



Single Family Junior Lien Servicing Manual

July 1, 2020



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Introduction

Mission Statement

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

Background

The Minnesota Housing Finance Agency (“Minnesota Housing”) is the state’s housing finance agency. For more than 45 years, Minnesota Housing has worked to provide access to safe, decent and affordable housing to build stronger communities across the state.

Chapter 1 – Servicer Responsibilities and Warranties

1.01 Procedural Manual

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

Minnesota Housing reserves the right to:

- Alter or update any of these requirements
- Impose additional requirements
- Rescind or amend any or all materials effective as of the date of issue, unless otherwise stated

1.02 Evidence of Misconduct Referred to Attorney General

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

1.03 Termination of Agreement

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

- This Manual
- The Agreement
- Federal Fair Housing Laws including the Fair Housing Act and the Equal Credit Opportunity Act
- Applicable state and federal laws, rules, and regulations

Minnesota Housing may impose other remedies for Servicer noncompliance.

1.04 Representations and Warranties

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

- Minnesota Residential Mortgage Originator and Servicer Licensing Act
- Title VI of the Civil Rights Act of 1964
- Title VII of the Civil Rights Act of 1968, as amended by the Housing and Community Development Act of 1974

- Section 527 of the National Housing Act
- The Equal Credit Opportunity Act
- The Fair Credit Reporting Act
- Executive Order 11063, Equal Opportunity in Housing, issued by the President of the United States on 11/20/62
- Federal Fair Housing Act (Title VIII of the Civil Rights Act of 1968)
- Minnesota Human Rights Act (Minnesota Statutes Chapter 363A)
- Minnesota S.A.F.E. Mortgage Licensing Act of 2010 – Minnesota Statutes Chapters 58 and 58A
- Data Privacy - Minnesota Statutes Chapter 13
- Americans with Disabilities Act, 42 U.S.C.A. section 12101
- Fair and Accurate Credit Transactions Act
- National Flood Insurance Act
- Truth in Lending Act (Regulation Z)
- Home Mortgage Disclosure Act
- Anti-Predatory Lending Act
- USA Patriot Act
- Bank Secrecy Act
- Anti-Money Laundering and Office of Foreign Assets Control Policy
- Internal Revenue Code of 1986, section 6050H
- Real Estate Settlement and Procedures Act of 1974
- Fair Debt Collection Practices Act
- Maintain an affirmative action plan in compliance with MN Statute 363A.36
- Any federal and state data protection acts

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

The Servicer maintains adequate internal controls for the detection, mitigation and prevention of consumer harm and accounting inaccuracies including:

- Policies and procedures to make sure all servicing and accounting is conducted in compliance with all applicable laws, rules, or regulations
- A functional Code of Conduct or Ethics Program to detect and prevent illegal, fraudulent, or negligent acts by employees or contracted third parties, and a formalized

process for the collection and resolution of consumer complaints, inquiries or reports of accounting and servicing practices including Unfair, Deceptive, Abusive Acts or Practices (UDAAP)

- All data pertaining to Minnesota Housing's portfolio is securely maintained and protected from any unauthorized access or errors and omissions by authorized users. Data is only handled by properly trained personnel according to Minnesota Housing's standards and all applicable laws, rules, and regulations.
- All information obtained in the course of servicing loans will not be used by the Servicer or by its officers, employees, agents, or affiliates in a manner inconsistent with the purpose that the information was collected, or in any way that can be construed as a conflict of interest. All information must be used in a manner consistent with any applicable laws or regulations on disclosure of the information.
- No officers, employees, agents, or affiliates of the Servicer may acquire a property or an outstanding loan that is included in Minnesota Housing's portfolio unless approved by Minnesota Housing

1.05 Net Worth

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

1.06 Annual Reports

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

A description of its junior lien loan servicing procedures, including processing of payments, record keeping, accounting, and delinquency collection methods

A detailed organizational chart showing the persons responsible for the junior lien loan servicing operation of the Servicer, as well as brief resumes of all members of management

A description of any computer and automatic dialer telephone system hardware or software used in the servicing and default resolution of the loans

A copy of its annual financial statements and management letters. The annual financial statements must be prepared under generally accepted accounting principles, must be comparative with the previous year's reports, and must include:

- An opinion of an independent certified public accountant
- A balance sheet
- An income statement
- A statement of retained earnings
- A statement of cash flows
- All related notes

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

1.07 Servicer Indemnification

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

If a claim is made or a suit or other proceeding is started against Minnesota Housing based on the Servicer's acts or omissions in servicing, or in disposing of REO Property, the Servicer's responsibility for indemnifying, defending, and holding Minnesota Housing harmless must be met whether the suit, claim, or proceeding has merit.

1.08 Fidelity Bond Coverage and Errors and Omissions Coverage

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

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

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

- Minnesota Housing is named as a loss payee on drafts the insurer issues to pay for covered losses incurred by Minnesota Housing
- Minnesota Housing has the right to file a claim directly with the insurer if the Servicer fails to file a claim for a covered loss incurred by Minnesota Housing
- Minnesota Housing will be notified at least 30 days before the insurer cancels, reduces, declines to renew, or makes a material change to the coverage
- The insurer will let Minnesota Housing know within 10 days after the insurer receives the Servicer's request to cancel or reduce any coverage

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

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

No provision of this section requiring the Servicer to keep bond or insurance coverage must be used to diminish, restrict, or otherwise limit the Servicer's responsibilities and obligations in the Agreement and this Manual.

1.09 Fidelity Coverage or Direct Surety Bond Limits

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

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

A deductible clause can be for any amount up to the greater of \$100,000 or five percent of the face amount of the bond.

1.10 Errors and Omissions Coverage Limits

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

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

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

1.11 Changes in Servicer's Organization

The Servicer must provide immediate notification to Minnesota Housing upon:

- Any contemplated major changes in its organization, such as a resignation of management personnel, mergers, reorganization, or consolidations
- Any change in organization names or office addresses

- Any changes of ownership of one-third or more of the stock of the Servicer or any parent entity, if the Servicer is a wholly owned subsidiary of another entity
- Voluntarily filing a petition under the Federal Bankruptcy Act or under any state bankruptcy or insolvency act
- An answer in an involuntary proceeding admitting insolvency or an inability to pay debts
- Any probation or restriction of the activities of the Servicer in any manner by an agency of the federal or state government

1.12 Transfers of Servicing

The Servicer cannot assign its servicing duties under the Agreement, or this Manual, to another entity without prior written consent of Minnesota Housing.

1.13 Delinquency Performance

The Servicer must manage all defaulted loan processes to minimize Minnesota Housing's losses and include early and continued good faith efforts to establish contact with a delinquent borrower, as required by applicable mortgage servicing rules. The Servicer must provide timely notice and accurate information to advise the borrower about available loss mitigation options and methods to cure the default.

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

Chapter 2 – Fraud, Misuse of Funds, Conflict of Interest, Suspension, and Disclosure and Reporting

2.01 Fraud

Fraud is any intentionally deceptive action made for personal gain or to damage another.

Any person or entity (including its employees and affiliates) that enters into an agreement with Minnesota Housing and witnesses, discovers evidence of, receives a report from another source, or has other reasonable basis to suspect that fraud or embezzlement has occurred must immediately make a report through one of the ways described in section 2.05.

2.02 Misuse of Funds

A loan or grant agreement is a legal contract. The recipient of funds promises to use the funds to engage in certain activities or procure certain goods or services while Minnesota Housing agrees to provide funds to the recipient of funds to pay for those activities, goods or services. Regardless of the Minnesota Housing program or funding source, the recipient of funds must use Minnesota Housing funds as agreed and the recipient of funds must maintain appropriate documentation to prove that funds were used for the intended purpose(s).

A misuse of funds shall be deemed to have occurred when: (1) Minnesota Housing funds are not used as agreed by a recipient of funds; or (2) A recipient of funds cannot provide adequate documentation to establish that Minnesota Housing funds were used in accordance with the terms and conditions of the loan or grant agreement.

Any recipient of funds (including its employees and affiliates) of Minnesota Housing funds that discovers evidence, receives a report from another source, or has other reasonable basis to suspect that a misuse of funds has occurred must immediately make a report through one of the ways described in section 2.05.

2.03 Conflict of Interest

A conflict of interest, actual, potential, or perceived, occurs when a person has an actual or apparent duty or loyalty to more than one organization and the competing duties or loyalties may result in actions which are adverse to one or both parties. A potential or perceived conflict of interest exists even if no unethical, improper or illegal act results from it.

An individual conflict of interest is any situation in which one's judgment, actions or non-action could be interpreted to be influenced by something that would benefit them directly or through indirect gain to a friend, relative, acquaintance or business or organization with which they are involved.

Organizational conflicts of interest occur when:

- A contracting party is unable, or potentially unable, to give impartial assistance or advice to Minnesota Housing due to competing duties or loyalties

- A contracting party's objectivity in carrying out their responsibilities is or might be otherwise impaired due to competing duties or loyalties
- A contracting party has an unfair competitive advantage through being furnished unauthorized proprietary information or source selection information that is not available to all competitors

Once made aware of a conflict of interest, Minnesota Housing will make a determination before committing or disbursing any further funds or processing an award. Determinations could include:

- Revising the contracting party's responsibilities to mitigate the conflict
- Allowing the contracting party to create firewalls that mitigate the conflict
- Asking the contracting party to submit an organizational conflict of interest mitigation plan
- Terminating the contracting party's participation

Any person or entity (including its employees and affiliates) that enters into an agreement with Minnesota Housing must avoid and immediately disclose to Minnesota Housing any and all actual, perceived, or potential conflicts of interest through one of the ways described in section 2.05.

A contracting party should review its contract agreement and Request for Proposals (RFP) material, if applicable, for further requirements.

2.04 Suspension

By entering into any agreement with Minnesota Housing, a contracting party represents that the contracting party (including its employees or affiliates that will have direct control over the subject of the agreement) has not been suspended from doing business with Minnesota Housing. Please refer to Minnesota Housing's website for a list of suspended individuals and organizations.

2.05 Disclosure and Reporting

Activities required to be reported under this chapter may be made in any of the following ways:

- Minnesota Housing's Chief Risk Officer
- Any member of Minnesota Housing's senior management
- The Minnesota Housing hotline reporting service vendor, EthicsPoint, by calling toll-free 866.886.1274 to speak with a live operator or by visiting the EthicsPoint reporting webpage

Chapter 3 – Servicer Performance

3.01 Performance Evaluation

The Servicer's performance may be evaluated in the following areas:

Delinquency and Loss Performance

- Delinquency rates relative to the benchmarks
- Losses per defaulted loan

Funds Remittance and Reporting Requirements

- All borrower payments and Prepayments are applied promptly and correctly and the application of funds follows all applicable laws, rules, and regulations and Minnesota Housing's requirements
- Cash flow from operating accounts into custodial accounts follows Minnesota Housing's requirements
- Minnesota Housing is promptly given the required reports and statements
- Investor reporting reconciliation and delinquency reports are prompt and correct

Regulatory and Policy Compliance Requirements

- Modifications are applied properly and comply with all applicable laws, rules, and regulations and Minnesota Housing's requirements
- Borrower fees do not exceed statutory or prescribed limits
- Timely borrower notices are given
- For the transfer of servicing, the Servicer gives proper notice to the borrower, the new servicer, taxing authorities, and credit reporting agencies
- Loan set-up is completed promptly and correctly upon receipt of the loan documents or new loan certificate
- The Servicer must maintain financial and servicing eligibility such as FHA Title 1 servicing and reporting, if they service FHA Title 1 loans

Customer Service Performance

- Borrower telephone calls and written correspondence are answered within 48 hours
- Borrower inquiries and complaints receive complete and prompt investigations and responses, all correspondence and communication is in compliance with Minnesota Housing's requirements and state and federal laws

3.02 Remedies

When a Servicer's performance shows improvement is necessary in any of the areas of evaluation, the Servicer must take prompt action to correct the deficiency. Minnesota Housing

will contact the Servicer about performance deficiencies, as described below. Minnesota Housing reserves the right to take immediate action, up to and including immediate suspension or termination, as outlined in the Agreement, for failure to resolve performance deficiencies.

3.03 Delinquency Performance Remedy

If the Servicer's delinquency performance is significantly above the benchmark average for 60 days:

- Minnesota Housing may issue a warning letter to the Servicer advising them of the portfolio's status. The Servicer must cooperate with Minnesota Housing in a loan file review and any other information requested in the warning letter within the timeframe provided. Minnesota Housing will review the information provided and issue a letter explaining the corrective actions to be taken by the Servicer.
- If the Servicer's performance does not improve, or meet acceptable levels in the third consecutive month, Minnesota Housing will notify the Servicer and will require them to prepare an improvement plan. The improvement plan will give specific details to meet the benchmark within 60 days of written notification, or another improvement metric, as agreed to by Minnesota Housing.
- If the Servicer is unable to bring its delinquency rate to an acceptable level within six months of the first improvement plan, Minnesota Housing may take immediate action, up to and including the transfer of the portfolio
- Minnesota Housing may grant the Servicer an extension to deadlines established in the improvement plan if the Servicer demonstrates continuous improvement
- Minnesota Housing will deliver to the Servicer a 90-day notice, as required by the Agreement, stating the portfolio will be transferred due to non-performance. If the Servicer does not resolve the issue within the timeframe provided in the 90-day notice, the portfolio will be transferred to a different servicer as soon as feasible.

3.04 Critical Intervention Remedy

If the Servicer does not remit funds within the required timeframe:

- Minnesota Housing will issue a warning letter within 24 hours of non-remittance of funds.
- The Servicer has three days to resolve the issue by remitting the funds.
- If the Servicer is unable to resolve the issue within three days, or provide a suitable explanation for a further delay, Minnesota Housing may take further action.

Chapter 4 – General Servicing

4.01 Loan Servicing Types

Category	Program Name	Description
Amortized loans	Fix-Up Fund (FUF) and Community Fix-Up Fund (CFUF)	Property improvement loans to increase livability and energy efficiency
	Home Energy (HE)	Property improvement loans made to increase energy efficiency
	Revolving	Property improvement loans made to low- and moderate-income homeowners
	Single Family Rental Rehab	Property improvement loans made to residential property owners
	Multifamily Rental Rehab	Property improvement loans to residential rental property owners
	Foreclosure Prevention Assistance (FPAP)	One-time loans to individuals facing foreclosure
	Stand-alone Monthly Payment Loans (MPL)	Down payment assistance loans with compounding interest
Deferred Loans (may be forgivable)	Rehab	Property improvement loans to low-income homeowners
	HOME Rehab	Federally funded loans for property improvements to low-income homeowners
	Disaster	Rehabilitation loans to borrowers in state-declared disaster areas
	HOME Help	Federally funded loans for down payments and closing costs
	Deferred Payment Loans (DPL)	Down payment assistance loans

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

4.02 Customer Service

The Servicer must maintain a toll free number the borrower can use to contact the Servicer and obtain information about the servicing of their loan.

The Servicer must communicate the availability of the toll free number in all communications with the borrower.

The Servicer must promptly respond to questions or concerns presented by Minnesota Housing staff, the borrower, or an authorized third party associated with any loans or activities.

The Servicer must send Minnesota Housing a bi-annual report containing written complaints received on Minnesota Housing loans they service. The report must contain loan identifying information, a description of the complaint, and the Servicer’s response to the customer.

4.03 Loan Set-up

Minnesota Housing will provide a weekly report to the Servicer detailing loans purchased since the previous report. The report will have all information necessary for the Servicer to set-up the loans in their system.

The Impact Fund loans (Project 1515) will be sent after all necessary documents have been collected.

The stand-alone Monthly Payment Loans (Project 1914) must be set-up to calculate compounding interest.

4.04 Notices of Liens or Legal Actions

Minnesota Housing will send the Servicer any relevant legal notices it receives (e.g. bankruptcy notifications, superior lien holder foreclosure notifications). The Servicer must promptly take the action necessary to protect Minnesota Housing's interest and follow all applicable federal and state laws and regulations.

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

4.05 Returned Mail

The Servicer must track all letters returned as undeliverable and conduct reasonable efforts to obtain a valid address for the borrower when it receives returned mail. If the borrower is deceased, and the Servicer has knowledge of heirs or successors in interest, the Servicer must attempt to contact the heirs or successors in interest or enter a probate proof of claim.

4.06 Bankruptcy Claims

The Servicer must have written procedures to effectively monitor the status of active bankruptcy proceedings and make sure any contact with the borrower is done in accordance with bankruptcy law and applicable servicing rules. The procedures must cover bankruptcies filed under Chapter 7, Chapter 12, and Chapter 13.

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

- Requirements for filing a proof of claim, including how to prepare it, the timeframe for filing, etc.
- A process for evaluating and accepting proposed repayment plans
- Time limits for clearing the bankruptcy or receiving the first payment under a repayment plan and the actions to take if the time limits are not met
- Instructions on what actions must be taken if the bankruptcy trustee files a no-asset report or the borrower intends to sell the property or abandons their interest
- A process to investigate and defend against a Chapter 13 bankruptcy, lien strip, or cram down

The loan file must have a copy of the following bankruptcy documents:

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

4.07 Vacant or Abandoned Property

If a property is believed to be vacant or abandoned, the Servicer must attempt to contact the borrower to determine the reason for the vacancy. If unsuccessful, the Servicer must contact the first mortgage lien holder, if any, so the first mortgage lien holder can make arrangements to preserve the property.

4.08 Borrower Name and Address Changes

The Servicer will investigate any change in the name or address of the borrowers. The Servicer must determine if the home was rented or the ownership interest changed without the Servicer's or Minnesota Housing's prior notice or approval. In most cases, unauthorized transfers of title are a default of the terms of the mortgage and the Servicer must notify Minnesota Housing and start collection efforts.

4.09 Paid In Full Processing

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

4.10 Low Balance Loans

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

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

If a loan balance (principal and interest) is less than \$500, and all collection and loss mitigation options have been exhausted and the Servicer is unable to collect on the note debt due to bankruptcy or death of the borrower, the Servicer must recommend writing off the loan and receive approval from Minnesota Housing.

4.11 Servicing Loan File

The Servicer must keep a loan file for each Minnesota Housing loan it services. Each loan file must be clearly marked to show Minnesota Housing's interest in the loan and the loan number assigned by Minnesota Housing. All Minnesota Housing loan documents that become part of the servicing file and are kept by the Servicer are the property of Minnesota Housing.

The loan file must include:

- All documents initially received by the Servicer

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

The Servicer must keep a detailed log of any communication or communication attempt, written or verbal, between the Servicer and the borrower related to the loan.

4.12 Loan File Delivery and Document Custody

Loans are originated in the name of the participating lender and purchased by Minnesota Housing. With the exception of Impact Fund loans described below, lenders are expected to give the Servicer the following items within five days of purchase by Minnesota Housing. The Servicer is required to collect the following:

- Original borrower application, including the borrower’s phone number
- Original note endorsed to Minnesota Housing Finance Agency
- If a secured loan, a copy of the unrecorded mortgage and assignment
 - The lender will provide the Servicer the recorded mortgage and assignment (or lienholder card, if a mobile home) within 180 days of loan closing
- A copy of the Contractor Warranty form, if applicable
- A copy of the lender’s certificate
- Any other loan documentation, as necessary

Impact Fund loans

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

- Original borrower application, including the borrower’s phone number
- Original note endorsed to Minnesota Housing Finance Agency
- Recorded mortgage and assignment of mortgage
- Other existing file documents

Impact Fund loans will be transferred to the Servicer three to six months after closing.

4.13 Record Retention

The Servicer must protect the loan documents and any other records from accidental destruction and unauthorized access, alteration, or use.

The Servicer must keep the original loan note. Other documentation can be converted to an alternative storage media.

All records must be kept a minimum of seven years after the loan is paid in full, servicing is transferred, or moved to Noncollectable status. The Servicer can convert the servicing loan file to an alternative storage media for the retention period. The physical original note must be maintained in a file while the loan has an outstanding balance, after a loan no longer has a balance the note can be converted to an alternative media storage. The Servicer must notify Minnesota Housing in writing at least 60 days before the final deletion or destruction of any records, including the loan file.

The Servicer must keep any accounting records for at least six years from the date of the expiration of the Agreement.

4.14 Access to Records and Format of Stored Material

The Servicer must deliver loan documents and other records requested by Minnesota Housing within two federal business days of receipt of the request, at the Servicer's sole expense.

The Servicer must maintain a complete list of the information stored for each loan and the format that the information is stored. The Servicer must promptly notify Minnesota Housing about any changes to the type of information stored or the storage format.

4.15 Duplicate Copies of Computer Records

The Servicer must keep duplicate copies of all stored information at a secure site physically separate from the Servicer's primary facilities. The records must be updated daily to show all separate transactions that occurred during the previous day. All duplicate copies are the property of Minnesota Housing and the Servicer must provide Minnesota Housing unrestricted access to the duplicate records.

4.16 Subordinations

The Servicer has a limited power of attorney to approve and execute subordinations in accordance with this Manual.

Subordination requests on loans with an unpaid principal balance of less than \$1,000 or one percent of the new mortgage unpaid principal balance should be denied based on the low balance.

The Servicer will refer to Appendix B for subordination requirements by loan type and program.

After all required documentation is received, the Servicer must approve or deny the request within five business days.

Required Subordination Documentation

- The lender requested data sheet (a collection of relevant data on current loans along with relevant data on proposed loans)
- The current title opinion or title policy, dated within the last 30 days
- The current appraisal, dated within the last six months

- The Loan Estimate and most recent Closing Disclosure
- An itemization of home improvements, if applicable
- Proof of streamline refinances, if applicable. The title and appraisal requirements can be waived by the Servicer.

4.17 Subordination Reporting

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

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

4.18 Partial Releases and Easements

The Servicer will process requests for:

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

The following information and documentation is required for consideration:

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

- The loan-to-value ratio must not increase after the partial release, easement, etc. The principal balance may be paid down proportionately, if needed, to satisfy this requirement. Minnesota Housing may approve exceptions to this provision on a case-by-case basis.

The Servicer must gather the relevant information for each circumstance and submit a recommendation to Minnesota Housing. Written approval from Minnesota Housing is required before the Servicer can proceed with any of the above actions.

The Servicer will keep all required documentation necessary for the approval or denial of these requests.

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

4.19 Assumptions

Assumptions by third parties are not allowed on any Minnesota Housing loans, unless required by law. Under the terms of the note, Minnesota Housing loans must be paid in full upon the sale or transfer of any borrower's interest in the property. Exceptions may be considered under the following circumstances:

- A release of liability of a party to the mortgage
- An assumption by a surviving spouse or successor in interest

4.20 Transfer Disclosures

The Servicer must provide timely and correct disclosures to the borrower about the sale of the loan on behalf of Minnesota Housing and the transfer of mortgage servicing in accordance with the Truth in Lending Act (12 CFR § 1026.39) and Real Estate Settlement Procedures Act (12 CFR § 1024.33), respectively.

4.21 Servicemember Civil Relief Act (SCRA)

The Servicemembers Civil Relief Act (SCRA) provides a wide range of benefits for active duty military personnel. Dependents of servicemembers are entitled to protections in limited situations. The Servicer must follow the SCRA and make sure their employees are adequately trained about the options and protections available to servicemembers and their dependents under the SCRA.

The Servicer may accept the borrower's military orders to report to full-time active duty as written notice of eligibility.

Real property owned by a servicemember before military service that secures a mortgage cannot be sold, seized, or foreclosed upon during the period of military service and one year thereafter without a court order.

4.22 Notifying the IRS

The Servicer must correctly complete and file the IRS 1099-A and IRS 1099-C forms in the name of, and on behalf of, Minnesota Housing.

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

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

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

- A 1099-C does not need to be filed if:
 - The principal balance forgiven or written off is less than \$600
 - All borrowers have been discharged from a personal bankruptcy during the term of the mortgage. If the borrower is discharged from a business bankruptcy this provision does not apply.

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

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

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

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

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

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

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

Chapter 5 - Specific Loan Servicing Requirements

5.01 Amortizing Loans

First Payment

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

Periodic Statements

The Servicer must send the borrower periodic statements each billing cycle or a loan payment coupon book, as required by applicable regulations, covering at least the first 12 monthly payments.

The coupon book must be mailed to the borrower within 10 business days after the Servicer receives the loan from the originating lender.

If coupon books are used, the borrower must receive a new book, issued in subsequent years, at least 10 days before the anniversary date of the first payment.

If using monthly statements, the borrower must receive the monthly statements at least 10 days before each payment is due.

5.02 Annual Account Statements

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

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

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

5.03 Deferred Loans

Welcome Letter

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

- The name, address, and toll free telephone number where the borrower can receive information about the servicing of the loan
- Information that identifies Minnesota Housing as the owner of the loan

Periodic Letters

As indicated on the matrix below, the Servicer must send a Periodic Letter to the borrower annually. The letter must include:

- The maturity date and conditions under which the loan becomes due and payable
- The name, address, and toll free telephone number where the borrower can ask for more information about the loan

Maturity Letter

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

- The maturity date
- If owner-occupancy (ownership of the property as the principal place of residence for the entire term of the mortgage) is required, ask the borrower to verify their ownership by signing and returning the letter. Once the signed letter is returned, the Servicer must send the borrower a satisfaction with instructions to record the satisfaction with the appropriate county office. In the alternative, if the borrower verbally confirms they occupied the property during the required period the forgiveness may also be applied. The verbal occupancy verification must be documented in the file by the Servicer.
- If owner-occupancy is not required, a satisfaction of mortgage must be processed and sent to the borrower along with the maturity letter with instructions to record the satisfaction with the appropriate county office

Once a forgivable loan matures, and all terms of the loan are met, it is considered paid in full. The satisfaction of mortgage must be processed within 10 days and sent to the borrower with instructions to have the satisfaction recorded with the appropriate county office.

5.04 Specialty Servicing Features

The following table provides details for servicing Deferred Loans:

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

Chapter 6 - Delinquent Loan Servicing

6.01 General Delinquent Servicing

The Servicer must maintain policies and procedures reasonably designed to provide delinquent borrowers with access to personnel who can assist them with loss mitigation options, where applicable. The Servicer's policies and procedures must be designed to make sure, at a minimum, the following:

- Contact with the borrower complies with all applicable laws, rules, and regulations, including but not limited to, Early Intervention and Continuity of Contact rules, the Fair Debt Collection Practices Act, and the Telephone Consumer Protection Act
- A system that assigns personnel to a delinquent borrower by the time of the written delinquency notice or no later than the 45th day of the borrower's delinquency. Borrowers can reach assigned personnel who can respond to borrower inquiries, provide information about specific loss mitigation options available, how to complete and submit a Loss Mitigation Application or the status of any submitted application, and any applicable deadlines.
- A method for tracking the delinquency and foreclosure ratios for all Minnesota Housing loans serviced
- Timely issuance of applicable delinquency notices, consistent processing for handling partial payments, reporting delinquencies to credit bureaus, etc.
- Documentation of all collection efforts and borrower contact is maintained in the servicing file
- Servicing personnel are familiar with all applicable mortgage servicing and debt collection laws, rules, and requirements, as well as FHA and Minnesota Housing procedural and reporting requirements

6.02 Credit Bureau Reporting

The Servicer must maintain policies and procedures to ensure the accuracy and integrity of the information relating to consumers that it furnishes to a credit bureau.

The Servicer must investigate and resolve disputes related to credit reporting and respond in accordance with the Fair Credit Reporting Act and other applicable laws and regulations.

The Servicer should report every month to the major credit bureaus for all amortizing loans. The Servicer should not report to the credit bureaus on any Deferred Loans. The Servicer may use a cutoff date that allows time for payment corrections, returned checks, and other adjustments to be processed.

6.03 Delinquency Trend Analysis

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

6.04 Collection Activities

For any borrower, the Servicer must, at a minimum, establish or make good faith efforts to establish live contact with the borrowers by the 36th day of delinquency and promptly inform them that loss mitigation options are available.

The Servicer must, at a minimum, provide borrowers with a written notice no later than the 45th day of delinquency. This notice must include:

- A statement encouraging the borrower to contact the Servicer
- The Servicer's mailing address and telephone number to access the personnel assigned to the borrower
- A statement providing a brief description and examples of loss mitigation options that may be available and how to get more information from the Servicer
- The website to access the HUD list of homeownership counselors or counseling organizations, and the HUD toll-free telephone number to access homeownership counselors or counseling organizations

In addition, the Servicer may consider using the following methods:

- A short-term forbearance or repayment plan
- Accepting partial payments
- A process to collect from the borrower's estate

Short-term forbearance

A short-term forbearance or reduction in payments may only be granted when the Servicer determines the borrower can bring the account current within 60 days. The Servicer should collect relevant supporting documentation.

This may be appropriate when:

- A sale or rental of the property is pending
- An insurance settlement is pending
- Assistance from a social agency has been arranged but funds have not been received
- More time is needed to formalize a repayment plan under another relief provisions

Accepting partial payments

The Servicer should generally accept partial payments; however, they may return partial payments, if needed, to complete a loss mitigation option or initiate foreclosure.

A process to collect from the borrower's estate (death and probate)

The Servicer must obtain:

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

6.05 Loss Mitigation

The Servicer must maintain policies and procedures designed to make sure personnel can provide correct information about the specific loss mitigation options available based on the borrower's circumstances.

Personnel must retrieve, in a timely manner, the complete record of the borrower's payment history and all written information provided by the borrower in connection with the Loss Mitigation Application. Complete applications are evaluated for all loss mitigation options available and a timely written notice of determination is provided in accordance with servicing rules and regulations.

The Loss Mitigation Application must document the borrower's hardship, including the reason for the financial difficulty, documentation of the borrower's most recent income (paystubs, SSI letter, etc.), two years tax returns, and two months bank statements. Any other relevant information should also be included.

Hardship situations may include, but are not limited to:

- Long-term or permanent disability or serious illness
- Involuntary job relocation over 20 miles
- Uninsured or under insured loss of the property

The death of the borrower is not considered a hardship for loss mitigation.

Loss mitigation tools available include:

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

A borrower's documented misuse of funds disqualifies a borrower for loss mitigation.

Loan modification

The servicer may consider a loan modification if a borrower has experienced a reduction in income, hardship, or other documented situation that affects their ability to make payments and a change to the terms of the loan would resolve the situation.

The Servicer must consider modification options in the following order of priority:

- Capitalize the delinquent amount and re-amortize the loan
- Extend the term of the loan to a maximum of the original term of the loan
- Reduce the interest rate in steps to a minimum of 2%
- With written approval from Minnesota Housing, extend the term of the loan past the maximum term for the loan program

If a modification is appropriate, based on a complete review of the Loss Mitigation Application, the Servicer must:

- Require a trial payment period where the borrower makes three consecutive timely payments of the new payment amount. If the borrower fails the trial payment period, the Servicer must deny the modification.
- Request written approval from Minnesota Housing once the borrower has completed the trial period
- Coordinate execution of loan modification documents with the borrower and Minnesota Housing. The Servicer must retain copies in the servicing file.
- Supply the borrower with a new coupon book or monthly statements with the modified loan terms

Repayment Plan

The borrower pays a specified amount plus their regular monthly payments for an agreed upon number of payments to cure the delinquency.

If the delinquency is three months or less, a repayment plan can be an oral agreement. The Servicer must document the agreement in the loan file.

If the delinquency is greater than three months, a signed repayment agreement is required. The agreement must state the payment amount, due date, and the date the delinquency will be cured.

Special Forbearance

The Servicer reduces or suspends the borrower's monthly payments for a specified period of time. When the forbearance ends, the borrower must enter into a Repayment Plan. Special forbearance may be considered for:

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

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

The special forbearance must be in writing and state the period of reduced or suspended payments. The borrower must agree to a Repayment Plan. The term of special forbearance should end no later than six months from the date of the first reduced or suspended payment but the Servicer may consider longer terms for special circumstances.

Forgiveness or settlement

Selling Property

A loan can be partially or completely forgiven in the following circumstances when the borrower:

- Cannot sell the home for the total debt. The value must be documented with an appraisal.
- Submits a Loss Mitigation Application with a valid hardship

First mortgagee to take a Deed-in-Lieu

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

- All collection efforts have been exhausted
- The property is worth less than what is owed to Minnesota Housing and superior lien holders based on an appraisal or other creditable evaluation method
- The borrower conveys marketable title to a first mortgage holder

The Servicer has considered redeeming the property per section 6.07 and determined it does not meet the guidelines.

- An acceptable settlement offer should be calculated using the following guidelines:
 1. The settlement amount should be based on 12% of the principal and interest amount
 2. A minimum offer will be \$1,500 and an maximum amount of \$3,000
 3. In addition to the above calculated amount, the borrower must not receive cash back. If the first mortgage is FHA insured, Minnesota Housing will accept the maximum junior lien settlement amount allowed by HUD. The Servicer must ask the first mortgage holder if the borrower is expected to receive consideration such as relocation assistance from HUD. If so, the Servicer must demand one half of the consideration in exchange for releasing the lien on the property in addition to the amount determined in #1 and #2 above.

The maximum settlement amount of the above should not exceed the principal and interest amount of the loan.

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

Early Forgiveness

If the borrower leaves a property secured by a forgivable loan before the maturity date, the payoff can be reduced by the prorated amount. To be eligible, the borrower must submit a Loss Mitigation Application with a valid hardship.

The proration is calculated by dividing the months the borrower lived in the property by the term of the loan in months. The resulting fraction is multiplied by the outstanding balance owed to determine the amount subtracted from total debt.

The Servicer must notify the borrower of the possibility of tax consequences if any part of the outstanding debt is forgiven and refer the borrower to IRS guidelines for more information.

The Servicer must receive the Loss Mitigation Application and written approval from Minnesota Housing prior to processing the Forgiveness.

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

6.06 Foreclosure Analysis

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

- The loan balance is greater than \$10,000

- The property is abandoned
- The borrower is unable or unwilling to make the payments
- No other workout solution is practical
- No known environmental hazards affect the security of the property
- The property has sufficient equity to justify the liquidation expense

The Servicer must notify Minnesota Housing if the O&E and BPO reports verify:

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

6.07 Redeem First Mortgage

If the Servicer receives notice of foreclosure from a senior lien holder, the Servicer must explore the possibility of redeeming only if all the following conditions are met:

- A senior lien holder started the foreclosure process
- Minnesota Housing’s loan balance is greater than \$2,500
- The borrower is unable or unwilling to make the payments
- The property has sufficient equity to justify the liquidation expense

If all of the preceding conditions are met, the Servicer must verify the probable sales price of the property in an “as is” condition is at least \$10,000 more than the total of the cost of redemption and the unpaid principal balance of all senior liens. The Servicer must submit the following documentation to Minnesota Housing for review:

- A title or Ownership & Encumbrance report
- The market analysis or Brokers Price Opinion
- A picture of the mortgaged property including interior pictures, if possible
- The senior lien holder’s statement of the amount to redeem or a verbal amount

When Minnesota Housing’s written approval is received, the Servicer is responsible for coordinating a redemption, in accordance with all applicable laws, rules and regulations.

The Servicer must:

- Obtain an updated redemption statement two weeks before the end of the borrower's redemption period
- Send the Redemption Statement to Minnesota Housing and foreclosure counsel
- Request written approval of all attorney fees from Minnesota Housing

Minnesota Housing will:

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

6.08 Loan Status Change

When the Servicer has exhausted all collection and loss mitigation efforts and foreclosure is not recommended, the Servicer must recommend changing the loan status as described below. The Servicer must complete the Advice of Action (171A) form and include relevant supporting documentation with the recommendation.

Inactive Loan Status

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

- The borrower has not demonstrated a willingness to work with the Servicer to correct the delinquency; and
- The principal and interest amount is greater than \$250.

For loans that do not have an enforceable note but have a lien and a principal and interest balance of under \$500, the Servicer can recommend to Minnesota Housing that the loan be moved to Noncollectable.

The Servicer must continue with the following collection activities:

- Send out a statement to the borrower every month
- Attempt telephone contact with the borrower once a year
- Follow-up with the bankruptcy trustee for loans that are in bankruptcy

Revenue Recapture

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

- An enforceable note

- An amortizing loan
- The borrower is not deceased
- No active bankruptcy proceeding
- The unpaid principal and interest is more than \$250. If the unpaid principal and interest is under \$250, the Servicer should recommend moving the loan to Non-collectable.

Revenue Recapture claims include interest through the date of the completion of the Advice of Action (171A) form. Minnesota Housing will send intercepted funds to the Servicer.

Minnesota Housing will notify the Servicer if the Revenue Recapture claim is satisfied by intercepted funds and instruct the Servicer to write off any remaining balance.

Payments Received

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

The Servicer must notify Minnesota Housing when any Inactive Loan is paid in full, a borrower files bankruptcy, or if the borrower comes current through loss mitigation or otherwise. This applies to both Inactive Loans with or without Revenue Recapture.

Noncollectable Status

A loan must be moved to Non-collectable if:

- All collection efforts have been exhausted
- Unable to utilize Revenue Recapture
- Unsecured, deferred, or the lien has been extinguished

The Servicer must report amortizing loans to the credit bureaus as charged off and adjust the loan balance to zero. For Deferred Loans, no credit reporting will be needed to adjust the loan balance to zero. The Servicer must complete the Advice of Action (171A) form and include the principal balance and balance written off.

6.10 Statute of Limitations

The Servicer will cease all collection activity six years from the later of the maturity date or the borrower's last voluntary payment. The Servicer must send Minnesota Housing an Advice of Action (171A) moving the loan to Non-collectable.

Chapter 7 - Foreclosures and REO

7.01 Initiating Foreclosure

After receiving Minnesota Housing's approval, the Servicer must process foreclosures according to all applicable laws, rules, and regulations, and in compliance with all of Minnesota Housing's requirements. The Servicer must follow Minnesota Statute 500.245 "Right of first refusal for agricultural land".

The Servicer must confirm any third party counsel does not have a conflict of interest. The Servicer is held responsible for making sure the third party counsel follows required timelines and does not exceed Fannie Mae's non-judicial foreclosure fee schedule. Judicial foreclosures or other additional fees must receive prior written approval by Minnesota Housing.

The Servicer must send the borrower all notices required by the mortgage and all applicable federal and state laws, rules, and regulations regarding foreclosure.

7.02 Property Inspections

The Servicer must inspect the property before initiating foreclosure and at least once every 30 days after the foreclosure is initiated. The Servicer must notify Minnesota Housing in writing about the following for the property:

- Occupancy status and, if vacant, winterize (if between October 1 – March 31)
- Environmental hazards
- If located in a high vandalism area
- If condemned by the city
- If emergency repairs are needed (roof leak, flooding, etc.)
- If agricultural land

7.03 Reinstatements

The Servicer can accept the full amount due for reinstatement as long as a sheriff sale has not been held. The Servicer must notify Minnesota Housing of all reinstatements. The amount of the reinstatement should include:

- All outstanding principal, interest, and late charges
- Any funds advanced for emergency repairs
- All allowable fees incurred. Minnesota Housing will not reimburse fees if they could be recovered from the borrower.

7.04 Power of Attorney

A foreclosure must be completed in Minnesota Housing's name as owner of record and a power of attorney will need to be executed by Minnesota Housing for each foreclosure.

7.05 Sheriff's Sale

The sheriff's sale must be held within six months from the execution of the power of attorney unless the Servicer needs additional time to follow Minnesota Statutes. The Servicer must notify Minnesota Housing when the sheriff's sale is scheduled, postponed, held as scheduled, or canceled, and perform a property inspection within 15 days of the sale.

7.06 Bidding Instructions

The Servicer must issue bidding instructions to the foreclosing attorney. Any proceeds received from a hazard insurance loss settlement should reduce the bid amount. The bid amount must include the full amount of the indebtedness, including:

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

7.07 Shortening the Redemption Period on Abandoned Properties

If the property is abandoned, the Servicer must pursue shortening the redemption period to five weeks, as provided in Minnesota Statute 582.032.

7.08 Redemption Procedures

After receiving the redemption funds, the Servicer must send the funds, the Redemption Statement (114) form, and an Advice of Action (171A) form to Minnesota Housing. The Servicer is responsible for coordinating the redemption.

If additional advances are made after the sheriff's sale, the foreclosing attorney must prepare and file an Affidavit of Additional Amounts with the sheriff to add the advances to the redemption amount.

7.09 Property Maintenance During the Redemption Period

The Servicer is responsible for property maintenance to ensure the acceptable condition and appearance of the mortgaged property during the redemption period. Property maintenance includes, but is not limited to, winterization and snow removal (between October 1 and March 31), grass cutting, and exterior or hazardous trash removal. Fees that exceed Fannie Mae's Property Preservation Matrix must have prior written approval from Minnesota Housing.

The Servicer must secure abandoned mortgaged property by:

- Changing all exterior locks
- Securing all windows and exterior doors
- Arranging for utilities to be transferred to and paid by the Servicer

If the property needs to be boarded up, due to a high vandalism area, contact Minnesota Housing for approval.

The Servicer must maintain the property until Minnesota Housing assigns a real estate agent.

Property Preservation Fees

Property preservation fees in excess of \$500 need prior written approval from Minnesota Housing.

7.10 Hazard and Flood Insurance

The Servicer must make sure adequate insurance is maintained on the property throughout the foreclosure process until Minnesota Housing sells the property. If the Servicer has a reasonable basis to believe the borrower has failed to maintain adequate insurance, the Servicer should proceed with notification and assessment of force-placed insurance, in accordance with all relevant laws, rules and regulations.

7.11 Insurance Losses

If the Servicer becomes aware of an insurance loss, they must promptly notify Minnesota Housing. If there is a superior lien, the Servicer must contact the lien holder to confirm they will be managing the insurance loss.

If Minnesota Housing is in first lien position, the Servicer must obtain complete details of the damage, confirm the borrower has filed an insurance claim, and determine if the borrower intends to repair the property. If the Servicer is unable to contact the borrower, they should contact the insurance carrier to determine if the borrower has submitted a claim.

If the borrower has not filed an insurance claim, the Servicer is responsible for filing a loss claim in accordance with the insurance policy and collecting the insurance proceeds on Minnesota Housing's behalf.

Handling the Insurance Loss Settlements

The proceeds of an insurance settlement, including any excess proceeds after restoration, must be applied in accordance with provisions contained in the mortgage. The Servicer must document all facts about the loss and the application of proceeds in the loan file. Minnesota Housing must be named as payee on all insurance loss drafts. The Servicer will endorse the loss drafts on Minnesota Housing's behalf.

- Loss of \$10,000 or less: The Servicer is required to obtain a copy of the insurance adjuster's worksheet, a copy of the contractor's estimate, and a signed affidavit from the borrower agreeing to apply the insurance proceeds to the restoration of the damaged property. If there is no delinquency or other servicing problem, the Servicer will disburse the proceeds to the borrower and document the plans for restoration.
- Loss exceeding \$10,000: The Servicer will place all insurance proceeds in a suspense account. The Servicer must obtain a copy of the insurance adjuster's worksheet and an executed affidavit from the borrower agreeing to apply the insurance proceeds to the restoration of the damaged property. A stipulated sum agreement form, or similar document, must be executed between the owner of the property and the contractor(s) selected to restore the property. The Servicer must review the stipulated sum agreement form to make sure it provides, at a minimum, the following:
 - The dwelling, as repaired or restored, will not reduce Minnesota Housing's security interest
 - The construction will be completed within 90 days from commencement
 - The contractor maintains adequate fire, hazard, liability, and workmen's compensation insurance coverages
 - The contractor will deliver lien waivers and sworn construction statements for each requested draw
 - The disbursements will be in amounts that protect Minnesota Housing's interest. An analysis is required to make sure the draw request is reasonable. The final disbursement must only be made after a physical inspection verifying the successful completion of construction.
- A total loss: if the property sustains a total loss or near total loss the proceeds must be applied against the outstanding debt in accordance with the mortgage

The Servicer must adhere to all applicable laws, rules, and regulations regarding the application of insurance proceeds and prudent practices relating to notification, inspection, and approval. The Servicer must take reasonable action to protect the priority of the mortgage, such as obtaining lien waivers.

Uninsured Losses: In the event of an uninsured loss to the mortgaged property, the Servicer will:

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

7.12 Real Estate Owned (REO) Management

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

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

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

When Minnesota Housing has sold and closed the REO property, Minnesota Housing will notify the Servicer to cancel the insurance coverage and send the statement of expenses (108 form).

7.13 REO Servicer Responsibilities

- If a property is occupied, the Servicer must send a vacate reminder to the occupants of the property 30 days before the end of redemption. Two weeks before the end of redemption, the Servicer must inspect the property to determine the occupancy status.
- When the property becomes vacant, the Servicer is responsible for winterizing the property. Winterization on all of Minnesota Housing's vacant Acquired Properties must be completed beginning October 1 through March 31.
- If the property continues to be occupied when the redemption period expires, the Servicer must prepare and send a vacate letter to the occupants within three business

days of the redemption expiration. If necessary, the Servicer must arrange for an eviction with the foreclosing attorney.

- The Servicer must keep adequate hazard insurance coverage on the property. The Servicer must advance all insurance premiums and property taxes.
- If the REO property is part of a condominium or Home Owners Association (HOA), the Servicer must contact the management company to ensure all future bills for owner's association, assessment, or other fees are sent to the Servicer. The Servicer must determine the allowable amount and period of time Minnesota Housing is liable for payment of the HOA dues under Minnesota Statutes sections 515B.3-116. All HOA payments must be approved by Minnesota Housing prior to payment.

7.14 Reimbursement of Expenses

Approved third party vendors (real estate agents, contractors, attorneys, etc.) will request reimbursement of their expenses by submitting supporting documentation to the Servicer for payment.

The Servicer must disburse the reimbursement within five business days of receipt of the request.

7.15 REO Loan Removal

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

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

7.16 Statement of Expenses (108 Form)

The Servicer may request reimbursement of any funds advanced on behalf of Minnesota Housing during the loss mitigation or foreclosure process by sending Minnesota Housing a statement of expense (108 Form).

- The request must be within 60 days of the REO sale.
- If warranted, a supplemental statement of expense may be submitted for unforeseen expenses that occur after the first statement of expense has been paid.

Chapter 8 - Accounting and Reporting

8.01 Loan Payment Records

The Servicer must keep permanent accounting records for each loan. The records must clearly indicate Minnesota Housing's ownership and loan number.

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

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

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

8.02 Custodial Accounts

The Servicer must set-up and keep a separate custodial bank account for Minnesota Housing. The custodial account must be at a depository institution that is FDIC insured or insured by another federal institution. Each custodial account name must be as follows:

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

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

8.03 Application of Payments

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

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

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

Regular Monthly Payments

The regular monthly loan payment must equal or exceed the monthly constant of principal and interest.

An individual payment must first be applied to interest and the rest of the payment must be used to reduce the unpaid principal balance.

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

Partial Prepayments

Partial Prepayments of principal in any amount can be accepted by the Servicer at any time without prior notice, as long as the loan is current.

For delinquent loans, funds are applied first to interest owed and the rest of the payment is used to reduce the principal balance.

A payment from a Minnesota Housing lender as a return of undisbursed principal must be applied to the principal reduction without extending the due date.

Prepayment in Full

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

- The unpaid principal balance
- Unpaid Interest (charged up to, but not including, the date of the payoff of the loan)

No Prepayment penalties exist on any Minnesota Housing loans and cannot be charged.

Reapplication of Prior Payments

The Servicer cannot, without the prior written approval of Minnesota Housing, reapply Prepayments to pay delinquent installments.

8.04 Remitting Funds and Servicing Fees

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

Amortized loans

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

Deferred loans

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

Servicing fees

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

8.05 Investor Reporting

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

Failure to follow the reporting schedule is considered a violation of the Servicer's responsibilities and is a violation of the Agreement and this Manual. The following is the list of required reports:

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

- Monthly Remittance Summary
- Weighted Average Life of Loan

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

Appendix A: Definitions

TERM	DEFINITION
REO	A property Minnesota Housing has title to through foreclosure or acceptance of a deed-in-lieu of foreclosure.
Cash Out	Proceeds used to pay any item that is not a lien against the property. Net to and from borrower, as listed on the Closing Disclosure, is not to exceed one percent of the new first mortgage amount on no-Cash Out refinances.
Contractor Warranty	A document where the contractor warrants workmanship of home improvements.
Deferred Loan	A non-amortized loan that is due and payable at a later date or upon the occurrence of an event at a later date and which may have provisions that allow the principal amount to be partially or totally forgiven.
Forgiveness	Debt that is considered fully or partially satisfied without monetary payment.
Loss Mitigation Application	<p>A package containing requested financial information about the borrower. The package is used to evaluate the borrower for loss mitigation, settlement, or other Minnesota Housing considerations. Items requested include:</p> <ul style="list-style-type: none"> • A written statement from borrower explaining circumstance • A copy of recent paystub including year to date information • The last two years of tax returns • The last two months of bank statements • Financial statement signed by the borrower
Inactive Loan	A non-performing loan with an enforceable lien or promissory note where foreclosure is not a practical option.
Noncollectable	Loans that, after the application of any remedies outlined in this Manual, do not result in collection on the note.
Prepayments	Principal Prepayments received on a loan before the maturity date that brings the loan balance to

	\$10 or less.
Revenue Recapture	A way of collecting state agency debts by intercepting state income and property tax refunds or credits and lottery winnings.
Suspense Account	Any account that the Servicer uses to hold unapplied funds on a borrower's account.

Appendix B: Subordination Details

<i>Subordination Details¹</i>	Programs									
	Amortizing			Deferred						
	FUF	CFUF	MF Rental Rehab	Rehab	Disaster	Impact Fund	HOME Help	FPAP/HECAT	ECHO	Maple Grove
Limited to refinances of the first mortgage at prevailing market rates and fees	X	X	X	X		X	X	X	X	
Proposed rates and fees must be the lowest for the borrower's risk category	X	X	X	X	X	X	X	X	X	
The loan must be current and not in default of its terms (i.e. occupancy status, past maturity)	X	X	X	X	X	X	X	X	X	
Proposed Combined Loan-to-Value (CLTV) ratio does not exceed 110 percent	X	X	X	X		X		X	X	
Property taxes must be current	X	X	X	X	X	X	X	X	X	
If balloon mortgage, the balloon payment must be due after the current maturity date	X	X	X							
Cash Out Conditions										
No Cash Out: Net to borrower not to exceed one percent of the new first mortgage							X	X	X	
Debt consolidation: All debts to be paid off documented and are paid through the Closing Disclosure	X	X								
Home improvements: All improvements must be itemized	X	X	X							
Used for basic home repairs or improvements, given an escrow account is set-up to handle disbursements				X		X				
No cash out restrictions					X					X

¹ Minnesota Housing may approve or deny a subordination on a case-by-case basis due to extenuating circumstances.

Appendix C: 1099-C Filing Matrix

	Require a 1099-C due to Statute of Limitations (SoL)	Require a 1099-C due to Forgiveness, settlement or short sale (Agreement)	Require a 1099-C due to Noncollectable (Policy)	Require a 1099-C due to Bankruptcy (Business Only)	Report to Credit
MPL Standalone	Yes, unless BK*	Yes, unless BK	Yes, unless BK	No	Yes
DPL Standalone	Yes, unless BK	Yes, unless BK	Yes, unless BK	No	Not Reported
Deferred forgivable programs	No	Yes, unless BK	Yes, unless BK	If business, Yes	Not Reported
Deferred nonforgivable programs	Yes, unless BK	Yes, unless BK	Yes, unless BK	If business, Yes	Not Reported
FUF/CFUF amortizing loans	Yes, unless BK	Yes, unless BK	Yes, unless BK	No	Yes
Rental Rehab - MF (Business)	Yes, unless BK	Yes, unless BK	Yes, unless BK	Yes	Yes

*BK means Bankruptcy

Appendix D: Forms List

[Loan Modification and Extension Agreement](#)

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

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