guidelines should be considered:

- 1 Slow Payments Shown On Credit Report If Mortgagor has a recent history of slow payments on a previous mortgage(s), the Agency will require a detailed, written explanation. Slow payment of other debts constituting a pattern of late payments, or a payment

pattern which appears to indicate slow payments of debts related to basic needs while prompt payments were made on debts related to less important needs of the Mortgagor and Mortgagor's family, must also be satisfactorily explained.

2. Bankruptcy The discharge of bankruptcy must have occurred prior to two (2) years before applying for HMFA financing. The Mortgagor must have established a satisfactory credit record in this time period. This applies to Chapter 7 and 13 discharges.
  3. Default on Loans Any loan which is in default or with a collection agency must be paid in full. Payment plans on defaulted loans are unacceptable, unless the borrower has made 12 monthly payments on the payment plan in a timely fashion
  4. Judgments against Borrowers or affecting the Property Judgments must be paid in full at or prior to the Mortgage Loan closing. Judgments, delinquent accounts or other indebtedness cannot be paid with Agency loan funds.
  5. Borrower may be considered for a mortgage if previously a defendant in a mortgage foreclosure if the proceedings were completed at least five (5) years prior to loan application. The borrower must have established good credit.
  6. Job Tenure; Change of Residence. Three or more employment changes by Mortgagor within the previous five years, or four or more changes of residence within the previous six years must be satisfactorily explained.
- (g) Home Buyer Education. These sessions are to be in compliance with the requirements of the mortgage insurer. At the time of loan submission for underwriting, the Certificate of Completion of the course should be in the loan file. Agency funded or approved counseling is mandatory for all 100% Financing Program borrowers.

3.205

Credit Report. Each Mortgage Loan must have a written report meeting the following requirements:

- (a) Borrower must have a minimum tri-merge "middle" credit score of 620 or higher as reported by TransUnion, Experian and Equifax. If there are less than three reported credit scores the lowest score will be used. There is no minimum credit score requirement for loans covered by Section 61 (100% Financing Program). Applicants with no credit scores, but with documented income, rent, cash savings, bank statements, utility bills, written credit references and other forms of non-traditional credit, or some combination thereof, may be acceptable to the Agency on a case by case basis.
- (b) The Seller is required to obtain a written credit report for each borrower on the loan application who has an individual credit record. The credit

report must be based on data provided by the following national credit repositories-Equifax, Experian, or TransUnion. The credit report may be prepared by an independent consumer credit reporting agency or one of the national credit repositories. Acceptable formats for these traditional credit reports include an "in-file" credit report, an automated "merged" credit report, or a residential mortgage credit report. Regardless of the credit report format all three credit repository scores must be queried.

A traditional credit report must include both credit and public record information for each locality in which the borrower has resided during the most recent two-year period. The credit report must include all discovered credit and legal information that is not considered obsolete under the Fair Credit Reporting Act.

Although the Fair Credit Reporting Act currently specifies that credit information is not considered obsolete until after seven years and bankruptcy information, after 10 years, we require only a seven-year history to be reviewed for all credit and public record information. Each credit report must include available public record information, identify the sources of the public records information, and disclose whether any judgments, foreclosures, tax liens, or bankruptcies were discovered (with these adverse items reported in accordance with the Fair Credit Reporting Act). Public records information must be obtained from two sources, which may include any combination of the following: national repositories of accumulated credit records, direct searches of court records by employees of the lender or the consumer reporting agency, or record searches made by other public records search firms.

A Seller may accept an "in-file" credit report from three different credit repositories that are able to report both credit and public record information for each locality in which the applicant lived during the last two-year period. A lender may accept "in-file" reports from two different repositories if that is the extent of the data available for the borrower.

"In-file" credit reports must identify the repository's source for each specific tradeline. When an "in-file" credit report does not include a reference for each significant debt the applicant reported on the loan application, the Seller must obtain a separate written verification for each unreported (or unrated) debt.

A Seller may accept an automated "merged" credit report that electronically combines the information from the "in-file" credit reports from three different repositories into a single report-as long as the "merged" report is provided by a reporting agency that is not affiliated with the Seller in any way. A Seller may accept a "merged" report that combines the "in-file" credit reports from two different repositories if that is the extent of the data available for the borrower.

An automated "merged" credit report must be prepared in accordance with the following:

- The report must include all of the information from the three (or two, if applicable) "in-file" credit reports;
- The report must identify the repositories that were used for the "in-file" credit reports; and
- The report does not have to repeat duplicate information that is in the "in-file" credit reports. However, if the duplicate information is not exactly the same on each report, the automated "merged" report must either repeat the information or include the most derogatory of the duplicate information that pertains to payment history and/or current payment status.

When preparing a residential mortgage credit report, the reporting agency must contact at least two national repositories of accumulated credit records for each locality in which the borrower has lived during the most recent two-year period. All information in a residential credit report must be obtained from, or verified by, sources other than the applicant. When co-applicants have individually obtained credit, separate repository inquiries are necessary, although the results of both reports may be combined in one residential mortgage credit report-as long as the report clearly indicates that this has been done.

The reporting agency must verify-either in writing or by telephone-the borrower's current employment and his or her income (if it can be obtained). If the applicant has changed jobs in the past two years, the credit report also must mention the applicant's previous employment and income. The reporting agency must include in the credit report a positive statement that the employment was verified, the date of verification, and the name of the individual who confirmed the employment. In addition, if this information was not obtained by an employer interview, the reporting agency must indicate why that was not done.

The credit report must include the name of the party who ordered the credit report. If another party paid for the report, that party's name also must be shown, unless the lender ordered the report and the billed party has a documented agent of corporate relationship with the Seller. The original credit report must be delivered to the office of the party who requested it, using any means that are acceptable under the Fair Credit Reporting Act or similar regulations-such as sending it through the U.S. Postal Service, by messenger, over a fax machine, or through other automated means. The credit report also must include a certification that it meets the standards for a residential mortgage credit report.

When the reporting agency has incomplete information, discovers that the borrower might not have disclosed all information that should be found in public records, or obtains other information that indicates the possible existence of undisclosed credit records, the reporting agency must interview the applicant(s) to obtain additional information that is needed to provide an accurate report or perform additional research to verify whether the purported undisclosed records actually exist. Credit documents must be no more than 120 days old on the date the note is signed. When the age of the documents is greater than 120 days, lender will be required to update the credit file.

3.206 Co-Signer. The use of a co-signer on the note is permitted, for credit enhancement purposes only, in situations of short term employment, past delinquent credit experience and insufficient income provided that the primary Mortgagor(s) have reasonable prospect of making the proposed payments on their own accord. The co-signer's income may not be relied upon to meet the guidelines for housing expense to income or debt expense to income ratios or to determine whether the household falls within income limits.

3.207 Buy-downs Permitted. Buy-downs are cash payments equal to the amount needed to off-set the Mortgagor's interest payment on a Mortgage Loan for a period of up to three years. Buy-downs are not discount points and do not alter the actual note rate which shall remain constant over the life of the Mortgage Loan. Buy-downs typically are funded by sellers, but may be funded by the Mortgagor. Temporary interest rate buy-downs will be permitted with the Agency's prior approval subject to the following requirements:

- (a) The term of the buy-down period must not be less than one year or greater than three years
- (b) The interest rate buy-down is not greater than three (3) percent. However, in any one (1) year the buy-down cannot exceed one (1) percent.
- (c) There are no references made to the buy-down plan in the note and mortgage instruments
- (d) The coupon rate and monthly payments provided for in the note and mortgage instruments are shown exclusive of the buy-down subsidy.

Seller's should apply underwriting guidelines on the reduced monthly payment indicated for year two of the buy-down agreement.

An applicant who has a mortgage that is subject to an interest rate buy-down plan should have a high likelihood of remaining in his or her home without experiencing a default, therefore, lenders should not use buy-down plans to qualify an applicant who would not otherwise be able to qualify for the mortgage. The lender's underwriter should carefully evaluate the borrower's ability to manage the payment increases that will occur under the terms of the buy-down agreement

For all mortgages that are subject to interest rate buy-down plans, the lender should use one or more of the following credit related factors to establish whether the borrower is likely to be able to handle the payment increases:

- o The Seller should review the applicant's employment history and determine (based on its knowledge of the occupational opportunities in the local market) whether the borrower has a likely potential to experience income increases commensurate with the scheduled payment increase(s).
- o The Seller should consider the applicant's ability to manage and adjust his or her financial obligations in a way that will allow allocation of a greater portion of his or her income toward the mortgage obligation. This flexibility can be demonstrated in several ways - (1) applicants who have lower qualifying ratios should have more funds available to apply toward the scheduled payment increases, (2) applicants who have either few long-term debts or long-term debts that do not extend beyond one or two years should have more funds to devote toward housing expense as those debts are paid off, and (3) applicants who have an acceptable credit history and a demonstrated ability to accumulate savings should be able to have funds available as the payment changes occur
- o The Seller should determine the amount of liquid assets that the borrower will have after closing to see if he or she will be able to use them to absorb the payment increases that will occur after the buydown period. This, in itself, should not be a limiting factor. For example, a borrower who does not have significant assets could still be considered favorably if he or she is making a large downpayment or meets one of the two factors discussed above.

3.208

### Appraisals

The property must have been appraised within the 3 months that precede the date of the note and mortgage. When the appraisal will be more than three (3) months old on the date of the note and mortgage - regardless of whether the property was appraised as proposed or existing construction, the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal.

- (a) Appraisal Forms. Seller's must supply an appraisal on one of the following applicable Fannie Mae approved Appraisal Forms, as updated from time to time:

Single Family	FNMA	Form 1004
Two-to-Four Family	FNMA	Form 1025
Condominiums	FNMA	Form 1073

Revised Statement of Limiting Conditions and Appraiser's Certification (Form 1004B) must be used in connection with all appraisals prepared for Agency loans.

Appraisals completed for property to be insured through FHA's 203(b) program must be in conformance with HUD's Valuation Guidelines.

- (b) Well, Septic, & Wood Infestation Certification. The Agency requires satisfactory Well and/or Septic Certifications on all properties (other than those newly constructed) where the appraiser has indicated a well and/or septic system is present. A satisfactory termite certification prepared by a competent inspector indicating no evidence of ongoing infestation on unrepaired damage will be required on all properties other than those newly constructed and upper units mid-high rise condominiums using NPMA-33, Wood Destroying Insect Infestation Inspection Report (Section 3 410).
- (c) Satisfactory Completion Certificate. With respect to appraisals made subject to repairs, alterations or conditions, or subject to completion per plans and specifications, Seller must submit to the Agency, on the delivery date, a statement of satisfactory completion. This report shall be made after completion of repairs, improvements, alterations, conditions or construction, and must clearly state substantial compliance with all conditions or requirements as set forth in the original appraisal report of the mortgaged premises. The original appraiser must prepare this statement of satisfactory completion

The Agency recognizes the fact that due to weather conditions, minor items not affecting livability, whether on or off site may be incomplete at the time of loan closing. This is acceptable to the Agency providing that the following requirements are met: a) a certificate of occupancy or temporary certificate of occupancy has been issued, or if the municipality does not issue certificates of occupancy, the Seller or an appraiser must certify that the property is substantially complete, that there are no health, safety, sanitation or other conditions that would make the property uninhabitable, and provide the Agency for its approval with a list of any and all items that need to be installed, repaired or replaced; b) the Seller assumes the responsibility for an escrow which is 1-1/2 times the estimated cost of the completion of the unfinished items, this amount is not to exceed \$7,500, unless the Seller first receives written approval from the Agency, Seller forwards a copy of the escrow agreement with the mortgage loan delivery package, and the Seller forwards to the Agency an updated statement of satisfactory completion when items are complete. The statement of satisfactory completion must be prepared by the original appraiser.

- (d) Appraisers. The Agency does not approve specific appraisers, however an appraiser must be experienced in the appraisal of 1-4 family properties and must be actively engaged in such appraisal work. All appraisers performing appraisals for Agency loans will be required to

be licensed by the State of New Jersey in accordance with P.L. 1991 c.68 and regulations promulgated thereunder.

1. Discontinuance of Appraiser by the Agency. The Agency may, at any time, notify Seller that the Agency will no longer accept appraisals made by a given appraiser, and Seller shall not thereafter use such appraiser, with respect to Mortgage Loans purchased by the Agency.
3. Representations to Third Parties by Appraiser An appraiser must not make any representations to third parties that he or she has been, in any way, qualified by the Agency, but may represent (where it is the case) that he or she has made appraisals for the Seller on Mortgage Loans accepted for purchase by the Agency and, if applicable, may represent that the he or she is on the approved appraiser list maintained by the Agency for its appraisal assignments.

### SECTION 3.3 MORTGAGE LOAN ELIGIBILITY.

Each Mortgage Loan delivered under the Mortgage Purchase Agreement must comply with the following requirements:

- 3.301 No Refinancing. No Mortgage Loan will be purchased by the Agency which was made for the purpose of refinancing an existing loan other than construction period loans, bridge loans or similar temporary initial financing (having a term of 24 months or less), or qualified rehabilitation loans
- 3.302 Interest Rate. Each Mortgage Loan originated under Mortgage Program shall bear interest at the rate specified in the applicable Term Sheet.
- 3.303 Discount Fees. When permitted by the Agency, with respect to each Mortgage Loan originated, the total discount fees shall not exceed the amount specified in the applicable Term Sheet. Either the Mortgagor or the property seller may pay the fees. The Seller should adjust the Annual Percentage Rate accordingly. Note: Except as specifically authorized in the appropriate Term Sheet, the Agency does not permit Sellers to receive any compensation in the form of discount points or points charged to the Mortgagor or any other party. When discount points are required or permitted by the Agency, those points will be paid directly to the Agency.
- 3.304 Term The original term of a Mortgage Loan must not exceed 30 years, unless the Agency has authorized a program for longer term mortgages as set forth in the appropriate Term Sheet.
- 3.305 Amortization Each Mortgage Loan must provide, through regular monthly payments on the first day of each month, for full amortization by maturity. Amortization must commence not later than sixty-two (62) days after final disbursement by Seller of the Mortgage Loan proceeds.

- 3.306 Origination. Each Mortgage Loan must have been closed in Seller's name as lender. Seller is fully liable for all warranties and representations made to the Agency regardless of who does the origination of the Mortgage Loan. Furthermore, Seller is liable and responsible for compliance with RESPA and all consumer protection laws and regulations in effect at the time of the closing of the Mortgage Loan.
- 3.307 Assumption. The obligation to make payments due on any Mortgage Loan shall not be assumable unless written approval is received from the Agency. Each Mortgage shall contain a provision giving the Agency the right to accelerate the maturity of the Mortgage Loan upon transfer of ownership of the mortgaged property. Mortgage Loans may be assumed only if the assuming Mortgagor complies with the residence requirement, first time homebuyer requirement, income requirements and purchase price limitations. On Mortgage loans originally closed on or after January 1, 1991 and assumed prior to the end of nine years (9) from the date of closing the Recapture provision shall apply to both the original Mortgagor and the assuming Mortgagor.
- 3 308 Recapture. Section 143(m) of the Code requires a payment to the United States from certain Mortgagors with respect to Mortgage loans closed after December 31, 1990 upon sale of their homes financed by a Mortgage Loan, without regard to the date on which the applicable bonds were issued. In general, the Recapture provision establishes that under certain circumstances a portion of the amount determined to be the subsidy may be required to be recaptured during the year in which there is a disposition of the house. The recapture amount increases over the period of ownership, with full recapture occurring if the house is sold at the end of the fifth year. The recapture amount declines ratably to zero with respect to sales occurring in years six through nine. An exception excludes from recapture part or all of the subsidy in the case of assisted individuals whose incomes are less than prescribed amounts at the time of the disposition. For a more detailed explanation of Recapture see the Agency's website ([www.nj-hmfa.com](http://www.nj-hmfa.com)).
- 3 309 Mortgage Valid First Lien. The mortgage securing each Mortgage Loan must constitute a valid first mortgage lien. The property must be free and clear of all encumbrances and liens prior to the lien of the mortgage and no rights may be outstanding that could give rise to such liens, subject only to liens of taxes or assessments which are not delinquent, building restrictions or other restrictive covenants or conditions, leases or tenancies whereby rents or profits are reserved to the owner, joint driveways, sewer rights, party walls, rights-of-way or other easements, or encroachments, provided that none of the foregoing materially affect the security for the Mortgage Loan. The note or bond evidencing the Mortgage Loan must be a legal, valid and binding obligation of the maker thereof, enforceable in accordance with its terms, free from any right of set-off, counterclaim or other claim or defense, and no part of the property may have been released from the mortgage. The terms of the Mortgage Loan must not be modified, amended, waived or changed, except as set forth in a recorded mortgage modification approved by the Agency. The Seller shall require that appropriate Notices of Settlement be recorded prior to settlement and that the Mortgage Loan documents be timely delivered for recording.

3.310 Leasehold Financing. The Agency will consider financing Mortgage Loans on leasehold estates on a case by case basis subject to determine whether the security is sufficient to meet the Agency's obligations to its bondholders. At a minimum, the remaining term of the lease must be at least five years longer than the term of the Mortgage Loan and the cost of the leasehold must be nominal. A copy of the land lease must be submitted to the Agency for consideration.

Considerations the Agency will take in order to make a determination are:

- (a) the use of a leasehold must be common to the area;
- (b) marketability must not be effected adversely;
- (c) the land lease must be recorded and subordinated to the Agency's first mortgage lien;
- (d) assignment of the leasehold must be permitted without the permission of the lessor;
- (e) the Agency must be allowed the right to acquire in its own name or the name of its nominee the rights of the lessee upon foreclosure or assignment in lieu of foreclosure.
- (f) the improvement must be real property with a deed and mortgage that are recordable in the county deed and mortgage registers

3.311 Principal Amount Advanced; No Mandatory Future Advances, Outstanding Balance. The full principal amount of each Mortgage Loan must have been advanced to Mortgagor in accordance with the direction of the Mortgagor or placed in a completion escrow account. At the time of delivery of a Mortgage Loan to the Agency, the Seller shall forward a copy of the escrow agreement and an updated satisfactory completion certificate when the items are complete (see Seller's Guide, Section 3.208 for certification requirements). Mortgagor must not have an option under the Mortgage Loan to borrow from Seller or any other person additional funds secured by the mortgage without the consent of the Agency. The outstanding principal balance of the Mortgage Loan must be as represented by Seller to the Agency and must be fully secured by the mortgage.

3.312 Late Charge. On Mortgage Loans purchased by the Agency, Seller shall only collect late charges on monthly installments not received within fifteen (15) days and shall not collect any late charges in excess of four percent (4%) of the late payment, as covenanted in the Note and Mortgage forms.

3.313 Prepayment Charges. There shall be no prepayment charges on any Mortgage Loan.

- 3.314 Mortgage Loan is Not In Default and is Insurable. For each Mortgage Loan as of the purchase date, principal and interest payments must not be more than 15 days due and unpaid under the terms of the Mortgage Loan. All costs, fees and expenses incurred in making, closing, and recording the Mortgage Loan must have been paid; and there must not have been outstanding any advance of funds by Seller or by another at the request of Seller to or on behalf of Mortgagor to be used by Mortgagor for the payment of any monthly installment of principal or interest under the terms of the Mortgage Loan. Each Mortgage Loan sold to the Agency must be accompanied by a complete payment history and must be insured in the amount of the Mortgage Loan by an Agency approved insurer. Mortgage Loans, with MI commitments notwithstanding, that are uninsurable for any reason including early payment default will be required to be repurchased by the Seller, if the Seller cannot secure MI policy coverage or guaranty.
- 3.315 Escrow Requirements. Each Mortgage Loan shall provide for the monthly collection of escrows to the extent permitted by the Real Estate Settlement Procedures Act, as amended, along with the monthly installment of interest and principal. The escrow requirements must be the equivalent of one-twelfth of the estimated annual taxes, assessments, applicable insurance premiums on the mortgaged property to be paid monthly in advance to the holder of the Mortgage Loan. The escrow shall be held in trust for the benefit of the Agency and Mortgagors in an account in a bank or trust company, savings bank, national banking institution (which may be Seller) insured to the full extent legally possible by the Federal Deposit Insurance Corporation. The Agency requires a two month cushion calculated using the disbursement date of the escrow item. Shortly after closing and before the first payment on the Mortgage Loan is due the Seller must send the borrower a letter stressing the importance of making payments on time and of immediately communicating with the servicer should a problem arise. This letter will provide the borrower with a breakdown of the principal, interest, taxes and insurance(s) and will state when the first full payment is due. A copy of this letter should be included in the borrower's mortgage file.
- 3.316 Closing Cost Limits. Costs, fees and charges, of whatever kind or nature which were collected from the Mortgagor and from the seller of the residential property cannot exceed \$100 plus the aggregate of (1) the actual amounts expended for continuation of abstract, title insurance, Realty Transfer Tax and attorney fees, (2) updates to credit reports, appraisal, and survey, (3) filing and recording costs, the actual amounts paid or escrowed for taxes and insurance and homeowner association fees, and other costs (excluding the tax service fee on government loans) that are paid by the Mortgagor or the seller which appear on the GFE/RESPA and are primarily for the benefit of the Mortgagor.
- 3.317 Title Insurance Requirements
- (a) Each Mortgage Loan must be covered by a title insurance policy, the benefits of which run to the Agency, on the current standard ALTA mortgage insurance form issued by a title insurer, licensed to do business in the state and qualified to provide title insurance on Mortgage Loans purchased by FHLMC and FNMA in an amount equal

to the original principal balance of the Mortgage Loan. Schedule B-I of the title insurance policy must not be subject to any exceptions other than liens of taxes or assessments which are not delinquent, building restrictions or other restrictive covenants or conditions, leases or tenancies whereby rents or profits are reserved to the owner, joint driveways, sewer rights, party walls, rights-of-way or other easements, or encroachments, provided that none of the foregoing materially affect the security for the Mortgage Loan, and do not exceed the FHA Title Waiver exceptions. Schedule B-II is required on all Agency Mortgage Loans, and must not reveal any form of secondary financing (unless approved by the Agency) utilized to consummate the purchase. Copies of the documents relating to exceptions must be included.

- (b) With regard to Mortgage Loans for condominiums, the policy must include ALTA Endorsement 4-(condominium) or the language of such must be incorporated in the body of the policy.
- (c) With regard to Mortgage Loans for PUDs, the policy must include ALTA 5 Endorsement (Planned Unit Dev.) or the language of such be incorporated into the body of the policy.
- (d) ALTA Endorsement 8.1 (Environmental Lien Protection) must be included in all title policies.

3.318 Survey Requirements. With respect to each Mortgage Loan, Seller must obtain a survey dated or re-dated within six months of the making of the Mortgage Loan certified by a licensed land surveyor or licensed civil engineer showing (a) the exact location and dimensions of the property including the improvements located thereon, (b) the exact location of all lot and street lines, all means of access to such property, (c) the names of all avenues, streets and alleys abutting such property, (d) any encroachment on such property or any encroachment by the improvements on adjoining property, or any other defect, and (e) survey certified to borrowers, lender and title company. Survey affidavit of no change, approved by the title company will be acceptable on surveys up to 2 years old. A survey certificate is acceptable for a condominium property.

3.319 Execution and Recordation of Assignment. An assignment of each Mortgage Loan must be executed and recorded on a Uniform Assignment of Mortgage Instrument. Assignment should be recorded simultaneously with mortgage. The original Assignment to HMFA must be delivered to the Agency within 120 days from the Mortgage Loan closing date.

3.320 Hazard Insurance Requirements. The property securing each Mortgage Loan must be covered by hazard insurance meeting the following requirements.

- (a) Scope and Amount of Coverage Required for Mortgage Loans Insurance coverage in the kinds and amounts prescribed in this section is required on property covered by a Mortgage Loan.

(b) Minimum Financial Rating of Carrier; No Assessments; Other Requirements. Each hazard insurance policy must be written by a hazard insurance carrier which falls into a financial category as designated in Best's Key Rating Guide of B+ or better, class IV or better or Demotech, Inc. financial Rating of A (exceptional.) (The Agency will normally make an exception upon specific request where the insured is an assigned risk.) Each carrier must be specifically licensed or authorized by law to transact business in the State Coverage required is as follows:

- 1 Fire and Extended Coverage Insurance shall be required in an amount at least equal to that customary in the geographical area in which the property is located. The amount of coverage shall be sufficient, except for deductibles as permitted below, so that in the event of any damage or loss of the property, coverage by the insurance shall provide the greater of: (i) compensation equal to the full amount of damage or loss; or (ii) compensation to the mortgagee under the Mortgage Loan equal to the full amount of the unpaid balance of the Mortgage Loan.
- 2 Such insurance must be in effect on the delivery date of the Mortgage Loan, and the expiration date of each policy must be more than six months after the delivery date. The premium on each policy shall have been paid in full by the Mortgagor and no "courtesy receipts" or other secondary financing of such premium shall be permitted. Should this coverage be cancelled, or should the property be deemed uninsurable, due to insurance underwriting, property conditions, or governmental or legal compliance issues that were reasonably foreseeable to the Seller, the Agency reserves the right to require that the Seller repurchase the loan.
3. Where Seller is aware that the property is exposed to any appreciable hazard against which Fire and Extended Coverage Insurance does not afford protection, Seller shall advise the Agency of the nature of such hazard and the additional insurance coverage, if any, which Seller has obtained against such hazard. If adequate insurance has not been obtained against such hazard, the Agency may require such coverage prior to accepting the Mortgage Loan for purchase.
4. No Seller shall, in connection with any application for a loan secured by a mortgage on real property located in New Jersey, require any mortgagor to obtain by purchase or otherwise a fire insurance policy in excess of the replacement value of the covered premises as permitted under N J S A. 17:36-5-19 as a condition for granting such mortgage loan
- 5 Unless a higher maximum deductible amount is required by state law, the maximum allowable deductible for a first mortgage is the higher of \$1,000 or one percent of the face

amount of the policy. The deductible clause may apply to either fire, extended coverage, or both.

6. Each Mortgage Loan shall provide that in the event of any loss settlement on a hazard insurance policy the mortgagee shall have the option of applying the loss settlement proceeds against the principal amount of the Mortgage Loan.
  7. With regard to Mortgage Loans on Condominiums, see additional requirements under Section 3.406.
- (c) Unacceptable Policies. Policies are unacceptable where:(1) under the terms of the carrier's charter, by-laws or policy, contributions or assessments may be made against the Agency or the Agency's designee; or (2) contributions or assessments may be made against the owner of the property which could become a lien on the property superior to the lien of the mortgage, or (3) by the terms of the carrier's charter, by-laws or policy, loss payments are contingent upon action by the carrier's Board of Directors, policy holders, or members. or (4) the policy includes any limiting clauses (other than insurance conditions) which could prevent the Agency or the owner of the property from collecting insurance proceeds.
- (d) Mortgagee Clause; Endorsement. All policies of hazard insurance must contain or have the mortgagee clause currently required in the Agency's purchase approval naming the Agency as an insured. The policy must provide that the insurance carrier shall notify Servicer at least ten days in advance of the effective date of any cancellation of the policy. It is Servicer's responsibility to cause each insurance policy to be properly endorsed and to give any necessary notices of transfer in order to fully protect, under the terms of the policy and applicable law, the Agency's interest as first mortgagee. However, Seller must cause all documents to be delivered to Servicer, regardless of the manner in which the insurance policy is endorsed. Although Servicer shall cause the Agency to be named as first mortgagee, Servicer must cause Servicer's address to be used in the endorsement in lieu of the address of the Agency
- (e) Flood Insurance Sellers are responsible for and warrant compliance with the provisions of the National Flood Insurance Act of 1968 and the National Flood Insurance Reform Act of 1994, as amended, whenever such provisions would be applicable to any Mortgage Loans sold to the Agency. Flood Insurance is required by Federal law if at anytime during the term of the loan the lender or servicer determines that the property is in a special flood hazard area (SFHA). If the originating lender determines that the property being financed is located in a special flood hazard area, the borrower is required to obtain flood insurance at the time of origination. Coverage purchased must have a "life of the loan" provision that will enable the loan to be transferred to a subsequent servicer or sub-servicer without cost and with interruption of coverage

- (f) Insurance Coverage Varying From Above Requirements. Insurance coverage which does not meet the foregoing requirements will be considered on a case-by-case basis by the Agency upon request by Seller. The Agency may require such additional coverage as it may deem necessary in connection with any case or group of cases.

3.321

Legal Description.

- (a) General. The legal description as set forth in the Mortgage Title Insurance policy and other documents must match the survey, be approved by the title company, and be in one of the following basic forms:

1. Metes and bounds;
2. Lot and block on recorded map or plat.

- (b) Metes and Bounds. A metes and bounds description should comply with the following standards.

1. The beginning point should be established by a monument located at the beginning point, or by reference to a nearby monument;
2. The sides of the mortgaged property should be described by giving the distances and bearings of each. In lieu of bearings it is equally acceptable to use the interior angle method, provided that the beginning point is located on a dedicated public street line or other properly fixed line or the course of the first side can be otherwise properly fixed;
3. The distances, bearings and angles should be taken from a recent survey, or recently recertified survey, by a licensed civil engineer or licensed land surveyor;
4. Curved courses should be described by data including (i) length of arc; (ii) radius of circle for the arc; (iii) chord distance and bearing;

Exception - if deemed locally adequate by prudent private institutional investors, when a curved course is part of a dedicated public street or road line, that course may be described merely by indicating the distance and direction which that course takes along the street line from the end of the previous course;

5. The legal description should be a single perimeter description of the entire plot. Division into parcels should be avoided unless a special purpose of the specific loan is served. Division would be necessary, however, if the plot is located on two sides of a

public way. (It is also customary in many areas to describe an easement appurtenant to a fee parcel by using a separate description).

- (c) Lot and Block Description. A description composed of lots and blocks which includes reference to a recorded map or plat on which said lots and blocks are delineated is usually deemed adequate.
- (d) Additional Acceptable Descriptions. A description of a parcel bounded on all sides by dedicated streets or alleys can acceptably refer to the bounding lines of the streets or alleys alone

#### SECTION 3.4 PROPERTY ELIGIBILITY REQUIREMENTS

3.401 Property Restrictions. No portion of the Eligible Property may be used or intended for trade, business or non-residential purposes.

- (a) The property must include only one lot, which cannot be subdivided under the current applicable zone restrictions. If there is more than one lot a letter will be required from the Municipal Zoning Officer stating the minimum lot size and that the property cannot be subdivided without a variance. The property must include only one building which is designed for and can reasonably be expected to be used for residential purposes. The land appurtenant to the residence must include only such land as is necessary to maintain the basic livability of the residence.
- (b) HMFA requires that the lots over one acre in size will require a letter from the Township Zoning Officer stating the minimum lot size and that the property cannot be subdivided without a variance

3.402 Eligible Dwelling Types.

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

3.403 Requirements for Multiple-Unit Dwellings

- (a) The building must have been occupied as a residence for at least five (5) years immediately preceding the closing date, provided, that a unit may have been vacant during such period if the unit was, from the time previously occupied as a residence, continuously held out for

residential use and not occupied for any portion of such period on connection with a commercial or business use.

- (b) A property check report is required on all existing 2-4 family Multiple-Unit Dwellings. This report must provide the following information: five year title history, indicating names of title holders and dates of title conveyances and property census tract. This report must be issued by a credit reporting company or other business enterprise engaged in the business of providing title search information.
- (c) Two to four unit structures. Mortgagors must be able to occupy one unit of the dwelling within 60 days of closing for the property to be eligible.
- (d) Target Area only, building may be a new 2 family dwelling and the property need not meet the five year requirement
- (e) In the state of New Jersey three to four unit buildings are subject to the Hotel and Multiple Dwelling Health and Safety Act, N.J.S.A. 55:13A-1 et seq. Properties coming under the Act must be registered with the State Department of Community Affairs and are required to have a Certificate of Inspection from the DCA Bureau of Housing Inspection or its designated local inspector. Owners of three to four unit buildings are issued a "Green Card" as evidence that the property has passed the State inspections.
  1. Lenders must show evidence that a three to four unit building has been registered with the State of New Jersey by providing the Certificate of Registration.
  2. Lenders must request copies of any pending violation notices issued by the State and a copy of the "Green Card" only if one exists.

Lenders must document their files as to the basis of any determinations made concerning the existence of a "Green Card". In addition, where a "Green Card" does not exist the borrowers should be made aware that the State may require them to correct any violations noted as a result of a future State inspection.

### 3.404

Acquisition Cost Limits. The maximum acquisition cost of the property as defined in Section 3.405 below, may not exceed the amounts indicated in the applicable Term Sheet and in no case will exceed the maximum permitted by the Code

For purposes of this section. An existing residence is defined as a dwelling which has been previously occupied as a residence. New construction is defined as a dwelling which has recently been constructed and has never been occupied as a residence. Conversions are considered existing residences unless the structure has undergone substantial rehabilitation and received Agency approval as qualifying as new construction.

3.405

Acquisition Cost.

(a) Acquisition Cost is defined as the cost of acquiring a residence (which does not include property such as an appliance, a piece of furniture, a radio, etc., which under applicable law is not a fixture), from the seller as a completed residential unit and includes the following:

1. All amounts paid, either in cash or in kind, by the purchaser (or a related party or for the benefit of the purchaser) to the seller (or a related party or for the benefit of the seller) as consideration for the residence.
2. If a residence is incomplete, the reasonable cost of completing the residence whether or not the cost of completing construction is to be financed by a loan under the Mortgage Program.
3. The acquisition cost of a residence does include where a residence is purchased subject to a ground rent, the capitalized value of the ground rent. Such value shall be calculated using a discount rate equal to the yield of the bonds

(b) The term "Acquisition Cost" does not include the following:

1. The usual and reasonable settlement or financing costs are excluded from Acquisition Costs. Settlement costs include title and transfer cost, title insurance, survey fees, or other customary costs. Financing costs include credit reference fees, legal fees, appraisal expenses, "points" which are paid by the Mortgagor or other costs of financing the residence.

However, such amounts will be excluded in determining Acquisition Cost only to the extent that the amounts do not exceed the usual and reasonable costs which would be paid by the buyer where financing is not provided under the Mortgage Program. For example, if the purchaser agrees to pay to the seller more than a pro-rata share of the property taxes, such excess shall be treated as part of the Acquisition Cost

2. The value of services performed by the Mortgagor or members of the Mortgagor's family in completing the residence is excluded. For purposes of the preceding sentence, the family of an individual shall include only the individual's brothers and sisters (whether by whole or half blood), spouse, ancestors, and lineal descendants. Where the Mortgagor builds a home alone or with the help of family members, the Acquisition Cost includes the cost of materials provided and work performed by sub-contractors (whether or not related to the Mortgagor), but does not include the input cost of any labor actually performed by the Mortgagor or a member of the Mortgagor's family in constructing the residence. Similarly, where the Mortgagor

purchases an incomplete residence the Acquisition Cost includes the cost of material and labor paid by the Mortgagor to complete the residence but does not include the imputed value of labor performed by the Mortgagor's family in completing the residence.

- 3 The cost of land which has been owned by the Mortgagor for at least two years prior to the date on which construction of the residence begins.

3 406

#### Requirements For Condominiums.

- (a) The Agency requires that 51% of the units in a project be under contract of sale to separate purchasers (at least 60% of which will be owner occupants) prior to purchase of any Mortgage Loan by the Agency
- (b) The Agency will purchase Mortgage Loans for up to a maximum of 50% of the units in any one phase of a project. (The Agency's Underwriting Department will be able to tell you which projects have met the 50% level.) The Agency does not approve condominium projects. It is the Seller's responsibility to review the necessary documents and sign the Condominium Warranty (HMFA 0016).
- (c) The Mortgagor must receive fee simple interest in the real estate and a pro-rate share in the common elements. All common areas and facilities (including those that are part of an umbrella association) must have been completed.
- (d) The Seller must review the project documents and certify compliance with all warranties listed in the Condominium Warranty form. A copy of the certification must accompany the documents submitted for Prior Approval.
- (e) Condominium units will be subject to expanded Hazard Insurance requirements. In addition to the Master Policy carried by the Homeowner's Association, borrowers must secure coverage for all unit elements present at the time of purchase which are covered by the Mortgage as part of the unit, but not covered by the master policy. Such elements include: interior wall, floor and ceiling coverings; fixtures; fixed in place appliances; cabinets; and any other elements specifically defined in the condominium documents as the unit owner's responsibility.

Coverage will be satisfied by a Homeowner's Policy (HO-6). This policy should clearly indicate coverage provided for mortgaged property separately from personal property

The amount of coverage required must be sufficient to restore the interior of the unit to its condition at time of purchase. The minimum acceptable coverage is \$50,000 unless documentation can be provided

which places the cost of restoring the interior portion of the unit at a lower value.

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

- (f) Seller warrants the applicable insurance coverage specified below has been obtained.
- (i) A multi-peril type policy is required covering the entire condominium project providing minimum fire and extended coverage and all other coverage in the kinds and amounts commonly required by private institutional mortgage investors for projects similar in construction, location and use on a replacement cost basis in an amount not less than one hundred percent (100%) of the insurable value (based upon replacement cost) If there is a steam boiler in operation in connection with the mortgaged premises, there must be in force boiler explosion insurance evidenced by the standard form of boiler and machinery insurance policy and providing as a minimum, \$100,000 per accident per location

Individual unit owners are required to insure all fixtures and all privately owned real property within the interior of their unit if not covered by the master policy. Coverage must be sufficient to reconstruct any interior damage sustained which is outside the master policy for the project's common elements

If the condominium project is located in an area identified by the Secretary of Housing and Urban Development as an area having special flood hazards, a "blanket" policy of flood insurance on the condominium project must be maintained in the amount of the aggregate of the outstanding principal balances of the mortgage loans on the condominium units comprising the condominium project or the maximum limit of coverage available under National Flood Insurance Act of 1968 and the National Flood Insurance Reform Act of 1994, as amended, whichever is less

The name of the insured under each required policy must be stated in form and substance similar to the following: "Association of Owners of the Condominium for use and benefit of the individual owners" (designated by name, if required)

- (ii) Each such policy must contain the standard mortgagee clause which must be endorsed to provide that any proceeds shall be paid to the Association of Owners of the Condominium for the use of and benefit of mortgagees as their interest may appear, or

must be otherwise endorsed to fully protect the Agency's interest.

- (iii) The association of owners must have fidelity coverage against dishonest acts on the part of directors, managers, trustees, employees or volunteers responsible for handling funds belonging to or administered by the condominium association of owners if the condominium project has more than five (5) units.

The fidelity bond or insurance must name the condominium association of owners as the named insured and shall be written in an amount sufficient to provide protection which is in no event less than the sum of three months assessments on all units in the project plus the association's reserve funds. In connection with such coverage, an appropriate endorsement to the policy to cover any persons who serve without compensation shall be added if the policy would not otherwise cover volunteers.

- (iv) The association of owners must have comprehensive policy of public liability insurance covering all of the common elements, commercial spaces and public ways in the condominium project. Such insurance policy shall contain a "severability of interest" endorsement which shall preclude the insurer from denying the claim of a condominium unit owner because of negligent acts of the condominium association of owners or other unit owners. The scope of coverage must include all other coverage in the kinds and amounts required by private institutional mortgage investors for projects similar in construction, location and use. Liability coverage shall be for at least \$1,000,000 per occurrence, for personal injury and/or property damage.

The Agency will consider waivers to the condominium requirements (a) through (d) for public purpose projects.

3 407

#### Pre-Manufactured and Manufactured Housing

- (a) Pre-manufactured housing (commonly known as "modular homes") which meets the BOCA Code and the New Jersey Uniform Construction Code, and either is completed at the factory and assembled on site or roughed in at the factory and assembled and finished on site is eligible under the Agency's standard underwriting criteria
- (b) Manufactured housing (commonly known as "mobile homes") which meets the HUD Code is also eligible for Agency financing, however, the following requirements apply

PROPERTY STANDARDS FOR MANUFACTURED HOUSING

- 1 The unit must have been constructed after June 2, 1976.
2. The unit must be permanently attached to the owner's lot with a basement, crawl space or slab. Units on piers or posts will be accepted only if the appraisal indicates piers and posts are typical for the area and if such piers and posts are located below the normal frost line. Units with piers or posts must also have acceptable foundation facing.
3. Scattered site units must be a minimum of 14 feet wide and must contain a minimum of 840 square feet
4. All manufactured homes must be comparable to site-built housing and have a residential appearance. The unit should meet the following property standards as well:

Exterior wall finish shall consist of one of the following

Hardboard horizontal lap siding  
 Horizontal lap aluminum siding  
 Vertical hardboard and batten  
 Horizontal lap fiberboard siding  
 Horizontal lap vinyl siding  
 Imitation stucco  
 Cedar Shake  
 Exterior grade plywood panels

Roofing should include:

Pitch of at least 2" in 12"  
 One foot (1') overhang  
 Roofing material must be either composition, wood or tile

The property should contain an attached carport or garage  
 A matching storage shed is desired if there is no garage

5. All installations must be approved by a Design Approval Primary Inspection Agency (DAPIA).

UNDERWRITING GUIDELINES FOR MANUFACTURED HOUSING

- 1 The property including the improvement represented by the manufactured housing unit must be real property and be recordable as such in the county deed and mortgage records. under New Jersey law, and supporting evidence in the form of an attorney's opinion or title insurance policy must be provided. Improvements registered or licensed with the New Jersey

Division of Motor Vehicles or with a similar agency in another jurisdiction are not eligible for Mortgage Loan financing.

2. Furniture may not be included in the contract sales price, appraised value, or Acquisition Cost of the unit; however, fixed kitchen appliances, laundry appliances and carpeting may be included.
3. If the land on which the unit is built is subject to ground rent; all Agency guidelines under Section 3.310 must be adhered to.

3.408

New Development Requirement.

- A. To the extent that the Agency has made a specific allocation of funds to finance Mortgage Loans for development projects, including condominium projects, no more than the greater of 25 units or 50% of the units in any such development, including condominium projects, may be financed with Mortgage Loans, except that up to 10% of the aggregate principal amount of Mortgage Loans may be used to finance over 50% of the units in developments of over 50 units which are designed to meet the fair share housing plan of a municipality within the meaning of the Fair Housing Act (N.J.S.A. 52:27D-301 et seq), provided that no such development contains more than 125 units. Where developments are phased, the limitations set forth in this paragraph shall apply to each phase. The Agency, however, may exceed the aforementioned 10% limitation and use up to 25% of the aggregate principal amount of Mortgage Loans to meet the fair share low and moderate income housing obligations of developing communities as long as the developments represented by the aggregate amount of the Mortgage Loans in excess of said 10% have project approval by Mortgage Insurers or other reviewers so long as each development contains 25 or fewer units.
- B. Any development with more than 25 units to be financed with Mortgage Loans must meet the criteria for approval by FNMA or FHLMC
- C. No more than 20% of the aggregate principal amount of the Mortgage Loans may be specifically allocated to finance the purchase of single family residences sold by the same corporation, partnership or sole proprietorship which is in the business of constructing, reconstructing or rehabilitating single family residences
- D. No more than 20% of the aggregate principal amount of the Mortgage Loans may be specifically allocated for any one development or condominium project.

3.409

New Construction, Mortgagor Built Homes A Mortgage Loan may be provided for a single-family dwelling which is newly constructed on behalf of the Mortgagor. The Agency does not provide construction financing, except

for specific rehab/repair loans as may be authorized from time to time and detailed in a program Term Sheet.

If the Mortgagor owns the land free and clear, the Mortgage Loan may not exceed the cost of constructing the residence.

If the land has been purchased under a short term (less than 24 months) loan, the Mortgage Loan may incorporate the balance of the short-term loan as well as the cost of constructing the residence up to the maximum loan to value ratio of 97 percent or such greater amount as may be permitted by the Agency and the mortgage insurer. (This also would pertain to Mortgagor constructed Pre-manufactured and Manufactured Housing.)

For purposes of the Acquisition Cost limits, if the land was purchased within the two years of date construction on the residence begins, the cost of the land must be included in the total Acquisition Cost.

3.410

Termite Inspection. When a termite inspection is required, the report should be made based on the following criteria:

- (a) NPCA-1, Wood Destroying Insect Infestation Inspection Report must be used.
- (b) The inspection report can be no older than six (6) months prior to the loan closing.
- (c) If any box other than ("No visible evidence of infestation from wood destroying insects was observed ") is checked, further explanation is required.
  - 1. If there is evidence of insects, treatment must be performed.
  - 2. If evidence of prior infestation is observed, the form must specify that prior treatment was made and that there is no evidence of damage.
  - 3. If there is evidence of damage, the certification must also state that the damage has been repaired.
  - 4. If the termite report does not state damage was repaired, we require a report from a licensed contractor stating repairs were made in a workmanlike manner. If the damage is structural, the contractor must state the property is structurally sound after the repairs have been completed.
- (d) National Pest control Association Form NPCA-99a, Subterranean Termite Soil Treatment Builder's Guarantee and Form NPCA 99b, New Construction Subterranean Termite Soil Treatment Record are designed to be used together and will help buyers be properly informed as to the type of guarantee issued by the builder as required by HUD. as well as, information as to actual work performed by the licensed pest control

company to reduce the chances of infestation by the subterranean termites.

The licensed pest control company must complete NPCA-99b. The new form must be used as an attachment to the builder's form, NPCA-99a. The builder is responsible for distributing the completed forms.

### SECTION 3.5 TARGET AREAS (ELIGIBLE NEIGHBORHOODS)

Seller shall determine if the property is located in a Target Area by review of the Target Area Street directories.

If the property is located in a Target Area the following special provisions apply:

(a) **Waiver of First-Time Home Buyer Requirement:**

A Mortgagor purchasing an Eligible Property which is located in a Target Area (Eligible Neighborhood) is not required to be a first-time homebuyer and the three-year tax return requirement is waived. However, all documentation for credit underwriting still applies, and the Affidavits (Section 3.6) are required. If Mortgagor owns real estate at time of application, Mortgagor will be required to sell said property and the HUD-1 Settlement Sheet for sold property must be submitted at time of purchase.

(b) **The maximum Acquisition Cost Limits (Section 3.404, 3.405) are higher for homes located in the Target Areas than for homes located in the same Statewide county areas.**

### SECTION 3.6 AFFIDAVITS REQUIRED

3.601 Property Seller's Affidavit. Sellers will be required to obtain an executed Property Seller's Affidavit (HMFA 161), prior to submission for Prior Approval. If Seller has any reason to believe that any misrepresentation exists in this affidavit, Seller should immediately notify the Agency of such possible misrepresentation.

3.602 Mortgagor's Affidavit. Sellers will be required to obtain an executed Mortgagor's Affidavit (HMFA 300) prior to the submission for Prior Approval. If Seller has any reason to believe that any misrepresentation exists in this affidavit, Seller should immediately notify the Agency of such possible misrepresentations.

## PART IV MORTGAGE LOAN REVIEW AND PURCHASE REQUIREMENTS

SECTION 4.1 PRIOR APPROVAL

4.101 The Agency Review. In order that the Agency may make a determination that a prospective Mortgage Loan complies with all of the requirements of the Code, Sellers will be required to submit certain documentation to the Agency for Prior Approval

After review of the requested documentation, the Agency will advise Seller of loan eligibility by issuing a commitment. All terms and conditions of this commitment must be strictly adhered to. All underwriting conditions, issued at time of approval, must be submitted to the Agency prior to the loan closing. After review by the Agency's underwriters the Seller will receive a copy of the amended commitment. Any conditions that cannot be met prior to closing must be fully documented.

The mortgage amount and P&I figures issued on the Agency commitment are the same figures to be utilized when preparing the note. If an applicant decides to change the mortgage amount and/or term, the loan must be underwritten again. Any closed loans that differ from the Agency commitment will be subject to correction or not purchased

Loan Files:

Seller shall create a file for every loan it registers with the Agency. The Agency considers each loan file to be comprised of three parts: a) Servicing File part, b) the Bond Program Tax Compliance File part, and c) the Collateral Documents File part. These procedures apply to the Home Buyer Program (First-time Home Buyers, Urban Home Buyers, 100% Financing Program, Home Plus and Purchase-Refinance Rehabilitation loans). These files shall contain the original forms with signatures and not photocopies (the FHA underwriting file being the only exception). Separate procedures apply for Police and Fire Retirement System loans

The Servicing File shall be comprised of two parts: Part I is the Credit File which includes the loan application, verifications, credit report, appraisal, TILA, letters, forms and all other documents, required by this Guide, the Mortgage Purchase Agreement, the Term Sheet and applicable federal and State law together with any other items customarily attendant to originating and submitting a loan for the Agency's credit commitment (refer to Section 4.102 for additional details). Part II is the Closing File which includes, among other requirements as may be made known by the Agency, certified true copies of the mortgage and note, HUD 1 Settlement Statement, title commitment and binder, certified true copy of the assignment of mortgage to the Agency, PMI and pool certificates (except FHA, VA or RECD), survey, lender's commitment letter to mortgagors, affidavit of title, NPCA-1 wood destroying insect certification, appraisal, FHA, VA or RHS requirements, and Notice of Recapture (refer to Section 4.301 for additional details)

The Bond Program Tax Compliance File shall include the Mortgagor's Affidavit (HMFA # 300), the Property Seller's Affidavit (HMFA# 161), copies of the applicant's 3 years Tax Returns with original signatures certifying that they are true copies and pay stubs and the Recapture notice, (HMFA #520), Reservation Acknowledgement (HMFA # 306) together with

any other items attendant to originating and submitting a loan for the Agency's bond program tax compliance review.

The Collateral Documents File shall include the recorded mortgage, original note, mortgage insurance certificate or guaranty, and original recorded assignment of mortgage. The original Note must be submitted at the time of purchase. The other Collateral Documents must be submitted not later than 120 days after the loan closing or the loan may be subject to repurchase. The Agency will require a late delivery fee of \$10 per day for each document received after the 120<sup>th</sup> day unless the delay is occasioned by circumstances beyond the Seller's control.

#### Delivery and Possession of Loan Files:

At the time of submittal of a Mortgage Loan application for the Agency's underwriting commitment The Seller shall deliver to the Agency the original Part I (Credit File) of the Servicing File and the original Bond Program Tax File together with a postage or delivery fee to be set by the Agency from time to time. If the Agency issues a commitment to purchase the Mortgage Loan it will retain and the original Part I (Credit File) of the Servicing File and the original Bond Program Tax File. If the Agency declines to commit to purchase the Mortgage Loan both the original Part I of the Servicing File and the original Bond Program Tax File will be returned to the Seller.

At the time of submittal of the closed Mortgage Loan for purchase by the Agency The Seller shall deliver to the Agency the original Part II (Closing File) of the Servicing File and the Collateral Documents File.

The Agency will forward the Servicing File to its sub-servicing agent for file maintenance and will forward the Collateral Documents File to the document custodian for secure file maintenance and "trailing document" follow up. The Agency will maintain the Bond Program Tax File in its own facility.

At the time of purchase all files included in the Servicing File shall become the property of the Agency.

4.102 Conditional Prior Approval Documentation Package. The following original loan documents for each prospective Mortgage Loan secured with an acco-type fastener, must be forwarded to the Agency and arranged in the order listed with the first item on top.

1. Transmittal Summary (FNMA 1008), with HMFA Loan Number clearly displayed
2. Property Seller's Affidavit (HMFA 161) properly notarized
3. Mortgagor's Affidavit (HMFA 300) properly notarized
4. Mortgage insurance commitment (when applicable)
5. Uniform Residential Loan Application (FNMA 1003)
6. Property Check Report (Multiple-Unit Dwellings only)

- 7 Executed Contract of Sale
8. Mortgage Loan Reservation Acknowledgment (HMFA 306)
9. Verification of Employment (FNMA 1005) or current pay stubs only if VOE is unavailable.
10. Copies of applicant's immediate past 3 years tax returns with original signatures certifying that they are true copies (or IVES report as permitted in Section 3.103).
11. Verification of Deposit (FNMA 1006) or three months copies of bank statements. In the event the verification does not indicate sufficient cash assets to consummate the closing, additional verification indicating sufficient cash assets must be attached.
12. Credit Report (tri-merge) on Mortgagor and all Co-Mortgagors, with credit scores.
13. As appropriate, typed FNMA Form 1004 (single family) or FNMA Form 1025 (two-to-four family), FNMA Form 1073 (Condominium) appraisal form or FHA fee appraisal completed in accordance with HUD valuation procedures.
14. Appraisals should include two clear, descriptive photographs, one photograph should be a front view of the property, showing the complete improvements, and the second a street scene showing neighboring improvements.
- 15 VA Form 26-8320, Certificate of Eligibility, if applicable
- 16 VHS certificate
17. Wood Destroying Insect Report is required on all existing units, except as otherwise directed in this Guide.

For all FHA insured loans, VA loans and RHS loans it is the lender's responsibility to ensure loan package is complete and contains all FHA, VA and RHS required documents. Failure to provide an insured or otherwise acceptable loan, or, if HUD will not make payment on claim because of underwriting deficiencies, the Seller will be required to repurchase the loan. Agency staff will review loans for tax compliance. No warranty is implied as to its compliance with FHA, VA or RHS requirements and procedures. Agency reserves the right to reject all FHA, VA and RHS approved loans where the borrower's credit history is significantly weaker than that acceptable under the conventional program.

SECTION 4.2 MORTGAGE ADDENDUMS

4.201 Mortgage Riders. If applicable the following riders will be required to be recorded with mortgage.

- (a) Condominium Rider
- (b) PUD Rider
- (c) 1-4 Family/Tax Exempt Financing Rider (HMFA 612 revised 7/99)  
(Must be used on ALL agency loans)
- (d) Home Plus Rider (HMFA 488)

SECTION 4.3 PURCHASE AND DELIVERY REQUIREMENTS OF MORTGAGE LOANS

- (a) Mortgage Schedule. Each submittal of Mortgage Loans shall be accompanied by a Mortgage Schedule (HMFA 101), regardless of the number of Mortgage Loans submitted for purchase. This form must include complete wiring instructions for each loan.
- (b) Payment Date and Amount. Within fifteen (15) business days of the submission for purchase of a Mortgage Loan, the Agency will complete its review of the submission documents and upon acceptance of such, make payment to Seller of the full amount due.

4.301 Date of Submission for Purchase

- (a) All loans must be closed and delivered to the Agency within 90 days of the date on the Agency commitment, unless otherwise stated in the applicable Term Sheet. A one time 30 day extension may be requested on existing properties, unless otherwise stated in the applicable Term Sheet. If the loan is for new construction, the loan must be closed and delivered to the Agency within 90 days of the date on the initial commitment. A one-time 90 day extension may be requested, unless otherwise stated in the applicable Term Sheet.
- (b) Submission Package. Sellers shall submit for purchase a document package which consists of the following:
  1. Purchase Submission Documents Transmittal (HMFA 100)
  2. Mortgage Schedule with reaffirmation of warranties (HMFA 101), with wiring instructions.
  3. Original Note
  4. Certified copy of original Mortgage, with 1-4 Family/Tax Exempt Financing Rider (HMFA 612 revised 7/99) attached
  5. A certified true copy of the original Assignment of Mortgage in recordable form

6. The Title Insurance Binder fully marked up (if applicable), endorsed by an officer of the title company, or accompanied by a copy of the closing instructions to the closing agent.
7. Evidence of Mortgage Loan Insurance/Guaranty (as applicable: pool, primary mortgage insurance, FHA, VA, RHS).
8. Property Plat or Survey
9. Uniform Settlement Statement (HUD 1)

NOTE: The HUD-1 should reflect all itemized out-of-pocket charges previously paid by the mortgagor. This would include the actual amounts paid for the appraisal and the credit report as two separate items

10. Mortgagor's Affidavit of Title
11. As applicable for Target Area loans only, a copy of the closing statement on Mortgagor's previous residence, if any.
12. Notice to Mortgagor of Potential Federal Recapture Tax HMFA 520
13. **Such other documents as the Agency may request.**

- c. Documentation must be presented as a total package and will not be accepted piecemeal. The Agency will review the submission for purchase and if acceptable will purchase the Mortgage Loan within fifteen (15) business days. If the submission package is unacceptable, it will be returned.

The loan delivery package may be resubmitted, but only prior to the termination of the 90 day, or as extended, reservation period, for purchase within 30 days of the date the package is returned to the Seller, along with a \$100.00 re-review fee.

- d. RESPA states that *"A Servicing Transfer Statement is required if the loan servicer sells or assigns the servicing rights to a borrower's loan to another loan servicer. Generally, the loan servicer must notify the borrower 15 days before the effective date of the loan transfer. As long the borrower makes a timely payment to the old servicer within 60 days of the loan transfer, the borrower cannot be penalized. The notice must include the name and address of the new servicer, toll-free telephone numbers, and the date the new servicer will begin accepting payments."*

This is the language used by RESPA to set a standard for the "transfer of servicing statement" that is given to the borrower of a property at the time of closing or 15 days before the transfer date of the mortgage

**Note that should a payment be due within 30 days of our purchase of a Mortgage Loan, that payment will be deducted from the purchase and the loan will be purchased at a reduced principal balance.**

For example:

If a closing takes place on October 10, (with a first payment due December 1,) and the purchase of this loan is not until November 1, the Agency will purchase this loan after the December balance. This will give the Seller adequate time (15 day minimum) to advise the borrower to make the January 1, installment to the Agency's sub-servicer. IT SHOULD BE NOTED THAT THE CORRESPONDING T&I PAYMENT WILL BE DEDUCTED FROM THE PURCHASE AT THE SAME TIME. THEREFORE, A LOAN HISTORY WILL STILL BE REQUIRED.

Execution of this action will eliminate Sellers need to forward payments to us after our purchase and remove further confusion for the borrower as to which payment is sent properly.

The Agency will also require that any T&I disbursements, i.e. FHA and Private Mortgage Insurance premiums, due within that 30 day timeframe be paid by the Seller. This amount will be adjusted as part of the T&I at the time of purchase by the Agency.

#### SECTION 4.4 POSSESSION OF MORTGAGE LOAN FILE

##### 4.401 Possession by Seller/Servicer

The Seller (applies to traditional servicers and not to sub-servicers under contract with the Agency) is responsible for establishing and maintaining individual mortgage files and for maintaining accurate accounting and mortgagor payment records. The Agency has the right to examine, at any reasonable time, any and all records that pertain to mortgages we hold in our portfolio, any and all accounting reports associated with those mortgages and mortgagor remittances, and any other reports and documentation that we consider necessary to assure that the Seller is in compliance with our requirements.

Mortgage files and records include the original individual mortgage files, permanent mortgage account records, and accounting system reports that are sent to the Agency.

The mortgage servicer should use the individual mortgage file established at the time of origination to accumulate other pertinent servicing and liquidation information - such as property inspection reports, copies of delinquency repayment plans, documents related to insurance loss settlements, foreclosure notices, etc.

##### 4.402 Possession By Document Custodian

The Seller must forward or direct to be forwarded the following final documents to a FNMA approved custodian. The custodian must meet all standards set by FNMA for storage of final documents

1. Original signed Note

2. Mortgage Insurance Certificate, if applicable
3. VA Guaranty Certificate, if applicable
4. Loan Note Guarantee, if applicable
5. Property Seller's Affidavit
6. Mortgagor's Affidavit
7. Original Mortgage
8. Assignment of Mortgage

## PART V. DELEGATED UNDERWRITING

SECTION 5.1 Delegated Lender Eligibility Requirements

Loan underwriters who have participated in the Agency's bond mortgage programs for two full program years and are an owner or employee of a HMFA approved Seller will be eligible to apply for Delegated Underwriting designation.

To be an eligible Delegated lender for conventional loans, a Seller must be an approved Fannie Mae or Freddie Mac seller/servicer and must have on staff an Agency approved Delegated Underwriter who will be responsible for underwriting loan to be sold to the Agency by the Seller.

- (a) The underwriter must demonstrate sufficient knowledge of the Agency's programs to effectively underwrite. Underwriter will be required to submit a minimum of ten loans to the Agency for approval. Approval will be based on the Agency's concurrence that the decision reached by the underwriter on the 10 prior approval loans was correct and that there were no significant conditions.
- (b) Seller must designate at one full-time Delegated Underwriter to review and approve Agency loans. The underwriter must be a reliable and responsible professional skilled in mortgage evaluation with at least 3 years recent experience reviewing both credit applications and property appraisals associated with one to four family dwellings. The designated underwriter must submit a resume to the Agency for review and be approved by the Agency.
- (c) The designated underwriter must complete training with Agency staff prior to being approved. The Agency may waive this requirement when the lender can demonstrate that the assigned underwriter has sufficient skill and knowledge of the Agency's program requirements.
- (d) Once an underwriter has received Delegated Underwriting approval, the Agency will continue to review loan files according to the following schedule after closing:

Complete review of the first ten loans completed under the delegated underwriting approval.

Review of 50% of loans 11 through 30.

Review of 25% of loans 31 through 50.

Review of 10% of all loans above 50.

Reduction in the number of loans reviewed will be based on the underwriter's performance. If Agency staff determines that loans have not been underwritten in accordance with the Agency's guidelines or if loan files are incomplete or the documents in the loan file are outdated, delegated underwriting approval will be revoked.

To be an eligible Delegated Underwriter for FHA loans, Seller must be an FHA Direct Endorsement lender and for VA loans, lender must be a VA Supervised Lender and must have on staff an Agency approved Delegated Underwriter who will be responsible to review all loans sold to the Agency by the Seller.

- (a) Agency will accept underwriting determination made by FHA/VA approved underwriting and credit analyst. Failure to provide the Agency with an MIC within the time specified in the Seller's Guide will result in the loan being returned to the lender for repurchases.
- (b) The designated underwriter must complete training with Agency staff prior to the lender receiving Delegated Underwriting approval. The Agency may waive this requirement when the lender can demonstrate that the assigned underwriter has sufficient skill and knowledge of the Agency's program requirements.

These loans (FHA/VA) will be counted in with the conventional loans to determine underwriter's acceptability on the volume and quality in determining their Delegated Underwriting approval

## SECTION 5.2 Delegated Underwriting Loan Submission

Loans submitted for tax compliance prior to closing will be reviewed for tax and program compliance. This means the loan complies with all requirements of the Code regarding mortgages funded with Mortgage Revenue Bonds. These requirements include but are not limited to: income limits, purchase price limits, first time homebuyer status, past three years tax returns (or IVES report and as applicable for 1040A and 1040EZ State tax returns) in accordance with Section 3.103), target area status, use of Agency forms, limited appraisal review for number of lots, size of property and age of property for 2 to 4 units

If approved, you will receive an approval communication from the Agency that will include conditions the Seller is required to satisfy before submitting for the Mortgage Loan for purchase. Mortgage Loans submitted with open conditions will not be purchased

Loans submitted for Tax Compliance after being closed will be reviewed the same as above, however, if there are conditions on the loan, you will have to satisfy them within 15 days. If after 15 days you have not satisfied the conditions, the loan will not be purchased and will be returned

**PART VI. LOANS UNDER 100% FINANCING LOAN PROGRAM****SECTION 6.1 Eligible Properties**

The following guidelines are to be utilized for loans originated under the 100% Finance Loan Program. Only lenders who have NJHMFA approved Delegated Underwriters on staff are permitted to originate these loans. Mortgage Loans under these guidelines will need to conform to the following criteria:

**Statewide Affordable Housing Program**

Program is available in Agency approved affordable housing developments or projects located outside of Urban Aid municipalities and Target Cities to purchase units that are certified as affordable. Purchase price of these units may not exceed 70% of the appraised market value. One hundred percent (100%) of the sales price and closing costs can be financed, provided the LTV ratio is not greater than 70%, no mortgage insurance will be required. Purchase price and income limits will not exceed the Federal Income limits utilized as part of the Home Buyer Program.

**Urban Projects Program**

Program established by the Agency to provide Mortgage Loans to qualified buyers purchasing units in an Agency approved housing development located anywhere within the municipal boundaries of a Target City (defined as any municipality in which there is located an Eligible Neighborhood pursuant to Section 3.5 hereof) or anywhere within the boundaries of an "Urban Aid" (as defined by Statute) municipality. Eligible purchasers of homes may borrow up to 100% of the lesser of the appraised fair market value or the sales price and usual and reasonable financing costs. Purchase price and income limits will not exceed the Federal limits utilized as part of the Home Buyers Program. No mortgage insurance will be required.

**Mortgage Opportunities Program**

Program established by the Agency to provide mortgages, without requiring a downpayment and which also permits financing of certain closing costs, to buyers of newly constructed units in Agency approved housing developments. Currently, approved housing developments are limited to those receiving construction subsidy from the Agency, however, the Agency may from time to time approve other housing developments. The maximum loan to value ratio is the lesser of 100% of the sales price plus closing costs or the appraised value. No mortgage insurance is required under this program.

**HOPE Program**

Program established by the Agency for Mortgage Loan applicants in the employ of an employer that has agreed under the Home Ownership for Performing Employees (HOPE) program to guarantee for a portion of their loan. Eligible purchasers of homes may borrow up to 100% of the lesser of (a)

the appraised fair market value or (b) the sales price and usual and reasonable financing costs.

The employer of the eligible purchaser is required to give a guaranty to the Agency in an amount equal to twenty percent (20%) of the original principal amount of the applicable loan. Where applicable, the amount of such guaranty could not be less than the portion of the Mortgage Loan for which payment was deferred at the time of origination. The guaranty must be for a minimum of five (5) years duration unless the purchaser leaves the employ of the employer in which event such guaranty must be for a minimum of two (2) years commencing from the date of the Mortgage Loan. Payments under the employer guarantees are not Pledged Property under the General Resolution. No mortgage insurance is required under this program. Standard FNMA/FHLMC underwriting shall be applied.

6.101

### Loan Originations

Properties must be located in one of the Agency's approved projects. No other properties, except in the HOPE Program, will be accepted. All loans are originated, processed and underwritten according to guidelines specified in the Home Buyer's Program with the following exceptions:

- (a) Applicants at time of loan application must provide evidence of the greater of \$800 or the required prepaid escrows as their own assets, plus the required application fee.
- (b) Qualifying ratios for all 100% loans are 28/36 unless:
  1. The applicant is making a down payment toward the purchase of the property of at least 10% and these funds are from their own assets, or
  2. Applicant has demonstrated an ability to devote a greater portion of income to basic needs like housing expenses, which means rent for the previous 12 months is equal to or greater than the proposed housing expense; or
  3. Applicant has demonstrated an ability to accumulate savings of at least six (6) months PITI remaining after closing AND to have maintained a good credit history; or
  4. Applicant is in a debt free position.
- (c) Applicants purchasing a two (2) family unit must be able to support the PITI from gross monthly income or qualify under one of the following options:
  1. Three (3) month reserve after closing
  2. Maximum 95% loan to value ratio.
  3. Qualifying rental income not to exceed 50%

- (d) Applicants who have been a defendant in a mortgage foreclosure proceeding within the past five (5) years are not eligible to apply. Borrower may be considered if the proceedings were completed at least five (5) years and borrower had established a good credit rating.
- (e) Although the 100% Loan Financing Program is limited to Agency origination or Delegated Lender origination, all loans will be underwritten by the Agency and signed by the Underwriter, Director or Assistant Director of Single Family and any Chief or the Executive Director.
- (f) Applicants are required to attend three (3) counseling sessions. Two (2) pre-purchase sessions must be completed before a closing date is scheduled and Lender will direct applicant to their post closing session approximately two to three months after closing. The counseling agency will be compensated by the Agency and they will certify to the Agency and Lender that the applicant has successfully completed the required sessions

A list of counseling agencies can be obtained by calling the Agency Hot Line.

## PART VII. COMMUNITY HOME BUYERS PROGRAM (CHBP)

All terms, conditions, requirements and guidelines that are in effect on Home Buyer Program loans are in effect on Community Home Buyer loans with the following exceptions:

SECTION 7.1 CREDIT AND PROPERTY UNDERWRITING REQUIREMENTS

- 7.101 Cash Down Payment - The maximum LTV on CHB loans is 100%, however, the applicant must have 2% of their own verifiable assets for closing costs. The remaining closing costs may come from a gift, nonprofit grant or an unsecured loan from a nonprofit or other public entity
- 7.102 Credit and Underwriting Guidelines - Follow the same guidelines as HBP loans. Reference Part III, Section 3.204.
- (a) MONTHLY HOUSING EXPENSES-TO-INCOME RATIO. The Agency will require that the monthly housing expenses (first mortgage payment plus escrows) not exceed 33% (for a conventional loan) of the mortgagor's stable monthly income.
- (b) MONTHLY DEBT PAYMENT TO INCOME RATIO. The Agency will normally require that the total amount of monthly housing expense plus all other monthly payments on all installment debts (having remaining terms of 10 months or more) not exceed 38% of the mortgagor's stable monthly income.
- 7.103 Home Buyer Education. Conventional borrowers with loan-to-value ratios higher than 97% must participate in homeownership and personal counseling/education sessions sponsored by the Lender or mortgage insurer. Borrowers must be issued a Completion Certificate after the counseling is completed. All Community Home Buyers Program borrowers must participate in the counseling sessions and be issued a Certification upon completion
- 7.104 Closing Costs - Closing costs and other prepaid items may be paid by the borrower from personal resources. Closing costs may also be paid from gifts from family members or grants from nonprofit organizations, or other public entities. Escrow payments must be paid by the borrower, from their own liquid assets

PART VIII.

SPECIAL PROGRAMS

8.101

Requirements for Qualified Purchase/Rehabilitation Loans.

"Qualified rehabilitation loan" is defined under the Code to mean any owner financing provided in connection with (i) a qualified rehabilitation or (ii) the acquisition of a residence with respect to which there has been a qualified rehabilitation, but only if the mortgagor is the first resident of the residence after completion of the rehabilitation.

All loans must be originated and insured under FHA 203(k) guidelines and the following code requirements:

- (a) at least 20 years must have elapsed between the date the building was first used and the commencement of physical work on such rehabilitation begins,
- (b) at least 50 percent of the existing external walls remain in place as external walls,
- (c) at least 75 percent of the existing external walls remain in place as internal or external walls, and
- (d) at least 75 percent of the existing internal structural framework remains intact.
- (e) For purchase properties the cost of the rehabilitation will be a minimum of 25% of the mortgagor's adjusted basis in the residence (including land)
- (f) Refinance/Rehabilitation Loans are acceptable FOR THIS PROGRAM ONLY. The cost of the rehabilitation must be equal to or greater than the minimum cost of improvements. The minimum cost of improvements is figured as follows.

$$\begin{array}{r}
 \text{Original Purchase Price} \\
 + \text{Repairs previously made} \\
 = \text{Acquisition Cost (A)} \\
 \\
 \text{Acquisition Cost} \times 1.3333 = \text{(B)} \underline{\hspace{2cm}} \\
 \text{Subtract Acquisition Cost} \text{ (A)} \underline{\hspace{2cm}} \\
 = \text{Minimum Cost of Improvements (C)} \underline{\hspace{2cm}}
 \end{array}$$

Anticipated Rehabilitation Work must be equal to or greater than the minimum cost of improvements (C) to meet property eligibility.

Refinance/rehabilitation loan properties in which there is NO current outstanding mortgage do NOT qualify.

- (g) Purchase price and income limits apply, as indicated in the applicable Term Sheet.

8.102 Purchase/Rehabilitation Loan Forms - Since these loans differ in requirements under the Code, special HMFA forms are required:

1. Qualified Purchase/Rehabilitation, Property Seller's Affidavit, HMFA 161A.
2. Qualified Purchase/Rehabilitation, Mortgagor's Affidavit, HMFA 300A.
3. Qualified Refinance/Rehabilitation, Mortgagor's Affidavit, HMFA 300B, for refinances only.
4. Qualified Purchase/Rehabilitation, Acquisition Cost Worksheet, HMFA 164A.

8.103 Requirement for Qualified Home Improvement Loans. The Code permits origination of "Qualified Home Improvement Loans" which is defined to mean a financing of alterations, repairs and improvements on or in connection with an existing, owner-occupied residence by the owner thereof if such items substantially protect or improve the basic livability or energy efficiency of the residence and the amount of such loan does not exceed \$15,000. Improvements which qualify under this definition include the renovation of plumbing or electric systems, the installation of improved heating or air conditioning systems, the addition of living space or the renovation of a kitchen. Recreational or entertainment facilities such as swimming pools, tennis courts or saunas do not qualify

Qualified Home Improvement Loans must be originated and insured under Title 1 of the National Housing Act of 1934, as amended. Only improvements that add to the basic livability and energy efficiency of the residence are eligible

Properties being improved must be the primary residence of the borrower.

Income limits apply, as indicated in the applicable Term Sheet.

All loans regardless of loan amount must have a lien recorded.

Qualified Home Improvement Loans are only available when funding is made available by the Agency for such loans, subject to such conditions as are set forth in the applicable Term Sheet

## PART IX

MISCELLANEOUS

- (a) The Agency shall have the right, at any time and from time to time, during normal business hours, to examine and audit any and all of the Seller's records or accounts pertaining to any Mortgage Loan sold to the Agency under the Mortgage Purchase Agreement.
- (b) The Agency shall have the right to require the Seller to furnish such documents as the Agency, in its sole discretion and from time to time, deems necessary in order to determine that the provisions of this Seller's Guide have been complied with.
- (c) The provisions of this Seller's Guide governed by the Code or covenanted to bond holders cannot be waived or modified. Certain other guidelines may be waived or modification at the Agency's discretion, but only in writing and only for good cause supported by the following:
  - 1. A specifically detailed waiver request must be received in writing with any back-up documentation to support the request.
  - 2. The Agency may request additional information in order to make its determination. All information must be supplied in a timely manner or the waiver will be considered as denied

EXHIBIT

B



New Jersey Housing and Mortgage Finance Agency

Single Family Mortgage Program

## **MORTGAGE PURCHASE AGREEMENT**

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Seller

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Address

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## MORTGAGE PURCHASE AGREEMENT

**THIS AGREEMENT**, dated \_\_\_\_\_, 2010 between the **NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**, 637 South Clinton Avenue, Trenton, New Jersey 08611 (hereinafter referred to as the "Agency") and the institution designated as "Seller" on the cover page of this Agreement (hereinafter referred to as the "Seller").

### WITNESSETH:

In consideration of the warranties, representations and mutual agreements herein set forth, the Agency and the Seller hereby agrees as follows:

#### 1. DEFINITIONS

The following terms shall, for all purposes of this Agreement, have the following meanings:

- (a) **Accounting Guide.** This guide, as it may be amended from time to time by the Agency, containing the accounting rules governing the Seller's Guide and the Servicer's Guide.
- (b) **Closing Date.** The date with respect to any Mortgage Loan sold or offered for sale to the Agency by Seller under this Agreement, upon which such Mortgage Loan was closed.
- (c) **Delivery Date.** With respect to any Mortgage Loan sold or offered for sale to the Agency by the Seller under this Agreement, the date on which all documents and instruments required under the Seller's Guide to be delivered by the Seller to the Agency in connection with the sale of the Mortgage Loan have been delivered to the Agency or to any person, firm or corporation designated by the Agency to act on its behalf
- (d) **Eligible Property.** A residential building located in the State of New Jersey which is (i) an existing Single Family Dwelling, (ii) a newly constructed Single Family Dwelling which has never been occupied, (iii) a 2-4 family dwelling that has been used as a residence for the previous five years; (iv) a 2 family dwelling located in a Target Area that will be used for residential purposes (need not meet the five year requirement.) A building or condominium unit shall not qualify as an Eligible Property if any portion is used or intended to be used for non-residential purposes unless a waiver has been granted in advance. A building in which the mortgagor cannot legally occupy a unit within sixty days of closing shall not qualify as an Eligible Property.

- (e) **Escrows.** Payments to be made under the terms of a Mortgage Loan by Mortgagor and to be paid into an Escrow account to cover expenses which shall include, but not limited to, all taxes and special assessments, as well as hazard and flood insurance premiums, and mortgage insurance premiums.
- (f) **Fannie Mae.** Federal National Mortgage Association.
- (g) **FHA** Federal Housing Administration
- (h) **Firm Commitment to Mortgagor.** A letter from the Seller to a prospective Mortgagor, certified as to authenticity by a duly authorized officer of the Seller, with the required Agency approval attached, which, for a specified period of time, commits the Seller to make a Mortgage Loan and state loan amount, loan term, loan interest rate, the particular residence that is being mortgaged, and any conditions imposed by the Agency. Firm Commitments to Mortgagors must be similar to the type the Seller would ordinarily provide prospective home buyers where financing was not provided from the proceeds of a tax-exempt bond
- (i) **Freddie Mac.** Federal Home Loan Mortgage Corporation.
- (j) **Ginnie Mae.** Government National Mortgage Association.
- (k) **MI** A mortgage insurer licensed to do business in the State, qualified to provide insurance on mortgage loans purchased by the Agency
- (l) **Mortgage Loan.** A residential mortgage loan sold to the Agency under a Mortgage Purchase Agreement or under Mortgage Purchase Agreements between the Agency and other mortgage loan originators.
- (m) **Mortgage Loan Delivery Schedule.** The schedule as set forth in the Term Sheet.
- (n) **Mortgage Programs.** The residential single family mortgage loan purchase programs to be financed by the issuance by the Agency of its Mortgage Revenue Bonds from time to time in one or more series
- (o) **Mortgagor.** The person or persons who executed the mortgage instrument securing a Mortgage Loan together with the maker or makers of the note evidencing said Mortgage Loan (if any such person is not a maker of the note), all of whom shall be natural persons. The term "Mortgagor" shall also include natural persons who have assumed the obligations of a Mortgagor. The term Mortgagor does not include a co-signer who will not have an interest in the dwelling

- (p) **Multiple Unit Dwelling.** An existing building which consists of two, three or four dwelling units. Dwelling unit means a single unified combination of rooms that is designated for residential use by one family. The building must have been occupied as a residence for at least five years immediately preceding the Closing Date, provided that a unit may have been vacant during such period if the unit was, from the time previously occupied as a residence, continuously held out for residential use and not occupied for any portion of such period in connection with a commercial or business use. If located in a Target Area, a two family dwelling does not have to meet the five year requirement.
- (q) **Notice of Acceptance.** The notice of acceptance by the Agency to the Seller of Participation.
- (r) **Participation Application.** Any application by which the Seller requests participation in the Agency's Single Family Mortgage Programs for a given year and offers to sell Mortgage Loans to the Agency under such programs
- (s) **Participation Fee.** The payment made by the Seller of an amount established in an Application as consideration for the Agency's agreement, by acceptance of the Application of the Seller, to purchase Mortgage Loans from the Seller under this Mortgage Purchase Agreement.
- (t) **Prior Approval.** The approval given by the Agency after review of documents submitted to show compliance with the Mortgage Loan eligibility and processing requirements of the Seller's Guide, upon which the Seller may issue a Firm Commitment to Mortgagor.
- (u) **Property Value.** The lower of (i) the appraised value of the property securing the Mortgage Loan at the time the Mortgage Loan is closed, or (ii) the purchase price paid for the property by Mortgagor.
- (v) **Purchase Date.** The date upon which payment is made to the Seller with respect to any Mortgage Loan sold to the Agency by the Seller under this Agreement
- (w) **RECD.** USDA Rural Housing Services
- (x) **Seller.** A mortgage lender which has entered into a Mortgage Purchase Agreement with the Agency.
- (y) **Seller's Guide.** The guide, as it may be amended from time to time by the Agency, containing the rules governing the delivery of Mortgage Loans purchased by the Agency from the Seller under this Agreement. The Seller's Guide includes applicable provisions of the Accounting Guide

- (z) **Single Family Dwelling.** A residential building designated for use by one family, or a unit design for residential use by one family, the owner of which unit owns an undivided interest in the underlying real estate. The term Single Family dwelling may include a single unit condominium or factory made housing which is permanently affixed to real property. The term also includes property, owned in common with others, which is necessary or contributes to the use and enjoyment of such a structure or unit.
- (aa) **Starting Date of Program.** The date Sellers may begin accepting Mortgage Loan applications as specified in the Notice of Acceptance
- (bb) **Term Sheet.** The statement of terms, constituting part of the Notice of Acceptance of a Participation Application, governing the sale and purchase of Mortgage Loans pursuant to a Commitment. The Term Sheet as may be amended from time to time constitutes part of the agreement between the parties hereto.
- (cc) **VA.** Veteran's Administration

2 **APPLICATION(S):**

- (a) A participation Application and all obligations arising thereunder may not be revoked or withdrawn without the consent of the Agency but shall terminate automatically if a Notice of Acceptance is not mailed (as evidenced by postmark) or delivered to the Seller by the Agency on or prior to the Termination Date set forth in the Participation Application. Subject only to timely acceptance thereof by the Agency, the Participation Application constitutes an agreement by the Seller to sell to the Agency and by the Agency to purchase from Seller Mortgage loans pursuant to the terms of this Agreement
- (b) The Agency intends to obtain the funds to purchase Mortgage Loans under this Mortgage Purchase Agreement from the proceeds of sale of bonds under its Mortgage Program(s).

3 **PURCHASE AND SALE OF MORTGAGE LOANS.**

The Seller agrees to sell and the Agency agrees to purchase Mortgage Loans that conform with the requirements of the Agency's Mortgage Programs.

- (a) The Seller shall process and report applications for Mortgage Loans and deliver Mortgage Loans to the Agency in accordance with the Mortgage Loan Delivery Schedule.
- (b) The Agency shall purchase and pay for each Mortgage Loan properly submitted to it for purchase in accordance with the Seller's Guide and applicable Term Sheet within 15 business days of such submission for purchase

- (c) The net purchase price payable by the Agency to the Seller on the Purchase date for each Mortgage Loan purchased by the Agency shall be as set forth in the related Term Sheet. The acquisition of servicing rights by the Agency are included in the purchase fee.
- (d) The Seller agrees to comply with all the terms, conditions and requirements of the Seller's Guide and applicable Term Sheet in effect as of the Closing Date with respect to such Mortgage Loans closed on such Closing Date unless any such terms, conditions and requirements shall have been waived by the Agency in writing. The Seller agrees that the Agency shall have the right to amend and supplement the Seller's Guide and Term Sheet from time to time by mailing the Seller changed pages; such amendments or supplements to be effective 5 business days after the date of mailing thereof; provided, however, that (i) in the event of any conflict between the provision of this Agreement and any provision of the Seller's Guide and Term Sheet as from time to time amended or supplemented, this Agreement shall govern and (ii) any amendments or supplements to the Seller's Guide and Term Sheet shall not apply to Mortgage Loans where the actual Closing Date for which was prior to the effective date thereof.

**4. CONDITIONS TO PURCHASE BY THE AGENCY.**

The Agency shall be obligated to purchase and pay for any Mortgage Loan offered for sale by the Seller under this Agreement only if, with respect to Mortgage Loan, the following conditions have been met as of the following dates:

- (a) As of the Closing Date:
  - (1) The Mortgage Loan was lawful under all applicable local, state and federal laws, rules and regulations that govern the affairs of the Seller and the Mortgagor, including without limitation all applicable real estate settlement procedures, truth-in-lending and anti-discrimination laws
  - (2) The Mortgage Loan has a commitment for coverage under any applicable pool insurance policy obtained by the Agency which is specified by the applicable Term Sheet
  - (3) The Mortgage Loan which has primary insurance issued by an MI is covered by a policy which meets all requirements of the Seller's Guide, is full force and effect and will upon assignment transfer to the benefit of the Agency.
  - (4) The Seller has complied and the Mortgage Loan complies with all the terms, conditions and requirements of the Seller's Guide unless any such terms, conditions and requirements shall have been waived by the Agency in writing

- (5) The Mortgage Loan bears interest at a rate which is specified in the applicable Lender Bulletin received from the Agency.
- (6) The closing costs, fees and charges, of whatever kind or nature, which were collected from the Mortgagor and from the Seller of the residential property did not exceed the aggregate of (1) the actual amounts expended for continuation of abstract, title insurance, deed tax, attorney's fees, credit reports, surveys, appraiser's fees and filing and recording fees and other fees and charges; (2) the actual amounts paid or escrowed for taxes and insurance; and (3) the application fee, if any, set forth in the applicable Term Sheet.
- (7) The total discount fees (points) do not exceed the currently allowable limits set forth in the applicable Term Sheet.
- (8) The note evidencing the Mortgage Loan is a legal, valid and binding obligation of the maker thereof and is enforceable in accordance with its terms, and is secured by a first mortgage lien upon the property. No counterclaim set-off, defense or right of recession exists which can be asserted and maintained by the Mortgagor or any successor in interest of the mortgagor against the Agency, as assignee of the Mortgage Loan.
- (9) The terms of the Mortgage Loan require that, in addition to interest and principal payments on the Mortgage Loan, the equivalent of one-twelfth of the estimated annual taxes, assessments and applicable insurance premiums on the mortgaged property are to be paid monthly in advance to the holder or Servicer for the Agency of the Mortgage Loan.
- (10) The Mortgage Loan does not exceed 100% of the Property Value, or as applicable to the maximum permitted by FHA, VA and/or RECD guidelines.
- (11) The Mortgage Loan application was taken and the related Firm Commitment to Mortgagor was made after the Starting Date of Program. The Mortgage Loan was made to finance the purchase of an Eligible Property and all improvements so financed have been fully completed or moneys have been placed in escrow therefor. The Mortgage Loan shall have been closed by the Seller and shall not be a refinancing of an existing mortgage loan, except for a qualified rehabilitation loan.
- (12) The Seller has no knowledge of any improvement on the real property covered by the Mortgage Loan in violation of any laws or regulations affecting the premises included, without limitation, applicable building, zoning and environmental protection laws or regulations.

- (13) The Seller has no knowledge of the real property subject to the Mortgage Loan being damaged by waste, fire, earthquake, windstorm, flood, tornado or other cause.
  - (14) The Seller has no knowledge of any condemnation proceedings being instituted or threatened against the real property or improvement thereon.
  - (15) The improvements on the real property securing the Mortgage Loan are covered by a valid and subsisting policy of hazard insurance and flood insurance (if applicable) in an amount sufficient to compensate the Agency for a loss equal to the full amount of the unpaid balance of the Mortgage Loan.
  - (16) The Seller has no knowledge of any facts or circumstances, economic or otherwise, which may have an adverse effect on the credit of the Mortgagor, the prospect of prompt payment of the Mortgage Loan or the value of any security therefore
  - (17) No Mortgage shall have been made for the purpose of construction financing.
  - (18) The Acquisition Cost of the property as defined in the Seller's Guide is within the limits established in the Term Sheet.
  - (19) The Seller shall have no reason to believe that any representation or warranty set forth in the Mortgagor's Affidavit (HMFA Form 300) or the Property Seller's Affidavit (HMFA Form 161) is untrue or incorrect.
  - (20) The income of the Mortgagor, determined as set forth in the Seller's Guide, is not in excess of the applicable income limit, if any, set forth on the applicable Term Sheet
- (b) As of the Purchase Date:
- (1) The Mortgagor is not more than 15 days delinquent in the payment of any installments of principal, interest or other amount due under the terms of the Mortgage Loan.

- (2) No term, covenant or condition of the note evidencing the Mortgage Loan and the mortgage securing the Mortgage Loan has been waived, altered or modified except as consented to in writing by the Agency.
  - (3) The Mortgage Loan is not subject to any existing assignment or pledges; Seller has good title thereto and full right and authority to assign and transfer the same and to endorse and deliver the note to the Agency, free and clear of all encumbrances.
  - (4) The Mortgage Loan is covered by a valid and lawfully issued title insurance policy, the benefits of which run to the Agency, on the current standard American Land Title Association mortgage insurance form issued by a title insurer licensed to do business in the State in an amount equal to that of the original principal balance of the Mortgage Loan.
  - (5) All necessary documents have been executed and the Seller has taken all steps to perfect the Agency's legal and record title to, and to protect the Agency's interest in, the Mortgage Loan delivered under this Agreement.
  - (6) The lien of, or estate created by, the Mortgage Loan has not been satisfied, subordinated or impaired, in whole or in part except for payment of principal and interest to the purchase date. No part of any mortgaged property has been released therefrom, other than releases agreed to in writing by the Agency
- (c) As of the Delivery date
- (1) Each mortgage, financing statement and any other document required to be registered, recorded or filed in a public office to perfect the mortgage lien against third parties has been duly and timely filed, registered or recorded in the proper public office in order to give constructive notice thereof to all subsequent purchasers or encumbrances.
  - (2) The Seller shall have performed and complied with all of the terms hereof required to be performed or complied with by it and the representations and warranties set forth in Section 5 hereof are true and correct as of the Delivery Date.
  - (3) The Seller has complied and the Mortgage Loan complies with all the terms, conditions and requirements of the Seller's Guide unless any such terms, conditions and requirements shall have been waived by the Agency in writing.

By acceptance of payment of each Mortgage Loan on its respective Purchase Date, the Seller shall be deemed to have represented and warranted that all such conditions will have been met as of the respective dates set forth above

5 **SELLER WARRANTIES.**

The Seller represents and warrants that:

- (a) The Seller is a corporation, partnership or LLC duly organized and validly existing and in good standing under the laws of the jurisdiction under which it was organized, and has the power and authority, corporate and other, to own its properties and carry on its business as now being conducted and is duly qualified to do such business in the State of New Jersey and wherever such qualification is required
- (b) The Seller is not under any cease and desist order or other order of a similar nature, temporary or permanent, of any Federal or State authority, nor are there any proceedings presently in progress or to its knowledge contemplated which would, if successful, lead to the issuance of any such order.
- (c) The Seller is a bank or trust company, savings bank, national banking association, or savings and loan association, maintaining an office in the State of New Jersey, or a mortgage banking firm or mortgage banking corporation authorized to transact business in the State of New Jersey.
- (d) The Seller is
  - (1) An approved Seller of mortgage loans to and for Fannie Mae and/or Freddie Mac; and/or
  - (2) A "Supervised Lender" as classified by the VA under Section 500(d) of the servicemen's Readjustment Act; and/or
  - (3) An FHA approved mortgagee;
  - (4) If the Seller is a bank or trust company, savings bank, national banking institution or savings and loan association, it must maintain an office in the State of New Jersey and be able to demonstrate to the Agency and the bond insurer, if applicable, that it is in compliance with Title 12 of the United States Code or other acts of government that may be promulgated from time to time by any federal, state or quasi-governmental Agency having appropriate jurisdiction.  
If the Seller is a mortgage banker and is owned by or affiliated with an entity that is a bank or trust company, savings bank, national banking institution or savings and loan association, then the Seller must demonstrate to the Agency and the bond insurer, if applicable, that its owner or affiliated entity is in compliance with Title 12 of the United States Code or other acts, without limitation, that may be promulgated from time to time by any federal, state or quasi-

governmental Agency having appropriate jurisdiction.

At any time during the course of participating in the Agency programs, an Eligible Seller fails to meet the above criteria, it must notify the Agency and the bond insurer, if applicable, immediately. The Agency and the bond insurer, if applicable, will be permitted to take any and all appropriate actions that are consistent with the terms of the Mortgage Purchase Agreement. Failure to immediately notify the Agency and the bond insurer, if applicable, pursuant to this paragraph will be grounds for immediate termination.

The Agency, with the consent of the bond insurer, if applicable, may waive or modify certain of the above criteria. However, all Sellers must meet and at all times while participating in Agency bond programs, be in compliance with requirements above.

- (e) This Agreement is a valid and binding agreement of the Seller, enforceable according to its terms, the making and performance of which have been duly authorized by all necessary corporate and other action and will not constitute a violation of any law, any requirement imposed by any judicial or arbitral body or governmental instrumentality, or the charter or by-laws of the Seller, or a default under any agreement or instrument by which it is bound or affected
- (f) Neither the making nor performance of this Agreement by the Seller requires the consent or approval of any governmental instrumentality or, if such consent or approval is required, it has been obtained
- (g) The Seller will not knowingly take any action or permit any action to be taken which would impair the exemption from Federal income taxation interest on the bonds of the Agency.
- (h) The Seller will comply with all procedures in the Seller's Guide relating to the acceptance and reporting of Mortgage Loan applications on a first-come first-served basis.
- (i) The Seller will not sell or assign to the Agency any "covered home loan" or "high cost home" loan as defined in the New Jersey Home Ownership Security Act of 2002, N.J.S.A. 46:10B-22.

The representations and warranties contained in this Section 5 shall be true and correct when made, and by acceptance of payment for each Mortgage Loan on its respective Purchase Date shall be deemed to be repeated by the Seller and shall be true and correct as of the respective dates set forth in Section 4.

## 6. BREACH; REMEDIES.

- (a) If the Seller shall fail to follow the procedures set forth in this Agreement and in the Seller's Guide in any material respect, the Agency may at any time terminate this Agreement without refunding to the Seller any portion of the Commitment Fee. In such event the Seller shall promptly deliver to the Agency the application file for each applicant for a Mortgage Loan as well as the reservation fees, if any, paid by each applicant.
- (b) The Seller shall be liable to the Agency for any damages, including, without limitation, costs and attorney's fees, suffered by the Agency by reason of the untruth of any representation of the breach of any covenant of warranty made by the Seller herein or in connection with the transactions hereby contemplated. In addition, with respect to any Mortgage Loan, in the event that any representation shall prove to be untrue when made by the seller or in the event of any breach of covenant or warranty by the seller, or in the event the Seller fails to deliver all required documents within the required time period established in the Seller's Guide, the Seller shall, at the option of and upon the demand of the Agency, repurchase within five business days, any such Mortgage Loan for an amount equal to the unpaid principal balance of the Mortgage Loan multiplied by the discount percentage paid by the Agency with an adjustment for accrued interest at the time of repurchase, plus the aggregate amount of any advances and interest thereon, plus an amount equal to any attorney's fees, legal expenses, court costs or other expenses, including the fee paid by the Agency as part of the purchase price, incurred by the Agency in connection with such Mortgage Loan and the repurchase thereof.
- (c) If the Seller has been required to repurchase a Mortgage Loan pursuant to paragraph (b) of this Section 6, the Seller may reoffer that Mortgage Loan for sale to the Agency if all deficiencies causing the Agency to require repurchase have been cured. In the event the Seller shall cause the Agency to repurchase more than six Mortgage Loans under this Section 6, the Seller shall be required, at the option of the Agency, to deliver all subsequent Mortgage Loans with all final required documents attached, at the time of Submission for Purchase of such Mortgage Loans by the Agency. The purchase price of any Mortgage Loan repurchased pursuant to this Section 6 will not include an origination fee.
- (d) Unless otherwise expressly provided, no remedy herein conferred upon or reserved to any party is intended to be exclusive of any other available remedy, but each remedy shall be cumulative and shall be in addition to other remedies given under this agreement or existing at law or in equity. No delay or omission to exercise any right or power accruing under this Agreement shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient.

7. **MISCELLANEOUS.**

- (a) If the Seller is permitted as set forth in any Term Sheet to issue a commitment to a contractor or developer, the Seller may collect a fee from the contractor or developer not in excess of the fee, if any, set forth in the applicable Term Sheet.
- (b) The Seller warrants that if the Seller has provided the construction financing for the property being financed by a Mortgage Loan, the rate of interest and/or fees being charged to the contractor or developer for the construction loan are usual and customary and are not in excess of the rate of interest or fees that would have been charged if the permanent mortgage financing was being provided through conventional lending sources other than the Agency.
- (c) The Agency shall have the right, at any time and from time to time, during normal business hours, to examine and audit any and all of the Seller's records or accounts pertaining to any Mortgage Loan sold to the Agency under this Agreement.
- (d) The Agency shall have the right to require the Seller to furnish such documents as the Agency, in its sole discretion and from time to time, deems necessary in order to determine that the provisions of this Agreement have been complied with.
- (e) Except as otherwise permitted by Section 3(d) herein, the provisions of this Agreement cannot be waived or modified unless such waiver or modifications be in writing and signed by both parties
- (f) All agreements, representations and warranties contained herein or made in writing by or on behalf of the Seller in connection with the transaction contemplated hereby shall survive the execution and delivery of this Agreement, the sale or delivery of this Agreement, the sale or delivery of the Mortgage Loans and payment thereof, any disposition thereof by the Agency, and any investigation at any time made by the Agency or on behalf of the Agency.
- (g) Invalidation of any one of the provisions of this Agreement, by judgment or court order, shall in no way affect any other provisions herein contained, which provisions shall remain in full force and effect.
- (h) This Agreement shall be governed by the laws of the State of New Jersey
- (i) The Seller hereby consents to the jurisdiction of the Superior Court of the State of New Jersey for any proceedings in connection with this Agreement or the Application
- (j) This Agreement shall not be assignable by the Seller without the written consent of the Agency, and in the event of any attempted assignment thereof without such written consent, the Agency may, at its option, terminate this Agreement as to its obligation to make any further purchase of Mortgage Loans from the Seller

- (k) The Seller agrees that, so long as it shall continue to serve in the capacity contemplated under the terms of this Agreement, it will remain in good standing under the laws governing its creation and existence and remain qualified under the laws of the State of New Jersey to do business in the State, will not dissolve or otherwise dispose of all or substantially all of its assets and will not voluntarily consolidate with or merge into any other entity, or permit one or more entities to consolidate with or merge into it, provided, however, that the Seller may, without violating the covenant contained in this subsection, consolidate with or merge into another entity, or permit one or more entities to consolidate with or merge into it, or sell or otherwise transfer to another such entity all or substantially all of its assets as an entirety and thereafter dissolve, if the surviving, resulting or transferee entity, as the case may be, shall have a positive net worth, shall be qualified under the laws of the State of New Jersey to do business in the State, shall be qualified under the laws and have all necessary approvals required of the Seller under this Agreement to perform Seller's duties under this Agreement, and shall assume in writing all of the obligations of the Seller under this Agreement, in which event the Agency shall release the Seller in writing, concurrently with and contingent upon such assumption, from all obligations so assumed.
  
- (l) This Agreement and all obligations and rights arising hereunder shall bind and inure to the benefit of the Agency and the Seller and their respective successors in interest and permitted assigns.
  
- (m) This agreement may be executed in one or more counterparts, each of which shall be an original but such counterparts shall together constitute but one and the same agreement.
  
- (n) This Agreement will continue in effect until the end of the current calendar year unless terminated sooner under the terms of this Agreement. The Agreement may be renewed at the end of the current calendar year upon execution of a new Mortgage Purchase Agreement Renewal and payment to the Agency of Participation Fee, if any is so required. If this Agreement is not renewed, both parties agree to continue processing all current applications for mortgages and mortgage loans in accordance with the terms of this Agreement provided such applications have been registered with the Agency as described in the Seller's Guide.

**IN WITNESS WHEREOF**, the parties hereto have caused this Agreement to be executed by their duly authorized officers as of the date hereof.

\_\_\_\_\_  
 (Seller)

New Jersey Housing and Mortgage Finance Agency

By: \_\_\_\_\_

By: \_\_\_\_\_  
 Executive Director

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Date \_\_\_\_\_

EXHIBIT

C

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

Revised April 30, 2010

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Maximum Servicing Limits Per Bond Series

# I. GENERAL

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

## 1.101 Definitions

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

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

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

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

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

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

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

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

**FHA:** Federal Housing Administration.

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

**FNMA:** Federal National Mortgage Association (Fannie Mae).

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

**HMP:** Home Mortgage Program.

**HPA:** Homeowners Protection Act of 1999

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

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

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

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

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

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

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

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

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

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

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

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

**SFHRB:** Single Family Housing Revenue Bonds

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

**VA:** Veteran's Administration.

**1.102 Mortgage Servicing Agreement and Mortgage Sub-Servicing Agreement.**

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

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

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

**1.103 Amendments.**

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

**1.104 Eligible Servicers/Sub-Servicers.**

- (a) The Servicer is a corporation duly organized and validly existing and in good standing under the laws of the jurisdiction under which it was organized and is existing and has the power and authority, corporate and other, to own its properties and carry on its business as now being conducted and is duly qualified to do such business in the State of New Jersey and wherever such qualification is required.
- (b) The Servicer is not under any cease and desist order or other order of a similar nature, temporary or permanent, of any Federal or State authority, nor are there any proceedings presently in progress or to its knowledge contemplated which would, if successful, lead to the issuance of any such order. The Servicer is not subject to any Bankruptcy or insolvency proceedings, either voluntary or involuntary, and is not aware of any such proceedings that may be contemplated. Servicer shall notify the Agency of any changes that would make the foregoing statements inaccurate at any time during the term of the Mortgage Purchase Agreement.
- (c) The Servicer is and shall be at all times while servicing Mortgage Loans
  - (1) An approved Seller and Servicer of mortgage loans to and for FHLMC and/or FNMA; and/or
  - (2) A "Supervised Lender" as classified by the VA Under Section 500 (d) of the Servicemen's Readjustment Act; and/or
  - (3) A FHA approved mortgagee; and

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

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

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

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

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

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

#### **1.105 Servicing Facilities**

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

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

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

#### **1.106 Transfer of Servicing (Inapplicable to Sub-Servicers)**

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

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

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

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

#### **1.107 Transfer of Servicing Fee**

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

#### **1.108 Tax Compliance**

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

All property taxes shall be paid by the mortgagor's escrow account. Any penalties, interest and fees due to late payment of taxes are the responsibility of the Servicer. The Servicer shall not release or use a specific mortgagor's tax and insurance escrow funds

for any purpose other than paying taxes or insurance premiums or other costs for which the escrow has been specifically established.

### **1.109 Mortgage Loan File**

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

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

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

### **1.110 Reports**

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

### **1.111 Default Reporting**

#### **(a) Delinquency Reporting**

Within 5 business days of the last day of the month, the Servicer shall furnish the Agency with a Collective Delinquency Report, HMFA #172, along with the applicable HMFA #173, Individual Loan Servicing Report and HMFA #173A

## Default Recommendation.

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

### **(b) Foreclosure and Bankruptcy Reporting**

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

### **1.112 Annual Reporting Requirements**

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

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

### **1.113 Hazard Insurance Requirements**

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

#### **(a) Scope and Amount of Coverage**

Insurance coverage in the following kinds and amounts is required at all times while the Mortgage Loan is being serviced including during foreclosure and post foreclosure until the Agency's insurance takes effect:

- 1 Fire and Extended Coverage Insurance shall be required in an amount at least equal

to the requirements set forth in (i) and (ii) below. The amount of coverage shall be sufficient, except for deductibles as permitted below, so that in the event of any damage or loss to the property, coverage by the insurance shall provide the greater of (i) compensation equal to the full amount of the damage or loss or (ii) compensation to the mortgagee under the Mortgage Loan equal to the full amount of the unpaid balance of the Mortgage Loan.

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

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

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

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

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

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

**(b) Minimum Financial Rating of Carrier; No Assessments; Other Requirements**  
Each hazard insurance policy must be written by a hazard insurance carrier which falls into a financial category, as designated in Best's Key Rating Guides, of B+ or better, Class IV or better or Demotech, Inc. Financial Rating of A (exceptional). (The Agency will normally make an exception upon specific request where the insured is an assigned risk.) Each carrier must be specifically licensed or authorized by law to transact business in the State.

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

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

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

#### **1.114 Insurance Loss Settlements**

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

**(a) Amount of Loss \$15,000 or Less**  
Servicer is not required to submit an HMFA #178 report to the Agency on the disposition of proceeds of losses \$15,000 or less, unless Servicer recommends application of the proceeds against the Mortgage Loan debt. Servicer shall determine that the loss has been repaired to at least its original condition After the

property has been repaired, and provided there is no delinquency or other servicing problem, Servicer shall disburse the proceeds. Servicer shall exercise prudent judgement in determining whether a physical inspection of the property should be made prior to the release of the draft.

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

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

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

**1.115 Possession of Hazard Insurance Policies**

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

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

- (a)** Be underwritten by an insurance carrier which falls into a financial category, as designated in Best's Key Rating Guides of B+ or better, Class IV or better, or a Demotech, Inc. Financial Stability Rating of A (exceptional) and is specifically licensed or authorized by law to transact business within the State.
- (b)** Provide coverage for the Agency as mortgagee in addition to the interest of the Servicer and/or mortgagor

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

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

#### **1.116 Flood Insurance**

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

#### **1.117 Insurance Coverage Varying From Requirements**

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

#### **1.118 Escrows**

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

Servicer shall as often as required by law and at least annually compute the required Escrow payments on the basis of assessments and bills and reasonable estimates thereof. Escrow analysis should be done after the final tax bill is issued by the municipality. If the amount of Escrows held by the Servicer, together with the future monthly

installments of Escrows payable prior to the date of taxes, insurance premiums and other Escrow expenses exceed the amount required to pay such charges as they fall due, the excess shall be either promptly repaid to Mortgagor if there is no default under the terms of the Mortgage loan. Interest payable to Mortgagor for Escrows or any other funds held by Servicer, whether due to contractual agreement or operation of law, shall be paid by Servicer, at Servicer's sole expense.

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

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

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

#### **1.119 Servicer to Satisfy MI Requirements**

Under the Servicing Agreement, Servicer is obligated to satisfy and comply with all requirements of the MI with respect to Mortgage loans serviced for the Agency See schedule below which summarizes required coverage. Coverage may be canceled only with written approval of the Agency. Each Mortgage Loan, regardless of loan to value ratio, must continually remain eligible under the Agency's applicable mortgage pool insurance policies, if applicable Refer to Section (d) Homeowners Protection Act of 1998 for all loans closed after July 29, 1999.

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

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

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

**Mortgage Insurance**

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

<u>Bond Series</u>	<u>MI Requirements</u>	<u>LTV</u>
NLP-1 and 2 (Bond Series 001-002)	22%-1 family	greater than 80%
NLP-3 (Bond Series 003)	25%-2 to 4 family	greater than 70%
NLP-4 (Bond Series 004)	30%	greater than 80%
SMP-1 to 5 (Bond Series 005-009)		<b>100% life of loan</b>
HMP (all issues) (Bond Series 010-019)	30%	greater than 80%
HBP (Bond Series 020- closeout)	35%	<b>life of loan</b>
	25%	between 80.01% to 90%
	30%	between 90.01% to 95%
	30%	between 95.01% to 97% - Term 25 years or less.
	35%	between 95.01% to 97% - Term greater than 25 years but not more than 30.
	40%	between 97.01% to 100%
<u>SFHRB</u> (Bond Series 0 - 0 thru March 30, 2007)	same as HBP	same as HBP
<u>SFHRB</u> (Bond Series 0 starting April 1, 2007)		
	12%	between 80.01% to 85%
	25%	between 85.01% to 90%
	30%	between 90.01% to 95%
	30%	between 95.01% to 97% - Term 25 years or less.
	35%	between 95.01% to 97% - Term greater than 25 years but not more than 30.
	40%	between 97.01% to 100%

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

(c) **Full Force and Effect**

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

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

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

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

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

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

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

(e) **Canceling FHA's Annual Mortgage Insurance Premiums**

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

automatically canceled under the following conditions:

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

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

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

#### **1.120 Subservicing Not Permitted for Traditional Servicers**

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

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

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

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

#### **1.121 Owner Occupancy**

All mortgaged properties must be owner occupied for the life of the Mortgage Loan. Servicers are required to monitor the occupancy status of all Mortgage Loans at least annually for the first three years and randomly thereafter. Verification may be achieved by letter, review of checks, addresses, telephone contact or other reasonable methods.

Servicer shall notify the Agency in writing upon learning of, or if it has reason to believe, that the property is not owner occupied and of any circumstances that would be helpful to the Agency in determining whether to authorize acceleration of the mortgage. Servicers are also required, upon learning that Mortgagor is no longer occupying the mortgaged premises, to send the Mortgagor a letter outlining a ruling issued by the IRS regarding the deduction of mortgage interest. (Refer to attached sample.)

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

### **1.122 Assumptions**

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

### **1.123 Repurchases \***

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

\* No reimbursements or expenses on any properties will be made until all outstanding repurchases have been satisfied

## **II. MORTGAGE LOAN SERVICING: DELINQUENT ACCOUNTS**

### **2.101 Guidelines For Dealing With Delinquencies**

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

Servicer's personnel must be sufficiently skilled in financial counseling and mortgage loan servicing techniques to assist Mortgagors in bringing their mortgages current and

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

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

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

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

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

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

Continued participation in the Agency's programs is contingent upon Servicer's maintaining delinquency ratios and servicing procedures which are acceptable to the Agency. The Agency expects Servicer to maintain delinquency ratios on mortgages in which the Agency has an interest at a level below or comparable with other Agency

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

### **2.102 Late Charges**

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

### **2.103 Loss Mitigation**

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

It is expected that Servicers will be fully familiar with the various forms of relief to Mortgagors provided for herein, and will employ such relief wherever appropriate rather than recommending termination of the Mortgage Loan. However, no such relief should be granted to any Mortgagor unless there is a reasonable expectation that the relief granted will result in bringing and maintaining the Mortgage Loan current.

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

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

adequacy, which is the Servicer's responsibility.

The purpose of loss mitigation is:

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

Eligible loans:

All at-risk mortgages are eligible for workouts

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

Assessing the borrower's hardship:

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

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

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

Situation	Submit copies of the following documentation.
Unemployment	<ul style="list-style-type: none"> <li>• Termination notice from borrower's employer</li> <li>• At least one month of unemployment checks</li> <li>• Unemployment notice or filing documents</li> </ul>
Mandatory pay reduction	<ul style="list-style-type: none"> <li>• Two pay stubs showing previous pay</li> <li>• Two pay stubs showing new pay</li> <li>• Employer notification</li> </ul>
Unemployment following previous job loss	<ul style="list-style-type: none"> <li>• Documentation evidencing job loss</li> <li>• Pay stub from previous job to show old salary</li> <li>• Previous year's tax return</li> <li>• Current pay stub</li> </ul>
Death of borrower or primary wage owner	Death certificate
Decline in business earnings for self-employed borrower	<ul style="list-style-type: none"> <li>• Year-to-date profit and loss statement</li> <li>• Previous year's profit and loss statement</li> <li>• Previous year's tax return</li> <li>• Signed contracts from clients for work in progress or work scheduled (if applicable)</li> </ul>
Incarceration of spouse or co-borrower	Legal documents proving incarceration
Permanent or short-term disability	<ul style="list-style-type: none"> <li>• Disability application</li> <li>• Doctor's certificate of disability</li> <li>• Insurance notification</li> <li>• Proof of monthly insurance benefits or</li> </ul>

	government assistance (if applicable)
Serious illness of a household member	<ul style="list-style-type: none"> <li>• Medical bills</li> <li>• Doctor's certificate or letter</li> <li>• Insurance forms</li> <li>• Proof of monthly insurance benefits or government assistance (if applicable)</li> </ul>

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

**Mortgage Insurance Companies:**

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

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

**(a) Liquidation Agreement**

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

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

**(b) Special Forbearance Relief Agreement**

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

The Agency's prior approval of a Special Forbearance Relief Agreement is required. Servicer shall obtain any necessary approval of the mortgage insurer prior to executing a Special Forbearance Relief Agreement After approval of the

terms by the Agency, Servicer shall prepare the agreement, have it executed by all parties and forward a copy of the completed agreement to the Agency.

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

**(c) Modification Agreement**

The modification or extension of a Mortgage Loan shall be recommended by Servicer when, in its estimation, a change in the terms of payment of the Mortgage Loan presents the best means of recovering fully the maximum principal and interest. A loan modification is a written agreement that permanently changes one or more of the original terms of the note, including:

- Reduction in interest rate
- Reduction in monthly payment
- Extension of maturity date (HMFA will determine extension of note)
- Increase in the amount of principal balance caused by capitalization of the interest, escrow amounts and other advances

In appropriate cases the Mortgage Loan arrearage may be added to the principal balance and amortized over the term of the Mortgage Loan. The Mortgage Loan term may, if permitted by the Agency, be extended. The Mortgage Loan interest rate may be reduced temporarily or permanently, if permitted by the Agency. A loan modification should be considered when the borrower:

- Has a financial hardship that is permanent or long term
- Has a stable monthly income
- Is cooperative
- Wants to retain ownership of the property

And review of the existing mortgage indicates the following:

- The loan is at least twelve (12) months old
- HMFA maintains first lien status
- The outstanding debt to value ratio is equal to or greater than 75%
- Condominium payments are current
- Water and sewer payments are current

And the following expenses are paid

- Escrow shortages
- Legal fees incurred
- Delinquent interest amount

If the borrower is unable to pay the shortages due, it can be capitalized into the unpaid principal balance amount, providing it does not exceed the original loan amount. (Attempt MI pre-claim advance to reduce the amount of arrearages )

The Agency's prior approval of a proposed Modification Agreement is required. The request for a modification must be submitted to the Agency using FNMA Loan Modification Worksheet. The following documents must be prepared:

- Truth in Lending statement (if applicable)
- Three (3) original Loan Modification Agreement documents
- Assignment of Rents Rider (2-4 unit properties)
- Due on Transfer Rider (if applicable)
- Disclosure Statement pursuant to applicable laws
- Title Endorsement to ensure that HMFA maintains first lien status
- Proof of approval from the MI company

Modification Agreements must have the signatures of all living signers of the existing note, except in divorce situations. (If the property was transferred to one spouse in a divorce decree and the spouse qualifies for the mortgage, HMFA may consider releasing the other spouse from the note.)

If the Agency approves a recommended Modification Agreement, Servicer shall have the Modification Agreement prepared and obtain the consent in writing of any co-maker, guarantor, surety or other obligators, which written consents shall be affixed to the Modification Agreement. **Documents must be executed by the borrower within thirty (30) days of HMFA approval.** Where necessary to protect the Agency's interest, Servicer shall obtain the consent of any junior lien holder and confirmation by the title insurer that no loss in the priority of the lien is incurred. All necessary recording shall be made by Servicer at Mortgagor's expense. Distribution of documentation will be made as follows:

- Executed Truth in Lending (if applicable) submitted to HMFA
- Original Loan Modification sent to the County Clerk's office for recording
- One original executed agreement to be held by Servicer
- One original executed agreement submitted to HMFA
- Copy of *recorded* Loan Modification Agreement sent to HMFA Custodian: First Union National Bank, 4527 Metropolitan Court, Suite C, Frederick, MD 21704, Custodian: Robin Belanger, VP
- Copy of *recorded* Loan Modification Agreement to HMFA to close file (modification not completed until received by HMFA).

Servicer shall satisfy all requirements of the mortgage insurer and must forward a copy of the Modification Agreement to the mortgage insurance company.

The Servicer may charge the borrower up to \$500 to cover administrative expenses. Additional fees can be collected from the borrower for credit reports, Broker's Price Opinion and title endorsement.

**(d) Partial Claims**

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

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

Partial claims should be used when

- Borrower has sustained a temporary financial hardship
- Borrower has temporary unemployment or curtailed income
- Borrower can afford the monthly payment

- Loan is at least three (3) months in default
- And
- The loan is at least twelve (12) months old
  - HMFA has first lien status
  - There is less than 25% equity in the property

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

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

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

(e) **Short Sale**

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

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

And review of the existing mortgage indicates the following:

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

And the borrower must:

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

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

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

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

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

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

**(f) Hardship Assumption**

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

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

Additional specifications are as follows.

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

Following completion, Servicer must remit the following

- Copy of Settlement Statement
- Copy of executed Assumption Agreement

- Copy of deed
- Contribution fee (if applicable)
- MI approval letter

**(g) Change of Ownership – Assumptions: Special Programs**

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

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

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

**(h) Assumptions: Special Requirements - HOPE LOANS**

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

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

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

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

**Recapture**

Recapture rules apply to the assumption of a loan originated on or after January 1, 1991. Loans

originated prior to January 1, 1991 will not be subject to recapture requirements. Servicer will be required to issue HMFA# 520, Notice to Mortgagor, at time of Assumption.

(i) **Deed in Lieu of Foreclosure**

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

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

And review of the existing mortgage indicates the following:

- The loan is at least twelve (12) months old
- HMFA maintains first lien status
- Condominium payments are current
- Water and sewer payments are current
- Debt to value ratio is within MI guidelines (BPO)  
(If there is no MI coverage, the mortgage must be ninety (90) days delinquent; Warranty Deed acceptance only; and property must be vacant and broom-swept.)
- Property must be conveyed with clear title (no other liens or encumbrances filed against the property)

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

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

And the borrower must:

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

The mortgagor contribution figures are pro-rated as follows: The original payoff amount is divided by the net HMFA loss, the loss percentage is then

multiplied by the loss to determine the contribution request amount.

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

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

Title must be recorded within sixty (60) days of HMFA and/or MI approval.

All Deeds in Lieu must have prior HMFA approval

**(j) Preforeclosure Sale:**

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

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

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

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

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

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

**2.104 Notice of Lien, Probate Proceedings, etc.**

Servicer shall promptly notify the Agency upon becoming aware that any lien prior to the mortgage securing any Mortgage Loan has attached or will attach. Notice shall promptly

be given to the Agency of any insolvency proceedings in which any Mortgagor is seeking relief (Section 1.111 Default Reporting), or the death of any Mortgagor or guarantor, of the sale, transfer or vacancy of the property or the occurrence of waste, deterioration or lack of repair of the property or of the occurrence of any other default under the terms of the Mortgage Loan as to which Servicer has knowledge.

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

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

Application for partial release of real property, easements, the waiver of any right under a mortgage, consent to substantial alterations, removal, demolition, taking or division of property and other matters relating to changes affecting the Mortgage Loan or the property shall require specific approval of the Agency. Servicer shall furnish detailed information, including, but not limited to, supporting appraisals, blue prints, plats, sketches and legal instruments and shall recommend action. If approval of FHA, VA, RECD or MI is required, it should be obtained first together with the consent of co-makers, guarantors and other obligators, as applicable.

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

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

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

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

#### **2.106 Bankruptcy**

The commencement of a bankruptcy case results in an "automatic stay" against all creditor action to collect a debt or action that might interfere with the administration of the debtor's estate. This means that any action to collect on a debt incurred before the filing of the bankruptcy petition, to take possession of the collateral, or to further the creditor's position can be considered a violation of the automatic stay. Therefore, the Servicer must suspend any and all debt collection efforts (including foreclosure

proceedings) as soon as it is notified that a bankruptcy has been filed (unless its legal counsel expressly advises that certain collection efforts may be continued).

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

The most common bankruptcies a borrower can file are either a Chapter 7 bankruptcy or a Chapter 13 bankruptcy. Other types of bankruptcies differ significantly from these and require different management. They should be reported immediately to the Agency for further guidance and instruction. The Agency's fee structure for Bankruptcy action is limited to \$650 for each filing. This is inclusive of Filing Claims, attorney fees and costs and the first Meeting of Creditors. Additional fees and costs must be approved by the Agency prior to any action.

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

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

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

for bankruptcy:

- Schedule of Assets and Liabilities
- Statement of Affairs

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

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

- Bankruptcy case number
- Date of filing
- Chapter under which the bankruptcy was filed
- The court that has jurisdiction over the case
- The name of the presiding judge and trustee
- Stamped front page of the filed bankruptcy, or the Notice of Commencement

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

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

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

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

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

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

- Current and prior bankruptcy filings involving the borrower or subject property, including plans, pleadings, schedules and proofs of claims
- Loss mitigation activities
- Loan collection history

- Any previous or current foreclosure status information
- All information regarding the value of the security property

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

The Servicer should remove the mortgage from bankruptcy status only after the automatic stay is terminated, the case is dismissed, or the borrower receives a discharge and the trustee abandons all interest in the security property. When the automatic stay is terminated or the case is dismissed for a delinquent mortgage, a breach letter should be sent to the borrower (if not sent previously) and the mortgage should be referred to an attorney to initiate (or resume) foreclosure proceedings, still keeping in mind the possibility of arranging some loss mitigation alternative.

## **2.107 Institution of Foreclosure**

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

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

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

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

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

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

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

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

#### **2.108 Action During Foreclosure**

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

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

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

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

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

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

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

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

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

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

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

#### **2.109 Offer of Payment During Foreclosure**

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

Subject to the Fair Foreclosure Act, when during foreclosure Mortgagor offers to pay an amount less than the full delinquency (including, but not limited to, advances and legal costs), Servicer will ascertain the amount of foreclosure costs and expenses that have

been or will be incurred if the offer is accepted. Servicer may decline without the Agency's concurrence, but shall obtain the Agency's approval prior to accepting. Servicer's recommendation shall include a recommendation whether the foreclosure action should be suspended or should be dismissed and how the remaining delinquency will be cured.

#### **2.110 Properties In Foreclosure; Disposition REOs**

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

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

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

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

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

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

- Request for Reimbursement (HMFA Form #108).

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

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

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

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

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

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

### **2.111 Charge Off:**

A charge off discontinues efforts to collect on a mortgage debt that is believed to be uncollectable. The lien is not released. The charge off prevents properties of little value

from being an added liability to the REO portfolio. A charge off should be used when:

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

The Servicer must document:

- Further loss mitigation efforts are inappropriate
- The municipality has issued a condemnation order
- Professional experts opinions that advise of loss
- Government's intent to enforce right of eminent domain

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

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

The following information must be submitted following a charge off:

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

#### **2.112 Sales Subject to Existing Mortgage Loan**

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

#### **2.113 Property Inspections**

Servicer must inspect each mortgaged property foreclosure at least once every month. The scope of the inspection must cover the maintenance of the property and the general condition of the neighborhood and the occupancy status of the property. The Servicer is responsible for the selection and quality of the inspector/maintenance company. Entry to the dwelling is not necessary during a routine property inspection unless the property is vacant. The inspector should pay special attention to items that are in disrepair and can ultimately affect the value of the property. In the event there are items found to be in disrepair, the Servicer should contact the Mortgagor in writing, advising him/her of the suggested repairs that should be made. A record of the property inspection must be contained in the Servicer's Mortgage Loan file.

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

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

Inspections are not required if:

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

### III. MORTGAGE SERVICING: GENERAL

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

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

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

#### (a) Amount of Coverage Required

##### 1. Fidelity Coverage or Direct Surety Bond

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

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

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

##### 2. Errors and Omissions Coverage

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

- Maintaining hazard and flood insurance that meets our requirements
- Maintaining FHA insurance, VA guaranty, RECD loan guaranty or conventional mortgage insurance
- Determining whether properties are located in Special Flood Hazard Areas;
- Paying real estate taxes and any special assessments; and
- Complying with reporting requirements of FHA, VA, RECD and MIs.

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

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

**(b) Standard Provisions**

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

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

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

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

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

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

omissions policy.

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

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

**(c) Information and Reports**

**(1) Reports**

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

**(2) Cancellation of Coverage or Refusal to Renew**

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

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

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

**(4) Agency Requirements**

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

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

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

shall be used in a manner consistent with any applicable laws or regulations regarding disclosure of credit information.

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

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

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

3.104 **Compliance**

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

## **MORTGAGE SERVICING - SPECIAL PROGRAMS**

4.101 **Program Description**

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

**HOPE: Home Ownership for Performing Employees**

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

**MOP: Mortgage Opportunities Program**

To provide mortgages, without requiring a down payment and which also permits financing of certain closing costs, to buyers of newly constructed units. Eligible

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

**STATEWIDE: Statewide Affordable Housing Program**

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

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

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

**4.102 Change of Ownership - Assumption**

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

When a request for an Assumption is received, the Servicer must follow the guidelines as outlined in Section 2 103, f and g. All loans with loan to value ratios that are at 80% or above, will require the Servicer to obtain private mortgage insurance as outlined in Section 1.119 of this Servicer's Guide

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

#### **4.103 Submission Package**

All loan packages submitted must contain the following documentation:

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

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

#### **4.104 Special Requirements - HOPE LOANS**

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

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

EXHIBIT

D

**New Jersey Housing and Mortgage Finance Agency  
Form 173 - Individual Loan Servicing Report**

Submit no later than two payments delinquent on conventional insured/uninsured and not later than three payments delinquent on FHA and VA loans Each loan must be reported every month until it reinstates or foreclosure approval is received Foreclosure is recommended by marking the foreclosure box below Only mark the foreclosure box if you are ready to foreclose and all demand letters have or will shortly expire The additional Form 173A must be attached concerning claimable servicing actions

**Servicer Information**

Servicer name	Servicer number	Phone number
Street address	Date prepared	Fax number
City	State/Zip	Contact person
		Unpaid principal balance

**Loan Data**

NJHMFA Borrower name	Loan is due	Regular monthly payment
	Monthly PI	Advances to date (delinquency & servicing advances)
Co-Borrower name	Servicing action since default	
Property address	number of letters	
City	number of telephone contacts	
State/Zip	date of last contact with borrower	

**Reason for Default**

<input type="checkbox"/>	Death in borrower's family
<input type="checkbox"/>	Illness in borrower's family
<input type="checkbox"/>	Marital difficulties
<input type="checkbox"/>	Unemployment
<input type="checkbox"/>	Excessive use of credit
<input type="checkbox"/>	Abandonment of property
<input type="checkbox"/>	Utility energy costs
<input type="checkbox"/>	Curtailment of income
<input type="checkbox"/>	Improper regard for obligations/NSF check
<input type="checkbox"/>	Payment adjustment/dispute
<input type="checkbox"/>	Dissatisfaction with property
<input type="checkbox"/>	Natural disaster
<input type="checkbox"/>	Fire or other property loss (exceeding \$15,000 submit Form #178)
<input type="checkbox"/>	Fraud
<input type="checkbox"/>	Assumption/sale refinance pending
<input type="checkbox"/>	Unable to contact borrower (must be updated next reporting month)
<input type="checkbox"/>	Decline in property value
<input type="checkbox"/>	Other (must be fully explained in background information section)

**Property Inspection: (Required within 45 days of default and thereafter)**

Date property last inspected	Condition	Occupancy	Is property listed for sale?
/ /	Type of property		
	<input type="checkbox"/> Excellent <input type="checkbox"/> Fair <input type="checkbox"/> Owner <input type="checkbox"/> Vacant <input type="checkbox"/> Yes		<input type="checkbox"/> 1 family <input type="checkbox"/> condo
	<input type="checkbox"/> Good <input type="checkbox"/> Poor <input type="checkbox"/> Tenant <input type="checkbox"/> Other <input type="checkbox"/> No		<input type="checkbox"/> 2-4 family <input type="checkbox"/> PUD
			<input type="checkbox"/> Affordable Housing

If vacant, property secured on \_\_\_\_\_ Boarded & winterized Y/N \_\_\_\_\_

**Recommendation**

Continue Service  Forebearance Plan  Foreclosure (173A)  Deed in Lieu of Foreclosure  Bankruptcy

Pre-Foreclosure Sale

Background information to support recommendation Fully described reason for default and servicing action taken

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- Attachments
- Form 173A Default Recommendation
  - Copy of Bankruptcy Petition
  - Form 178 Hazard Insurance Loss

Revised 10/98

EXHIBIT  
E

**New Jersey Housing and Mortgage Finance Agency  
Form 173A - Default Recommendation**

**New Jersey Housing and Mortgage Finance Agency  
Form 173A - Default Recommendation**

Submittal of this servicer recommendation is to be accompanied by Form 173 - Individual Delinquency Report. Mark the box which would be the best option available to collect total debt. NJHMFA will contact the preparer below to review and approve. Formal written approval must be generated by NJHMFA to proceed with any of the default recommendations.

**Servicer Information:**

Servicer \_\_\_\_\_ Date Prepared \_\_\_\_\_  
Street Address \_\_\_\_\_ Servicer Number \_\_\_\_\_  
City \_\_\_\_\_ State/Zip \_\_\_\_\_ Contact Person \_\_\_\_\_ Phone Number \_\_\_\_\_

**Loan Information:**

NJHMFA No \_\_\_\_\_  
Mortgagor name \_\_\_\_\_ Principal Balance \_\_\_\_\_  
Address \_\_\_\_\_ Loan is Due for \_\_\_\_\_  
Property address \_\_\_\_\_  
City \_\_\_\_\_ State/Zip \_\_\_\_\_

**Mortgage Insurer:**

Name of Primary Mortgage Company \_\_\_\_\_ FHA Number \_\_\_\_\_  
Primary Mortgage Insurance Certificate Number \_\_\_\_\_ Date of HUD #1 \_\_\_\_\_  
Date of NOD to PMI \_\_\_\_\_ VA Number \_\_\_\_\_  
Date of Acceleration Letter \_\_\_\_\_ Date of VA NOD/NOI \_\_\_\_\_

**Servicing Action to Cure Default:**

Dates of all notifications sent to mortgagor \_\_\_\_\_  
Dates of all telephone contact with mortgagor \_\_\_\_\_  
Face to face interviews \_\_\_\_\_

Detail reason for default \_\_\_\_\_

(over)



*State of New Jersey*

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*Attorney General*

ROBERT M. HANNA  
*Director*

February 9, 2011

**SUPERIOR COURT OF N.J.**

**REC'D**

**FEB 09 2011**

The Hon. Walter R. Bansonek, J.S.C.  
Special Master  
Union County Courthouse  
2 Broad Street  
Courtroom 101  
Elizabeth, NJ 07207

**Re: In the Matter of Residential Mortgage Foreclosure  
Pleading and Document Irregularities  
Docket No. F-238-11**

Dear Judge Bansonek:

Our office represents the New Jersey Housing and Mortgage Finance Agency, which is one of the foreclosure plaintiffs required to submit a certification regarding the above captioned matter. Accordingly, enclosed is an original and two copies of a certification of Jerome Keelen on behalf of the New Jersey Housing and Mortgage Finance Agency. Kindly return a filed copy in the enclosed self-addressed stamped envelope.

Very Truly yours,

PAULA T. DOW  
ATTORNEY GENERAL OF NEW JERSEY

By: \_\_\_\_\_

Robert Purcell  
Deputy Attorney General

RP/ap

cc: Superior Court Clerk (hand delivered)  
Jerome Keeling/NJHMFA  
Les Lefkowitz/NJHMFA

