MINNESOTA HOUSING

Targeted Mortgage Opportunity Program Servicing Manual

December 2019

Table of Contents

Introduction 1
Mission Statement 1
Background 1
Chapter 1 – General Information 2
1.01 Servicing Manual 2
1.02 Evidence of Misconduct Referred to Attorney General 2
1.03 Termination of Agreement 2
1.04 Representations and Warranties 2
1.05 Annual Reports 4
1.06 Servicer Indemnification 5
1.07 Fidelity Bond Coverage; Errors and Omissions Coverage 5
1.08 Fidelity Coverage or Direct Surety Bond Limits 6
1.09 Errors and Omissions Coverage Limits 6
1.10 Changes in Servicer's Organization 7
1.11 Transfers of Servicing 7
1.12 Net Worth 7
1.13 Delinquency Performance 8
Chapter 2 – Servicer Performance 9
2.01 Servicer Performance Evaluation 9
2.02 Remedies 10
2.03 Delinquency Performance Remedy 10
2.04 Critical Intervention Remedy 11
Chapter 3 – General Servicing 12
3.01 Application of Payments 12
3.02 Property Inspections 14
3.03 Notices of Liens or Legal Action 15
3.04 Property Forfeitures and Seizures 16
3.05 Partial Releases and Condemnations 16
3.06 Satisfactions 17
3.07 Mortgage Account Statements 17
3.08 Mortgage File Delivery 18
3.09 Mortgage File Contents 18
3.10 Credit Bureau Reporting 19
3.11 Access to Records 19
3.12 Record Retention 19
3.13 Low Balance Loans 20
Chapter 4 – Assumptions 21
4.01 Due-on-Sale 21
4.02 Release of Liability 21

4.03 Legal Compliance and Business Obligations 21
Chapter 5 – Escrow Administration **22**
5.01 Escrow Accounts 22
5.02 Taxes and Assessments 22
5.03 Hazard Insurance 22
5.04 Flood Insurance 24
5.05 Insurance Losses 25
Chapter 6 – Delinquencies **29**
6.01 Collection Activities 29
6.02 Delinquency Assistance Measures 33
6.03 Bankruptcy Procedures 37
Chapter 7 – Foreclosures and REOs **39**
7.01 Foreclosure Proceedings 39
7.02 Real Estate Owned (REO) Management 42
7.03 Reimbursement of Expenses 43
Chapter 8 – Investor Accounting and Reporting **44**
8.01 Custodial Accounting 44
8.02 Remittance Accounting 45
8.03 Investor Reporting 46
Appendix A: Definitions **48**
Appendix B: Forms **50**
Appendix C: Frequently Used Numbers **51**

Introduction

Mission Statement

Minnesota Housing finances affordable housing for low- and moderate-income households while fostering strong communities.

Background

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

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

Chapter 1 – General Information

1.01 Servicing Manual

This Servicing Manual, including subsequent changes, additions and exhibits, is a supplement to the Targeted Mortgage Opportunity Program Servicing Agreement (the "Agreement") executed between the Servicer and Minnesota Housing. The Agreement is incorporated herein by reference and is a part hereof as if fully set forth herein.

Minnesota Housing reserves the right to:

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

1.02 Evidence of Misconduct Referred to Attorney General

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

1.03 Termination of Agreement

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

- This Servicing Manual;
- The Agreement;
- The Federal Fair Housing Law and/or the Equal Credit Opportunity Act;
- Other applicable state and federal laws, rules and regulations.

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

1.04 Representations and Warranties

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

- Minnesota Statute § 58.04, Subds. 2-4;
- Title VI of the Civil Rights Act of 1964;

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

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

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

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

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

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

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

1.05 Annual Reports

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

- 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 auditor's report in accordance with the Uniform Single Attestation Program for Mortgage Bankers;
  - An opinion of an independent certified public accountant;
  - A balance sheet;
  - An income statement;
  - A statement of retained earnings;
  - A statement of cash flows; and
  - All related notes.

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

1.06 Servicer Indemnification

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

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

1.07 Fidelity Bond Coverage; Errors and Omissions Coverage

The Servicer must maintain in effect, at all times and at its expense, a fidelity bond and an errors and omissions insurance policy. These policies must insure the Servicer against losses resulting from dishonest or fraudulent acts committed by the Servicer's personnel, any employees of outside firms that provide data processing services for the Servicer, and persons duly authorized to act on the Servicer's behalf. The fidelity bond must also 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 omissions insurance coverage must protect the Servicer against loss resulting from negligence and 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. The coverage must include, but is not limited to:

- Maintaining hazard and flood insurance that meets Minnesota Housing's requirements;
- Determining whether properties are located in Special Flood Hazard Areas; and
- Paying real estate taxes and any special assessments.

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

- Minnesota Housing is named as a loss payee on drafts the insurer issues to pay for covered losses incurred by Minnesota Housing;
- Minnesota Housing has the right to file a claim directly with the insurer if the Servicer fails to file a claim for a covered loss incurred by Minnesota Housing;

- Minnesota Housing will be notified at least 30 days before the insurer cancels, reduces, declines to renew, or imposes a restrictive modification to the Servicer's coverage; and
- A provision that the insurer will notify Minnesota Housing within ten days after the insurer receives a servicer's request to cancel or reduce any coverage.

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

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

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

1.08 Fidelity Coverage or Direct Surety Bond Limits

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

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

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

1.09 Errors and Omissions Coverage Limits

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

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

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

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

- Maintaining hazard and flood insurance that meets Minnesota Housing's requirements;
- Determining whether Mortgaged Properties are located in Special Flood Hazard Areas; and
- Paying real estate taxes and any special assessments.

1.10 Changes in Servicer's Organization

The Servicer must immediately notify Minnesota Housing:

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

1.11 Transfers of Servicing

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

When a Mortgage Loan is transferred, the Servicer must comply with all requirements of the Real Estate Settlement Procedures Act (RESPA.)

1.12 Net Worth

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

1.13 Delinquency Performance

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

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

Chapter 2 – Servicer Performance

2.01 Servicer Performance Evaluation

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

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

2.02 Remedies

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

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

- Delinquency performance is significantly above the established benchmark average for two months;
- The Servicer did not remit funds as expected; and/or
- The Servicer loses its FHA or Fannie Mae servicing eligibility.

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

2.03 Delinquency Performance Remedy

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

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

2.04 Critical Intervention Remedy

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

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

Chapter 3 – General Servicing

3.01 Application of Payments

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

Basis for Interest Calculation
Interest must be calculated in arrears on loans serviced for Minnesota Housing. Any other method, such as interest capitalization, is not permitted.

Regular Monthly Payments

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

NSF Funds
Insufficient funds checks (NSF) are to be reflected as a complete reversal of the most recent payment applied.

Non-regular Payment Amounts
Servicers will contact the borrower(s) where there is a question as to the intent of the borrower(s).

Mortgage Loan payments should not be applied to the unpaid principal balance unless it equals or exceeds the monthly constant of principal and interest. If the difference between a monthly payment received, including the escrow amount, and the regular monthly payment due on the Mortgage is:

- A deficiency of $5.00 or less, the amount credited to the escrow balance may be reduced by the amount of the difference.
- A deficiency of more than $5.00, the entire payment may either be credited to the account as "unapplied funds" until full payment is received or may be returned to the borrower(s), as deemed appropriate. In either case, the borrower(s) must be fully informed of the actions taken, the reasons for the specific action(s), and the total amount the borrower owes and is expected to pay.
- Excess of $5.00 or less, the amount may be credited to the escrow balance.

- An excess of more than $5.00 is to be applied as a principal curtailment. However, if the excess equals the amount of the borrower's full monthly payment, and the borrower(s) notified the Servicer in writing that the excess should be applied as a future installment, the excess is to be applied as the next future installment.

Partial Prepayments

- Partial prepayments of principal in any amount may be accepted by the Servicer at any time without prior notice, provided the loan is current.
- Funds received in consideration of a partial release or partial taking by eminent domain are to be applied as a partial prepayment.
- If the payment includes a curtailment, the Servicer will first apply the scheduled payment, then the curtailment.

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

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

Unless the Mortgage Loan documents specify otherwise, a 30/360-day year is to be used. If the calculation period is for less than a month, a 365-day year should be used. Factors used for these calculations are to be carried out at least six decimal places. At the Servicer's discretion, escrow funds on hand may either be credited to the payoff amount or returned separately to the borrower(s).

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

- Unpaid principal balance;
- Plus any unpaid interest; and
- Less servicing compensation.

The net payoff amount due to Minnesota Housing is to be remitted within two business days of receipt.

Satisfactions
Payoff quotes and/or satisfactions of mortgage are to be provided at no expense to the borrower(s). If the Servicer sends the satisfaction to the county to be recorded, the Servicer may charge the recording fee(s) to the borrower(s).

3.02 Property Inspections

Current Mortgages
Ordinarily, the Servicer does not need to inspect the Mortgaged Property as long as the Mortgage Loan is current. However, if the Servicer believes that the property value may be in jeopardy for any reason, it can inspect the property immediately. When an inspection discloses any condition detrimental to the Mortgaged Property's value, or the need for urgent repairs, the Servicer must remind the borrower of his or her obligation to maintain the property. The Servicer may take one of the following actions:

- If the borrower agrees to arrange for the necessary repairs, the Servicer will follow up until the repairs have been completed.
- If the borrower is willing to make the repairs but is unable to do so, the Servicer may ask Minnesota Housing to advance the necessary funds by submitting a written request. Appropriate arrangements can be made for the borrower(s) to repay the advance.
- If the borrower refuses to make the necessary repairs and they are of an emergency nature, the Servicer should submit a recommendation for further action to Minnesota Housing Portfolio Management. If Minnesota Housing provides a written approval for the Servicer to make the necessary repairs, Minnesota Housing will reimburse the Servicer for any funds advanced for this purpose. These funds become additional debt of the borrower(s) secured by the Mortgage.

Vacant or Abandoned Property
When an inspection reveals that the Mortgaged Property is vacant and may have been abandoned, the Servicer should try to locate the borrower(s) to determine the reason for the vacancy. The Servicer must also make immediate arrangements to protect the Mortgaged Property from vandalism and the elements, to the extent that local laws allow it to take action. The Servicer should contact any junior lienholders to determine their intentions. The Servicer must also notify the hazard insurance carrier of the vacancy to assure that appropriate insurance coverage is being maintained.

If the Mortgage Loan is current, the Servicer should summarize its attempts to locate the borrower(s), and its discussions with any junior lienholders, and submit a recommendation for further action to Minnesota Housing Portfolio Management. If the Mortgage Loan is delinquent, the Servicer may consider instituting foreclosure proceedings.

Delinquent Mortgages
The Servicer must inspect the Mortgaged Property before the 60th day of delinquency. After the initial inspection, and until the Mortgage is referred for foreclosure, the Servicer should schedule subsequent property inspections at least once a month; or as often as it considers necessary to protect Minnesota Housing's interests. Particular attention should be paid to Mortgaged Properties located in areas that have a high rate of vandalism and neglect.

Chronic Delinquencies

For chronic delinquencies, the Servicer may forego the required initial inspection for each separate delinquency period as long as it has no reason to believe that the Mortgaged Property has been abandoned, and previous inspections did not reveal any evidence of vandalism or the probability for it. The Servicer should inspect the Mortgaged Property as often as it believes necessary to protect Minnesota Housing's interests, but at least once in each six-month period that this payment pattern continues.

Foreclosure Inspections

The Servicer must make a thorough inspection of the Mortgaged Property before it decides to approve a Mortgage Loan for foreclosure or a deed-in-lieu of foreclosure. Once a Mortgage Loan has been referred for foreclosure, the Servicer must inspect the Mortgaged Property at least every 30 days, and more often if the property is vacant or is located in an area with a high rate of vandalism. If the inspection immediately preceding the foreclosure sale reveals that the Mortgaged Property has been damaged, the Servicer must determine whether the sale will be postponed to allow time for resolving any claim with the hazard insurance carrier.

When a property inspection in connection with a foreclosure indicates a Notice of Condemnation, the Servicer must contact the jurisdiction that issued the notice and determine what needs to be done in order to terminate, if possible, the condemnation.

Need for Emergency Repairs

If, at any time, the Servicer determines that emergency repairs are required to protect Minnesota Housing's security, and obtains Minnesota Housing's prior written approval, it must advance the necessary funds to pay for repairs to a Mortgaged Property that secures a delinquent Mortgage Loan. The Servicer must arrange for the borrower(s) to repay this advance, either in installments or as part of the full amount required to reinstate the Mortgage Loan.

Criminal Penalties for Damage to Real Estate

Whoever removes or damages real property which is subject to a Mortgage, including during a redemption period, with the intent to impair the value of the property without consent of the security holder, is subject to criminal penalties. The Servicer must contact Minnesota Housing Portfolio Management, in writing, immediately if they are aware of damages to the Mortgaged Property. Minnesota Housing will determine the appropriate action to be taken.

3.03 Notices of Liens or Legal Action

For routine legal actions, (condemnations, partition suits, quiet title actions, building code violations, subordinate lien foreclosure actions, etc.) the Servicer should retain legal counsel to represent Minnesota Housing's interest in these matters. Generally, it is not necessary to obtain prior approval to do so, however, if it appears the matter will not be routine nor that the fees and costs will become Minnesota Housing's responsibility, the Servicer must immediately contact Minnesota Housing Portfolio Management, in writing, for approval, before it retains legal counsel. For any non-routine legal action, or when any routine legal proceeding is contested or appealed, the Servicer must contact Minnesota Housing Portfolio Management, in writing, for approval, before it files any appeal, motion for rehearing, or similar procedure. The Servicer will not forward routine papers, pleadings, or other notices related to these cases to Minnesota Housing, unless the case becomes contested or Minnesota Housing requests that it do so.

3.04 Property Forfeitures and Seizures

Various federal statutes provide for the civil or criminal forfeiture of properties that are used, or are intended to be used, to commit or to facilitate the commission of certain violations of federal law.

Notice of forfeiture is served on all interested parties whose identities are known or can be reasonably ascertained. The entire property, including all liens on it, is subject to forfeiture to the federal government if the owner and lienholder do not file a response in the requisite time. A lienholder that proves it was not aware of and did not consent to the alleged violation, files a timely claim, and meets certain other requirements will be considered an "innocent lienholder".

Minnesota Housing will rely on its 'innocent lienholder' status to assure that its interests in a seized property are protected. A lienholder who is deemed by the courts to be 'innocent' will be reimbursed (to the extent of its interest in the property) from the proceeds of any sale of the property that is accomplished by the U. S. Marshals Service, although the courts have not been uniform in granting post-seizure interest and certain costs and expenses.

3.05 Partial Releases and Condemnations

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

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

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

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

The Servicer has the responsibility to see that the instruments used in connection with changes affecting Mortgage Loans or Mortgages are in proper form and that all requirements under applicable law are met.

The Loan-to-Value ratio is to be no greater than before the partial release, condemnation, etc. The principal balance will be reduced proportionately.

The following information is required for review:

- A detailed market analysis or appraisal that clearly indicates the value of the original Mortgaged Property and the value of the property after the requested modification;
- Plat drawing, survey, or acceptable alternative documentation that clearly outlines the Mortgaged Property in its entirety and identifies the area of modification;
- The legal description of the easement or property to be released; and
- An explanation of the reason for the request.

If necessary, the Servicer will inform the appropriate taxing authority of the release of real property and request a division of any taxes levied or to be levied.

3.06 Satisfactions

Through the execution of a limited Power of Attorney, the Servicer is granted the limited power to execute a satisfaction of mortgage. The Servicer is responsible for the complete handling of loan payoffs, including the execution and delivery to the borrower(s) of satisfactions of mortgage, in full and complete compliance with any and all federal and state laws, rules, and regulations. The satisfactions of mortgage are to be provided at no expense to the borrower(s).

Within 5 business days of a payoff, the Servicer must submit the Loan Paid in Full Statement form to Minnesota Housing Accounting Division.

3.07 Mortgage Account Statements

At the beginning of each year, the Servicer must send the borrower(s) a statement of activity in his or her Mortgage Loan account during the past year. The statement can be used to satisfy the IRS requirement for notifying the borrower(s) of the total interest received and reported to the IRS for the preceding year. The annual statement must be furnished to the borrower(s) by January 31. The statement must include:

- The escrow balance at the beginning of the year, the total deposits to or withdrawals from the account during the year, and the account balance at year-end;

- The amount of interest the borrower(s) paid during the year;
- The amount of real estate taxes paid during the year;
- The unpaid principal balance of the Mortgage Loan at the end of the year; and
- The amount of interest paid (or credited) to the borrower(s) as 'interest on escrow'.

The Servicer must also provide a detailed analysis of all transactions relating to a borrower's payments or escrow whenever the borrower requests it. The Servicer may not charge the borrower(s) for the annual statement or the detailed analysis.

Notice to IRS
The Servicer must comply with the Internal Revenue Service's (IRS) requirements for reporting the receipt of $600 or more of interest payments from the borrower(s) for a calendar year. It must file an information return with the IRS using its own name and employer's tax identification number. The Servicer must also notify the borrower(s) of the amount of interest it received, and reported, to the IRS.

3.08 Mortgage File Delivery

Loans are originated in the name of the lender and purchased by Minnesota Housing. Within five days of purchase, the lender is to provide the Servicer with the required documents as listed on the Loan Transmittal form.

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

3.09 Mortgage File Contents

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

The file must include:

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

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

3.10 Credit Bureau Reporting

The Servicer is required to provide a 'full-file' status report every month to each major credit repository for each Mortgage Loan.

The Servicer must describe the exact status of each Mortgage Loan it is servicing, as of the last business day of each month. The Servicer may use a later cutoff date to allow time for payment corrections, returned checks, and other adjustments to be processed. Statuses that must be reported include new origination, current, delinquent (30, 60, 90 days, etc.), foreclosed, and charged off.

The Servicer is responsible for:

- Resolving any disputes that arise about the information reported;
- Responding promptly to any inquiry or notice of dispute from a borrower; and
- Complying with all applicable provisions of the Fair Credit Reporting Act, including provisions that address obligations with respect to disputed or inaccurate information.

3.11 Access to Records

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

3.12 Record Retention

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

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

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

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

The Servicer may destroy any accounting records, including canceled checks and bank statements, after a period of two years from the date of termination or liquidation of the loan.

3.13 Low Balance Loans

- If a loan has more than $10,000 in total debt, excluding late fees (includes principal balance, escrow advances, recoverable corporate advances, etc.); the Servicer should attempt all collection activities available by law including foreclosure action if necessary.

- If a loan has less than $10,000 in total debt, excluding late fees, and the borrower becomes severely delinquent and unresponsive, the Servicer should stop tax and hazard insurance disbursements and notify the borrower in writing. If the property is non-owner occupied and the loan is severely delinquent, the Servicer should proceed with legal action to gain possession of the property.

- If a loan has less than $2,500 in total debt, excluding late fees, the Servicer should stop all disbursements and notify Minnesota Housing in writing with a recommendation to write off the loan.

Chapter 4 – Assumptions

4.01 Due-on-Sale

Minnesota Housing will exercise its rights to enforce the due-on-sale provision of the Mortgage.

The Servicer must establish procedures to monitor requests for changes in mailing address for the borrower(s) or changes of the borrower's name or mailing address on hazard insurance policies or tax notices. The Servicer must investigate any questionable changes to determine whether a transfer of ownership has occurred. The Servicer is responsible to take the necessary action(s) to enforce the due-on-sale provision.

4.02 Release of Liability

If one of the original borrowers requests a release of liability from the Mortgage Loan, the Servicer must complete the necessary steps to qualify the original borrower who is retaining possession of the Mortgaged Property. If the remaining original borrower meets industry accepted underwriting criteria for conventional mortgage loans, Minnesota Housing will allow the remaining original borrower to assume the Mortgage Loan. Minnesota Housing will grant a release of liability to the other original borrower.

The Servicer may charge an assumption fee equal to the greater of $400 or 1% of the unpaid principal balance of the Mortgage Loan – subject to a $900 maximum – as long as its costs warrant these fees.

4.03 Legal Compliance and Business Obligations

The Servicer must:

- Make the required disclosures,
- Comply with any local, state, or federal law or ordinance, and any regulation or order issued thereunder pertaining to fair housing, equal credit opportunity, and any other prohibition against discrimination in residential lending, including the preservation of documentary evidence of compliance, as well as defend and save Minnesota Housing from loss or damage for any failure therein.

The Servicer is responsible for processing the requests, including gathering the necessary documentation, credit review, and preparing the appropriate documents for execution, including the Assumption Agreement (Minnesota Housing's form or similar document).

Chapter 5 – Escrow Administration

5.01 Escrow Accounts

The Servicer is responsible for protecting the priority of Minnesota Housing's liens and investments in the Mortgages it services for Minnesota Housing.

Escrow Accounts are required for all Mortgage Loans for property taxes and assessments, homeowners insurance, and, if applicable, flood insurance.

Escrow Account Statements (Escrow Analysis)
Servicers are required to provide annual Escrow Account statements to the borrower(s), in compliance with the Real Estate Procedures Act (RESPA).

Interest on Escrow
If the Servicer is required by law, or has entered into an agreement to pay interest on escrow, the Servicer is responsible for the interest payment.

5.02 Taxes and Assessments

The Servicer must maintain accurate records on the status of real estate taxes or any other assessments that could become a lien against the Mortgaged Property. If the Escrow Account balance is not sufficient to pay the taxes and assessments, the Servicer is to advance its own funds and adjust the borrower's payments thru an escrow analysis. The Servicer is to pay the taxes and assessments before any penalty date. If a penalty is incurred for late payment of taxes, the Servicer must pay the penalty from its own funds and may not recover the amount from the borrower(s).

5.03 Hazard Insurance

All Mortgage Loans must be covered by hazard insurance, which meets at a minimum the requirements of Fannie Mae, in addition to the following requirements:

- Insurance must be effective on the date of the Mortgage
- Level of Coverage:
    - Hazard insurance must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement and should be the type that provides for claims to be settled on a replacement cost basis
- Amount of Coverage is the lessor of:
    - 100% of the insurable value of the improvements
    - The unpaid principal balance of the first mortgage, as long as the amount of coverage equals the minimum amount required to compensate for damage

or loss on a replacement cost basis (80% of the insurable value of the improvements)

- Deductible Amount:
    - The higher of:
        - $2,500
    - 2.5% of the policy face amount
- Mortgage Clause:
    - All insurance policies must contain a 'standard' or 'union' mortgage clause in the form customarily used. The mortgage clause should read "Minnesota Housing Finance Agency."

Evidence of Insurance
Unless the Servicer is covered by a mortgage impairment or mortgage interest insurance policy, it must keep the original insurance policy in its custody. When the Mortgage covers an individual unit in a PUD, in addition to the individual unit policy, the Servicer must have in its possession a copy of any insurance policy covering the common areas in the project.

1. Short-Form Certificate of Insurance
Servicers may accept a short-form certificate of insurance in lieu of an original policy if the certificate shows all necessary information and is signed by the insurer. In this case, a complete text of the full policy must be available in the Servicer's office.

2. Master or Blanket Policies
'Master' or 'blanket' policies instead of individual policies cover many Condominium units and some PUD units. In these cases, the Servicer may maintain a copy of the current 'master' or 'blanket' policy and a certificate of insurance showing that the individual unit is covered by the policy. As an alternative, the Servicer may obtain from an authorized representative of the insurer individual evidence of insurance for each unit. This evidence must:

- Provide for at least ten days' notice to the Servicer if the policy is canceled or not renewed, or if any other change that adversely affects Minnesota Housing's interest is made
- Include the types and amounts of coverage provided
- Describe any endorsements that are part of the 'master' policy

3. Data Files in Lieu of Policies
Minnesota Housing will not object to the Servicer accepting data files in lieu of original policies, as long as the following controls exist to assure that Minnesota Housing's interests are protected:

- The data file must include sufficient information about the insurance policy, the property, and the borrower(s) to assure that the Servicer will be able to comply with Minnesota Housing's requirements for maintaining and monitoring hazard insurance (such as reviewing the policy terms, amount of coverage and deductible amounts; confirming that premiums have been paid; processing loss drafts; etc.)
- The Servicer's Errors and Omissions Insurance Policy must acknowledge electronic data transfers – and fully protect the Servicer and Minnesota Housing against losses incurred as the result of erroneous data files or transfers
- The insurance carrier must provide the Servicer with written assurance that the data file is equivalent to a printed policy, typically through a detailed agreement between the two parties
- The Servicer must have in place appropriate procedures to mitigate the risks associated with not possessing an original hard copy policy
- The Servicer must be able to produce legible, hard copies of the actual insurance policies and proof of premium payments if Minnesota Housing requests them

Replacement Policies
The borrower(s) may modify the existing insurance coverage or replace it with a policy from another acceptable company. If the borrower allows the insurance coverage to lapse, the Servicer should immediately obtain new coverage that meets basic requirements. If necessary, the Servicer should advance the funds from the Escrow Advance Bank Account to pay the premium.

If the Mortgaged Property is part of a PUD or Condominium, the Association may also have its existing coverage modified or replaced with a policy from another insurance company. In this case, the Association must give the Servicer notice of the change, so that the Servicer can determine if the coverage adequately protects Minnesota Housing's interest.

Changes in Coverage
Existing insurance coverage may prove inadequate to protect Minnesota Housing's interests in some cases. When this is the case, the coverage should be changed. For example, when a Mortgaged Property becomes vacant, the Servicer should add the proper endorsement to change a homeowner's policy to a fire and extended coverage policy with a vacancy clause.

5.04 Flood Insurance

A Mortgaged Property located in a Special Flood Hazard Area must have adequate flood insurance when the Mortgage Loan is originated and the coverage maintained for as long as the Mortgage Loan is outstanding or until a remapping of a flood zone results in the property no longer being in a Special Flood Hazard Area. Flood insurance coverage is also required if the remapping of a flood zone results in the security property being in a Special Flood Hazard Area, even though no flood insurance would have been required when the Mortgage Loan was originated.

Servicers must actively monitor all flood maps and community status changes and take appropriate action as changes occur. Servicers may choose to monitor flood zone remapping or use a flood determination company to perform the monitoring.

Servicers must make sure that Mortgage Properties are adequately protected by flood insurance when it is required, with no lapses of coverage for any reason. If the maximum level of coverage available under the National Flood Insurance Program increases, Servicers are to review the coverage of the Mortgage Loans they service to determine whether additional coverage needs to be obtained.

The flood insurance policy, including the amount of coverage and deductible, must meet, at a minimum, the requirements of Fannie Mae.

5.05 Insurance Losses

Servicers are responsible for taking prompt action to protect the interest of Minnesota Housing and the borrower(s) when a hazard or flood insurance loss occurs. As soon as the Servicer learns of a casualty loss, it must obtain complete details of the damage, determine whether the borrower has filed the proof of loss, and discuss with the borrower any plans that he or she has for repairing the Mortgaged Property. If the borrower has not filed a proof of loss, the Servicer will take appropriate action to assure that the proof of loss is filed within the time period specified in the insurance policy, in order to avoid a delay in receiving payment of the claim. The Servicer must then closely monitor the filing of the proof of loss with the insurance carrier, the repairs to the Mortgaged Property, and the disbursement of the insurance proceeds.

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

Disposition of Insurance Loss Settlements
The proceeds of an insurance settlement must be applied in accordance with provisions contained in the Mortgage. If proceeds are applied to restoration, any excess proceeds must be applied to the Mortgage Loan unless otherwise approved, in writing, by Minnesota Housing. Minnesota Housing must be named as payee on all insurance loss drafts. The Servicer may endorse the loss drafts on Minnesota Housing's behalf.

1. Loss of $10,000 or Less
On losses of $10,000 or less, the Servicer is required to obtain a copy of the insurance adjuster's worksheet; copy of contractor's estimate; and a signed affidavit from the borrower(s) agreeing

to apply the insurance proceeds to the restoration of the damaged property. Provided that there is no delinquency or other servicing problem, the Servicer will disburse the proceeds to the borrower(s) and document in the Mortgage Loan file all pertinent facts concerning the loss and disposition of the proceeds. The Servicer must exercise its prudent judgment in determining whether a physical inspection of the Mortgaged Property should be made.

2. Loss Exceeding $10,000
The Servicer will place all insurance proceeds in a Suspense Account pending disbursement. The Servicer is required to obtain a copy of the insurance adjuster's worksheet and an executed Restoration Affidavit form, or similar document, from the borrower(s). A Stipulated Sum Agreement form, or similar document, must be executed between the owner(s) of the Mortgaged Property and the building contractor selected to restore the property. The Servicer will review the Stipulated Sum Agreement form to see that it provides, at a minimum, the following:

- The total contract sum for construction does not exceed the total loss proceeds;
- The dwelling as repaired or restored will not lessen Minnesota Housing's security interest;
- The construction will be completed within 90 days after its commencement;
- The contractor maintains adequate fire, hazard, liability, and workmen's compensation insurance coverage on the premises;
- The contractor will deliver lien waivers and sworn construction statements for each requested draw of the construction contract amount;
- The construction draws are in such numbers and amounts as to protect the borrower's interest in the successful completion of construction; and
- A reasonable retainage is withheld from the contractor before completion of construction.

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

Whenever a total or near total loss is sustained and the Servicer does not recommend that the proceeds be applied against the Mortgage Loan, the Servicer must explain its reasons to Minnesota Housing.

The Servicer must adhere to all applicable laws regarding application of insurance proceeds and prudent practices concerning notification, inspection, and approval. The Servicer must take any action necessary to protect the priority of the Mortgage, such as obtaining waivers of material men's or mechanic's liens.

3. Uninsured Losses

When a disaster, such as a flood, results in an uninsured loss to the Mortgaged Property, the Servicer must:

- Determine the extent of the damage;
- Secure the property, if it is abandoned;
- Develop plans for repairing the property; and
- Send a complete report of the damage to Minnesota Housing Portfolio Management.

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

Chapter 6 – Delinquencies

Servicers must establish a system for servicing delinquent Mortgage Loans that follows the accepted standards used by prudent lenders. The Servicer's system must include, at least, the following:

- An accounting system that immediately alerts the appropriate department that a Mortgage Loan is delinquent;
- A collection department staff that is familiar with all Minnesota Housing procedural and reporting requirements;
- A staff that is familiar with, and employs, Minnesota Housing loss mitigation tools;
- Counseling procedures to advise borrower(s) how to avoid or cure delinquencies, including familiarity with the Minnesota Homeownership Center and its resources;
- Guidelines for the individual analysis of each delinquency;
- Instructions and adequate controls for sending delinquent notices, assessing late charges, returning partial payments, maintaining collection histories, reporting delinquencies to credit bureaus, etc.;
- Management review procedures to evaluate both the borrower's actions and the Servicer's collection efforts before a final decision is made to accept some form of repayment arrangement or to start liquidation proceedings; and
- A method for comparing the Servicer's own delinquency and foreclosure ratios, for all loans being serviced by the Servicer, with those of others in the industry.

The Servicer must analyze each delinquent account to determine:

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

Borrower(s) who are experiencing temporary hardships may have difficulty making their mortgage payments. Servicers must make every effort to assist borrower(s) who are cooperative, acting in good faith, and willing to work out a way to prevent or cure their delinquency. The Servicer must determine the approach that will be the most effective based on the individual circumstances. This chapter discusses some methods that may be used in those situations.

6.01 Collection Activities

The Servicer must employ collection and foreclosure prevention strategies that are designed to meet the goal of bringing delinquent Mortgage Loans current in as short a time as possible. It is particularly important to address a one-payment delinquency immediately to prevent it from becoming more serious. An early determination of the reason for the delinquency gives the Servicer and the borrower(s) time to arrange an acceptable method for curing it. If an agreement cannot be reached, the Servicer must work with the borrower(s) to determine the appropriate delinquency assistance measure or foreclosure prevention alternative before foreclosure proceedings are initiated.

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

Late Notices
There are two types of late notices: a payment reminder notice and a late payment notice.

- **The payment reminder notice**, this notice can be particularly important to promote good paying habits for new borrower(s) and should be used for all early payment delinquencies.
- **The late payment notice** should be sent to the borrower(s) for any payment that has not been received by the 16th day after it is due. This notice should state the amount of late charges that are due.

Telephone Calls
Telephone calls are highly effective when used properly. They should be used as the principal form of contact with a delinquent borrower in order to obtain the borrower(s) commitment to bring the loan current as soon as possible and /or discuss the types of delinquency assistance measures or foreclosure prevention alternatives available.

Borrower Solicitation Letters
In the early stages of delinquency, the Servicer must contact the Borrower(s) to determine their commitment and capacity to cure the delinquency. In order to better evaluate whether some delinquency assistance measure or foreclosure prevention alternative is appropriate, the Servicer must send a foreclosure prevention solicitation letter at least once before referral to foreclosure and more often as necessary for compliance with federal regulations.

Face-to-Face Interviews
The Servicer must schedule, or attempt to schedule, a face-to-face interview with the borrower(s) before the 90th day of delinquency to discuss options available for curing the delinquency and the action that may be taken if the delinquency is not cured.

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

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

Situations most likely to be resolved through counseling involve:

- Poor debt management;
- Lack of cash reserves for unanticipated expenses; or
- Temporary reduction in income.

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

Assessing Late Charges

Imposing late charges to help prevent delinquencies is most effective when the borrower is able to pay on time but does not do so. It may not be effective as a collection tool when the borrower is simply unable to make the payment because of some unforeseen circumstances.

When the Servicer receives a payment that does not include the required late charges, the Servicer's handling of the payment should depend on the situation and how it is perceived by the Servicer.

The Servicer may defer late charges to a future date. However, the Servicer must not foreclose the Mortgage if the only delinquent amount is unpaid late charges.

The Servicer may return the payment if it determines that the borrower was able to pay on time but failed to do so, provided that doing so does not jeopardize Minnesota Housing's position in a subsequent foreclosure or legal proceeding.

In certain hardship cases, the Servicer may consider waiving late charges altogether.

If the interest rate of a Mortgage Loan has been reduced to 6%, under the terms of the Soldiers' and Sailors' Civil Relief Act, the Servicer is expected to waive the collection of late charges during the period for which the reduced interest rate remains in effect.

Accepting Partial Payments

The Servicer must accept a partial payment, and hold it as 'unapplied funds', if the borrower:

- Has a commitment toward the Mortgage Loan obligation;
- Is not habitually delinquent;
- Does not have a history of remitting NSF checks; and

- Can pay the balance of the payment within the next 30 days.

As a rule, the Servicer can accept partial payments only to help cure a delinquency. It should return partial payments when it believes that this action will be an effective collection tool. However, the Servicer should not return partial payments routinely.

If a borrower indicates that they will be unable to make full payments on a continuing, but temporary-basis, the Servicer must determine whether some sort of relief provision can be used to bring the account current, or at least keep the delinquency from becoming worse.

Reapplying Principal Prepayments
In some cases, borrower(s) that have made additional principal payments toward their accounts at some time in the past may ask that these principal prepayments be reapplied to cure a delinquency. The Servicer may do so if:

- The borrower submits a written request; and
- The reapplication of the principal prepayment does not result in the Mortgage Loan balance being higher than it would have been had the original amortization schedule for the Mortgage Loan been followed; and
- The borrower agrees to submit any additional funds that are needed to supplement the prepayment so that the total delinquency can be cured.

If the borrower(s) cannot raise the additional funds, the Servicer may combine the reapplication of a principal prepayment with a delinquency assistance measure.

Military Indulgence
Military indulgence is available to borrowers in the military services who qualify under the Soldier's and Sailor's Civil Relief Act of 1940 and the Servicemembers Civil Relief Act of 2003. The Servicer is expected to be familiar with and act in accordance with the requirements of these Acts.

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

The Servicer must:

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

The Servicer may accept the borrower's orders to report to full-time active duty as the only evidence of their eligibility to receive the reduced rate or other forbearance relief. A copy of the orders must be sent to Minnesota Housing Accounting Division.

Effect of Credit Reporting
Servicers must advise borrowers who have reached the delinquency stage that their delinquency will be reported to the major credit repositories. The Servicer must point out that the appearance of a delinquency on the borrower's credit report might affect his or her ability to obtain other forms of credit. This knowledge may result in the borrower(s) bringing the account current when other collection efforts have been unsuccessful.

Listing Property for Sale
If the reason for the borrower's delinquency appears to be permanent, the Servicer may suggest that the borrower(s) sell the Mortgaged Property. This will allow the borrower(s) to pay the Mortgage Loan off and save any equity they may have in the Mortgaged Property.

6.02 Delinquency Assistance Measures

Minnesota Housing allows several types of assistance to help borrowers who are delinquent. The Servicer must be familiar with the terms of each of these provisions. The Servicer must also be aware of any government programs that may assist borrowers in resolving their delinquencies or of any counseling agencies that may help borrowers in their debt management.

Minnesota Housing does not want to foreclose a Mortgage Loan if there is any reasonable chance of saving it. Minnesota Housing wants the Servicer to use delinquency assistance measures whenever their use is appropriate. Minnesota Housing does not expect the Servicer to use these measures unless it will result in either bringing the Mortgage Loan current or providing the borrower(s) with a reasonable opportunity to avoid foreclosure by selling the Mortgaged Property.

Early in the delinquency, the Servicer must contact the borrower(s) to determine his/her attitude toward the delinquency. If the Servicer believes delinquency assistance to be appropriate, it should:

- Explain the delinquency assistance measures and the borrower's responsibilities under each;
- Obtain any financial information that will be needed; and
- Stress the consequences of not meeting the terms of any assistance measure entered into and make sure that the borrower has a complete understanding of the agreement that may be entered into.

The Servicer should analyze each case carefully before developing a relief plan. When establishing repayment terms, the Servicer must consider the borrower's financial condition, other obligations, and anticipated future income to make sure the plan agreed to is realistic. Minnesota Housing's authorization is not needed, nor will Minnesota Housing object to any reasonable relief plan the Servicer develops, as long as it does not jeopardize Minnesota Housing's lien position.

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

Temporary indulgence may be appropriate when:

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

Forbearance
Under forbearance, the Servicer agrees to reduce or suspend the borrower's monthly payments for a specified period of time. Forbearance may be offered by itself or in combination with other delinquency assistance measures, such as a combination of forbearance and a repayment plan. The Servicer must have a clear understanding of the reason for default prior to granting forbearance. Forbearance may be considered when the Default is the result of:

- The borrower's death or the death of a family member who made a significant contribution toward the monthly payment;
- Illness or some natural disaster that the borrower was not insured against;
- A substantial reduction in income that the borrower(s) could not prevent;
- Some other unusual circumstance that warrants the use of a relief provision and is well-documented; or
- The Mortgaged Property is listed for sale as a means of avoiding foreclosure and the borrower has substantial equity in the property.

Any forbearance arrangement that extends for a period longer than 6 months must be in writing.

Once the hardship is resolved, one of the following must occur: the Mortgage Loan is brought current; the borrower enters into a repayment plan; borrower is approved for a Mortgage Loan modification or other delinquency assistance measure; the Mortgage Loan is paid in full.

Repayment Plan

Under a repayment plan, the borrower makes payments in addition to the regular monthly payments to cure the delinquency. Servicers must consider a repayment plan when the delinquency resulted from a temporary hardship that no longer appears to be a problem.

Generally, the Servicer should limit any repayment plan to a period of no more than 12 months.

Repayment plans of less than 6 months may be oral agreements; however, the Servicer must document the repayment agreement in its Mortgage Loan files. Repayment plans of greater than 6 months require formal written agreements.

Modification

Modifications may extend the term of the Mortgage Loan or provide for re-amortization of the outstanding debt. The Servicer should consider modification of the Mortgage Loan if:

- A borrower granted Military Indulgence cannot cure his/her delinquency within three months after being discharged from the military service;
- A borrower has experienced a permanent or long-term reduction in income that affects his/her ability to continue making the monthly Mortgage Loan payments; and
- Any other situation in which changing the terms of the Mortgage Loan would cure the delinquency, prevent future delinquencies, or avoid the acquisition of the Mortgaged Property; and
- If an otherwise unviable modification can be made viable through the reduction of the interest rate or extension of the term.
    - The interest rate may be reduced to as low as 2%.
    - The term may be extended up to a maximum of 40 years.

Once Minnesota Housing's written approval for the modification has been obtained, the Servicer must:

- Prepare the Loan Modification and Extension Agreement form, or similar document, and forward to the borrower(s) for signature;
- Submit to Minnesota Housing Portfolio Management the Loan Modification and Extension Agreement form for Minnesota Housing's signature. Minnesota Housing will return the executed Loan Modification and Extension Agreement form to the Servicer for recording;
- Add any amounts to be capitalized to the unpaid principal balance of the Mortgage Loan as of the date specified in the Loan Modification and Extension Agreement.

Usually, the capitalization date is one month before the new modified payment will be due;

- Revise the borrower's payment records to provide for collection of the modified installments; and
- Submit to Minnesota Housing Portfolio Management a completed Recommendation/Advice of Action form.

Short Sales

When all measures, short of foreclosure, have been exhausted, the Servicer should consider a Short Sale. When the borrower(s) cannot sell the Mortgaged Property for the full amount of the indebtedness, Minnesota Housing will consider accepting a payoff of less than the total amount owed on the Mortgage Loan, if that will enable Minnesota Housing to reduce the loss that would incur if Minnesota Housing foreclosed and acquired the Mortgaged Property.

The Servicer may pursue a Short Sale at any time prior to the redemption date.

The Servicer must advise the borrower(s) that the foreclosure proceedings will continue and/or not be delayed, but that the terms of the Short Sale agreement will be honored as long as the Mortgaged Property is sold before the redemption date.

The Servicer must also advise the borrower(s) that there may be possible tax consequences if any portion of the outstanding debt is "forgiven" and refer the borrower(s) to IRS Publication 544, Sales and Other Dispositions of Assets, particularly the section captioned "Foreclosure, Repossession, or Abandonment".

Deed-In-Lieu of Foreclosure

Minnesota Housing may consider a deed-in-lieu of foreclosure when the following conditions are met:

- There is an obvious hardship that caused the default (a deed-in-lieu must be more than convenient);
- All other collection avenues have been exhausted (e. g., the Mortgaged Property was listed for sale at market value for three months or more without a reasonable sales offer, Short Sale, forbearance, etc.);
- The Mortgaged Property is presently listed with a realtor;
- It is in the financial best interests of Minnesota Housing to accept the deed-in-lieu;
- The Mortgaged Property is vacant and secured by the Servicer's property preservation company;
- The borrower(s) can convey acceptable marketable title (determined by a title search);

- The Mortgaged Property is not subject to subordinate liens, judgments, or attachments;
- An inspection indicates the Mortgaged Property has not been abused; and
- There are no delinquent utility bills or Home Owner Association (HOA) dues, if applicable.

In no event will Minnesota Housing accept a deed-in-lieu to relieve a borrower from liability as a matter of convenience to the borrower(s) when it has not been firmly established that he/she lacks the capacity to make the Mortgage Loan payments.

The Servicer must require the borrower(s) to submit a letter to request acceptance of a deed-in-lieu and provide documentation related to his/her financial hardship.

A Broker Price Opinion, based on both an interior and exterior inspection of the Mortgaged Property, and/or an appraisal may be required. If after reviewing all facts and documentation, the Servicer believes that a deed-in-lieu should be accepted, the Servicer must request Minnesota Housing's written approval by submitting a completed Recommendation/Advice of Action form with the reasons for the recommendation detailed in the explanation section.

6.03 Bankruptcy Procedures

The Servicer must have written procedures to effectively control and monitor bankruptcy proceedings. The procedures must cover bankruptcies filed under Chapters 7, 11, 12, and 13. At a minimum, the procedures must address the requirements for:

- Establishing a case status and portfolio performance tracking system to permit the proper reporting and analysis of activity for individual cases and to monitor the Servicer's overall bankruptcy management process;
- Promptly referring the case to a bankruptcy attorney;
- Filing a proof of claim (either by the Servicer or its attorney), including the circumstances under which it is required, how to prepare it, time frame for filing, etc.;
- Reviewing proposed payment plans and analyzing the results of the attorney's negotiations to determine they represent adequate bankruptcy resolution provisions;
- Pursuing legal action to obtain early dismissal of the case, stay relief, plan objection, or other relevant proceedings if negotiations have failed;
- Determining when the prerequisites for filing motions for bankruptcy relief have been met;

- Establishing and maintaining a legal events record to define the status of a case at various times throughout the bankruptcy proceedings and to identify when conditions for additional legal proceedings have been met;
- Establishing and maintaining a payment compliance record to define the borrower's and/or bankruptcy trustee's compliance with any payment plan or other court-ordered arrangement, to identify when conditions for additional legal proceedings have been met, and to take appropriate action if the borrower fails to make payments under the plan; and
- Initiating foreclosure proceedings or finalizing a loss mitigation alternative, if appropriate, promptly following the completion of the bankruptcy proceedings.

The Servicer must maintain an individual file for each case that is involved in bankruptcy proceedings. That file must contain a copy of the following:

- Borrower's petition for bankruptcy proceedings;
- Notice of filing;
- Notice of the first meeting of creditors;
- Proof of claim;
- The debtor's plan, pleadings, notices; and
- Any appraisal obtained by the bankruptcy court, etc.

The Servicer does not need to advise Minnesota Housing of routine bankruptcy cases. However, when the Servicer becomes aware that a borrower has petitioned the court for a bankruptcy "cramdown," or some other modification of the terms of the Mortgage Loan, it should immediately contact Minnesota Housing Portfolio Management.

Chapter 7 – Foreclosures and REOs

Whenever a borrower is unable or unwilling to make the Mortgage Loan payments, the Servicer must protect Minnesota Housing's investment by taking prudent action. However, the Servicer should not take action to foreclose a Mortgage Loan until it has made every reasonable effort to conduct a personal face-to-face interview with the borrower(s) and to cure the delinquency through special relief provisions or delinquency assistance measures. The Servicer must also have inspected the Mortgaged Property and analyzed the individual circumstances of the delinquency.

The Servicer must process foreclosures in accordance with the provisions of the Mortgage, state and federal laws, and Minnesota Housing's requirements. The Servicer must have an effective system for monitoring foreclosure progress and is fully responsible for any losses that occur due to errors, omissions, or delays by the Servicer or its agents.

Minnesota Housing expects the Servicer to retain competent and diligent legal counsel who are highly experienced in conducting foreclosures and possessory actions and agree to perform services for standard Fannie Mae approved fees and costs.

7.01 Foreclosure Proceedings

The Servicer does not need to obtain Minnesota Housing's approval prior to initiating foreclosure. However, the file must first be reviewed by the Servicer's foreclosure review committee and approved, in writing, for foreclosure.

Within 5 business days of the foreclosure review committee's foreclosure approval, the Servicer must notify Minnesota Housing Portfolio Management by submitting a completed Recommendation/Advice of Action form.

The Servicer is to instruct the foreclosing attorney to send notification of the foreclosure to any ground lease lessors and any junior lienholders. In the case of a ground lease, or if Rural Development (USDA) holds a junior lien, Minnesota Housing Portfolio Management must be notified via email.

Farm Homestead
If the Mortgaged Property is a farm homestead, Minnesota Statue 500.245 "Right of First Refusal for Agriculture Land" may apply. If the Mortgaged Property is worth less than the outstanding balance of the Mortgage Loan, a judicial foreclosure may be necessary.

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

Bidding Instructions

The Servicer must issue written bidding instructions to the foreclosing attorney. The Servicer must bid the full amount of the indebtedness:

- The unpaid principal balance
- The accrued interest to the date of the sale
- Any advances for taxes and insurance
- Other foreclosure costs (including any reimbursable property inspection fees)

Shortening the Redemption Period

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

Foreclosure Expenses

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

Standard Fannie Mae approved	Standard HUD approved
• Foreclosure	• Reduced redemption
• Bankruptcy	
• Unlawful Detainer	
• Deed-in-Lieu	
• Proceedings Subsequent	

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

In cases in which the Mortgage Loan is reinstated, the attorney fee must be reasonable and related to the amount of work actually performed by the attorney. It must bear a proportional relationship to the fee that would have been allowed for a completed foreclosure.

NOTE: Minnesota Housing will not reimburse attorney fees if the Mortgage is reinstated. Those fees must be collected from the borrower(s) as a condition of the reinstatement.

The Servicer must use any funds remaining in the borrower's Escrow Account to pay taxes, insurance premiums, property preservation, and related foreclosure costs. If the escrow balance is not sufficient to cover these expenses, the Servicer is to advance its own funds.

Property Maintenance

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

- Cutting the grass;
- Removal of trash and other debris;
- Snow removal; and
- Winterization of the property, etc.

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

The Servicer must secure a vacant Mortgaged Property by:

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

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

The maintenance of the Mortgaged Property remains the responsibility of the Servicer until the end of the redemption period.

Hazard Insurance

The Servicer must ensure that proper insurance coverage is in effect at all times - until Minnesota Housing notifies the Servicer the Acquired Property is sold.

Redemptions or Third-Party Sales

Minnesota Housing may be outbid at the Sheriff Sale by a third party; the borrower redeems the Mortgaged Property, or the Mortgaged Property is redeemed by a junior lien holder.

NOTE: The Servicer, or the Servicer's attorney, must notify Minnesota Housing Portfolio Management in the event a junior lien holder files an Intent to Redeem.

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

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

Properties that are Part of a Home Owners Association (HOA)
To comply with Minnesota State Statutes 515A.3-115 and 515A.3-116, the Servicer must contact the management company prior to the end of the redemption.
The Servicer should arrange for association dues invoices to be sent to the Servicer:
Appropriate past dues, which become due upon the expiration of the redemption period, and
Future dues.

All HOA payments must be approved by Minnesota Housing Portfolio Management prior to disbursement.

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

The following events trigger the reporting requirement:

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

1099-C
The Servicer is responsible for accurately completing and filing a Cancellation of Debt, IRS 1099-C form, when $600 or more of a mortgage debt is cancelled.

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

The forms are to be filed in Minnesota Housing's name.

7.02 Real Estate Owned (REO) Management

The Servicer may discontinue ordering property inspections once the redemption period expires. Minnesota Housing will designate a real estate agent to assume certain property management responsibilities. The Servicer will continue to be responsible to:

- Advance funds to pay for taxes, insurance premiums, and utility bills, as they become due.
- Maintain adequate hazard insurance coverage on the Acquired Property and request the tax rolls be changed to reflect Minnesota Housing's ownership of the Acquired Property (specifying the tax bills should continue to be directed to the Servicer).
- Contact the utility companies to have all bills for utility services directed to the Servicer.
- Reimburse Minnesota Housing's designated brokers or vendors for authorized maintenance and repair expenses.
- Perform some property management functions normally assigned to a real estate agent upon request from Minnesota Housing Portfolio Management.

If an eviction is necessary, the Servicer will provide Minnesota Housing Portfolio Management with contact information for the attorney to file the eviction. Minnesota Housing will manage and monitor the eviction and notify the Servicer when the property becomes vacant.

Minnesota Housing Portfolio Management will notify the Servicer when the Acquired Property has been sold and closed.

7.03 Reimbursement of Expenses

The Servicer must request reimbursement for its advances by submitting a Statement of Expenses form to Minnesota Housing Portfolio Management. The Statement of Expenses form should be submitted within 30 days of the notification to submit the final Statement of Expenses form.

Chapter 8 – Investor Accounting and Reporting

8.01 Custodial Accounting

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

The Servicer's mortgage accounting system must be capable of producing an account history for each Mortgage Loan. The account history must be listed in chronological order and provide, at a minimum, the following information:

- The date each payment was received, the amount of the payment, how the payment was applied (ex. Principal, interest, etc.) and the date payment was paid through;
- The cumulative amount of interest paid;
- The cumulative amount of interest paid that is reportable to the IRS;
- The transaction date, amount and nature of each disbursement, adjustment or any other transaction affecting the current outstanding principal or escrow balance; and
- Any deficiencies in the escrow balance.

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

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

"(Servicer name), Trustee for Minnesota Housing Finance Agency 1st Liens".

Only one custodial account is required by Minnesota Housing. The principal and interest portions of each payment are to be credited to the custodial account. The escrow portion of each payment is to be credited to an escrow bank account established by the Servicer for such purpose. The Servicer must credit all receipts to the accounts no later than the second business day following receipt.

8.02 Remittance Accounting

Schedule for Remitting Funds

1. Regular Collections (Scheduled Principal and Interest Payments)
Regular collections are to be remitted the second business day following receipt.

2. Payoffs
Payoffs are to be remitted the second business day following receipt. The Loan Paid in Full Statement form is to be submitted to Minnesota Housing Accounting Division within five (5) business days of receipt of the payoff.

3. Remittance Procedures

- All funds (regular collections and payoffs) are to be remitted by ACH Transmission.
- All ACH Transmissions are to be received by 4:00 p.m. central time.
- Remittance Summary forms for each ACH Transmission are to be emailed to all of the following:
  - cts.cto.money.transfer@wellsfargo.com
  - Ron.R.Reyes@wellsfargo.com
  - Krissy.Moua@state.mn.us
- Remittance Summary forms for each ACH Transmission are to be received by the recipients on the same day as the ACH Transmission by 4:00 p.m. central time.

4. Foreclosures
Once the redemption period has expired, the Servicer must move the loan to a separate investor number.

Method for Remitting Funds

1. ACH Transmission Instructions
The following instructions are to be used for all Program loan fund ACH Transmissions:

Wells Fargo Bank, N.A.
San Francisco, CA
ABA 091000019
Account 0001038377
FFC: 13082415
BNF: Corp Trust Clearing
RE: Minnesota Housing Finance Agency

Changes to ACH Transmission instructions are not to be made unless an authorizing letter is signed by Minnesota Housing's Finance Director or Deputy Commissioner and is received by the Servicer.

Daily remittances, excluding payoffs, must be submitted with the Remittance Summary form.

Payoff remittances must be submitted with the Payoff Remittance Summary form and clearly state which loan is being paid in full.

The combined totals of the Remittance Summary form and the Payoff Remittance Summary form should equal the amount of the ACH Transmission.

Any ACH Transmissions received with negative remittance amounts in an individual line item will be rejected. Any ACH Transmissions received without the above information will be rejected. These rejected ACH Transmissions are not considered to be received by Minnesota Housing within the specified time period.

8.03 Investor Reporting

Portfolio Reconciliation Procedures

- Minnesota Housing will send a list of any portfolio reconciliation items each month to the Servicer.
- Within four weeks of receipt, the Servicer must either resolve each reconciling item (by remitting funds, boarding loans, transferring loans, etc.) or inform Minnesota Housing why they believe no action is required by the Servicer for that individual reconciling item.

Reporting

Minnesota Housing requires that certain reports be prepared at certain times. All reports are to be available for downloading within five business days of the cut-off date. The Servicer must ensure all reports are accurately prepared and submitted promptly. The cut-off date for monthly reporting is the last business day of the month.

Failure to provide the required reports is a violation of the Servicer's responsibilities and constitutes a violation of the Servicing Agreement.

The following is the list of required reports:

- Trial Balance
- Principal and Interest Collections
- Delinquent Loans
- Prepaid Loans

- Unscheduled Principal Collections
- New Loans
- Payoff/Foreclosure Collections
- Cut off Summary)
- Service Fee Statement (Invoice)

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

Appendix A: Definitions

This Appendix defines words or terms that are used throughout this manual. Some are commonly used terms while others are Minnesota Housing created terms.

TERM	DEFINITION
ACH Transmission	The moving of money electronically by transmitting electronic data transactions using the Federal Reserve Banking System.
Acquired Property	A property for which Minnesota Housing has gained title through foreclosure or acceptance of a deed in lieu of foreclosure; often referred to as real estate owned (REO).
Agreement	The Minnesota Housing Finance Agency Targeted Mortgage Opportunity Program Servicing Agreement between Minnesota Housing and Servicer.
Broker Price Opinion (BPO)	An opinion of the valuation of the property based on marketing comparison with recently sold properties and currently listed properties, usually completed by a real estate agent.
Escrow Account	A special account that a servicer establishes to hold monthly installments from the borrower to cover property taxes and insurance.
Military Indulgence	The protection enacted and provided by the Soldier's and Sailor's Civil Relief Act to a borrower who is about to enter or is in the military and whose ability to keep a loan current has been materially affected by military service.
Mortgage	A legal document that pledges property to a lender as security for the repayment of the loan. The term also is used to refer to the loan itself.
Mortgage Loan	A loan secured by a valid lien on real estate upon which there is located a structure(s) designed primarily for residential use by not more than four families.
Mortgaged Property	The real property, structure(s), and all other property that is the subject of a Mortgage.
Performance Watch	A period of time during which Minnesota Housing will closely monitor the Servicer's performance and compliance.

TERM	DEFINITION
Power of Attorney	A written document authorizing another to act on his behalf as an Attorney-in-Fact. Such power may be either general or limited.
Program	Targeted Mortgage Opportunity Program
Short Sale	A sale of real estate in which the proceeds from selling the property will fall short of the balance of debts secured by liens against the property, and the property owner cannot afford to repay the liens' full amounts and where the lien holders agree to release their lien on the real estate and accept less than the amount owed on the debt.
Special Flood Hazard Area	An area designated by the Director of the Federal Emergency Management Agency. This area has a 1% chance of being flooded within any given year. The risk of exceeding the 1% chance increases with time periods longer than one year. Flood Insurance is required for properties located within these areas.
Suspense Account	An account used temporarily to hold money that cannot yet be released.

Appendix B: Forms

Assumption Agreement with Release of Liability
Loan Paid in Full Statement (106)
Payoff Remittance Summary-Trustee
Recommendation/Advice of Action (171)
Redemption Statement (114)
Remittance Summary-Trustee
Statement of Expenses (108)
Loan Modification and Extension Agreement

Appendix C: Frequently Used Numbers

Minnesota Housing Finance Agency
400 Wabasha Street North, Suite 400
St. Paul, Minnesota 55102

Single Family Division
Kasey Kier, Assistant Commissioner Single Family Division
Judi Mortenson, Business Operations Manager, Single Family Division
Benjamin Landwehr, Operational Risk Management Supervisor, Single Family Division

General Information:	651-296-8215 or 1-800-710-8871
Division General Fax Line:	651-296-8292
Common email	MNHousing.Portfolio@state.mn.us
Minnesota Housing Website:	www.mnhousing.gov

Portfolio Management

Justin Obenauer (Portfolio Lead)	justin.obenauer@state.mn.us	651-296-3029
Jeramiah Townsend (REO Professional)	jeramiah.townsend@state.mn.us	651-296-8835
Rico Passley (Paraprofessional)	rico.passley@state.mn.us	651-296-7925
Katie Eaton (Paraprofessional)	katie.eaton@state.mn.us	651-297-4103

Accounting Division

Krissy Moua	Krissy.Moua@state.mn.us	651-296-8842