

DHCD SINGLE FAMILY SERVICING MANUAL

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SECTION 1 - INTRODUCTION – All loans

A. PURPOSE OF THIS MANUAL

The DHCD Single Family Servicing Manual is an investor-servicing Manual prepared by The Maryland Dept. of Housing and Community Development. The purpose of this Manual is to provide Servicers with the information needed to properly service DHCD's single family loans under the various Servicer Agreements, all of which incorporate this Manual by reference.

Please be aware many DHCD loans are insured by Maryland Housing Fund, a separate division under the Maryland Dept. of Housing and Community Development. Please contact Maryland Housing Fund at (410) 514-7300 if you would like a current copy of their Servicing Manual.

B. APPLICABILITY

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

C. MANUAL EFFECTIVE DATE AND AMENDMENT

This Servicing Manual supercedes all previous manuals issued and is effective upon its posting to the Department's website (<http://www.dhcd.state.md.us>). Servicers will be advised, in advance, of the posting of the Manual by letter and/or e-mail to the Servicers' designated contact(s).

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

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

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

D. DHCD GOALS AND BACKGROUND

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

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

In general, the Department's single family activity falls into two categories that are based on the source of funding for the loans. The first and largest

category is composed of loans for low and moderate-income homebuyers funded through the sale of revenue bonds. The second and smaller category is composed primarily of purchase money loans, rehabilitation, and home improvement loans that benefit very low to moderate-income households funded with State appropriations.

Bond-funded loans, also known as CDA or Maryland Mortgage Program loans, are purchase money loans. They are originated by private lenders and purchased by the Department. They are insured/guaranteed by FHA, MHF, VA, RHS, and other private Mortgage Insurer/Guarantors. These loans are interest bearing, amortizing, and involve escrows. The loans in this category are serviced by a number of Originator Servicers and a Primary Bond Servicer. The Primary Bond Servicer is responsible for: 1. All loans made prior to October 2002 that originators chose not to service; 2. All loans, of this type, originated and purchased since October 2002; 3. Loans transferred from Originator Servicers to the Primary Bond Servicer by DHCD.

State Funded Loans vary greatly in purpose, terms, and conditions. They range from interest bearing amortizing loans to zero interest deferred payment loans. In some cases, loans may be forgiven over time based on the borrower's compliance with certain conditions. State funded loans are not insured. They are originated directly by DHCD or through a network of local governments or nonprofit agencies utilizing a number of Department programs (see Appendix E). The entire portfolio of State Funded Loans is serviced by a Primary State Servicer specifically contracted to service these unique loans.

E. DHCD ORGANIZATION AND CONTACT INFORMATION

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

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

The Division of Credit Assurance performs the asset management function for all loans made by the Department. This includes monitoring the Servicers' performance in loan maintenance and determining the Servicers' ongoing compliance with Servicing Agreement requirements. Also, through the Maryland Housing Fund, a unit of this Division, the Department has provided

mortgage insurance for Bond Funded Loans purchased by the Department. Although no longer active in providing insurance for new loans since 1997, the Maryland Housing Fund holds mortgage insurance certificates on a significant number of the Bond Funded Loan portfolio. As of December 31, 2002, Maryland Housing Fund insured 40.4% of the Bond Funded Loan portfolio.

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

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

F. GENERAL SERVICING PRINCIPLES

Servicing of mortgage loans using generally accepted Industry standards - Servicers are required to follow applicable federal and state laws. Servicers are also to ensure mortgages are serviced in accordance with sound mortgage banking and accounting principles and are to protect DHCD against fraud, misrepresentation, or negligence by any parties involved in the servicing process.

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

Privacy Policy - The Servicer is responsible for complying with all State and Federal laws regarding a Mortgagor's privacy, including sending any notices required by law. The Servicer shall keep all personal information of any Mortgagor confidential and shall not provide a Mortgagor's personal information to any non-affiliated third party. Subject to the Maryland Public Information Act and any other applicable laws, all confidential information and

documentation relating to either party or a Mortgagor (including without limitation, any information or data stored on the Servicer's computer systems) shall be held in absolute confidence by the Servicer. The Servicer shall, however, be permitted to disclose relevant confidential information to its officers, agents, and employees to the extent that such disclosure is necessary for the performance of their duties under the Servicing Agreement, provided the data may be collected, stored, disclosed, sorted and disseminated only as provided by and consistent with the law. The provisions of this section shall not apply to information that: (1) is lawfully in the public domain; (2) has been independently developed by the Servicer without violation of the Servicing Agreement; (3) was already in the possession of the Servicer; (4) was supplied to the Servicer by a third party lawfully in possession thereof and legally permitted to further disclose the information; or (5) the Servicer is required to disclose by law.

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

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

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

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

SECTION 2 – SERVICER/INVESTOR RELATIONSHIP – All Loans

A. Servicing Agreement Requirements

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

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

1. Annual Financial Statements and Certifications – Contact DHCD’s Compliance Section at (410) 514-7300

- **Annual Audit** - Servicers must be able to provide DHCD with annual audited financial statements together with an opinion by an independent certified public accountant or firm of independent certified public accountants. This must be submitted within 120 days after the end of the company’s fiscal year. DHCD reserves the right to request further financial information at any time and may terminate servicing agreements if not reasonably satisfied about the company’s financial status.
- **Annual Certification** - Appendix Form A2 is a form for Servicers to certify that they are in compliance with DHCD’s policies and procedures including certification of custodial accounts. It should be completed in full, signed by an officer of the company and returned to DHCD at the same time as the annual audit. Any item in this form which cannot be certified as true must be explained in detail.
- **FannieMae Approval** - All loan Servicers must be approved to service mortgage loans by Fannie Mae and must provide DHCD with annual evidence of current approval. FannieMae will confirm that a Servicer is in good standing with them if requested to do so by that company.

Appendix Form A3 is a form letter that Servicers may use to obtain written the confirmation.

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

- **Fidelity Bonds** - Fidelity Bonds must cover against loss arising from dishonest, fraudulent or criminal acts committed by the servicing company and its employees. The amount of coverage must be equal to a percentage of the Servicer's total portfolio according to the formula found in Exhibit C of the Mortgage Agency Agreement (Appendix A1) or in other amounts acceptable to Fannie Mae. The policy's deductible may be for any amount up to the lesser of \$100,000 or 5% of the bond's face amount. Servicers must get DHCD's permission for higher deductible amounts.
- **Errors & Omissions Coverage** - Errors and Omissions policies must insure against losses resulting from negligence and mistakes in maintaining required hazard, flood and mortgage insurance coverage or failure to pay real estate taxes and other special assessments. The amount of coverage should be equal to the fidelity bond coverage amount. The policy's deductible clause may also be the same as for the fidelity bond coverage. If the policy provides for coverage per mortgage, the maximum deductible amount cannot be more than 5% of the insurer's liability per mortgage.

B. Servicing Company Changes – Contact DHCD’s Compliance Section at (410) 514- 7300.

- 1. Servicing Company Changes in Location** - Servicers must inform DHCD at least sixty days in advance of any changes in the location of their servicing operations.
- 2. Corporate Mergers, Acquisitions, and Name Changes** - Servicers must inform DHCD if there are any changes in the corporate structure of the servicing company. If the company is changing its name from the one that was used in signing DHCD’s Servicing Agreement, then the forms in Appendix Form A4 must be completed. If the company has been acquired or has merged with another company, whether or not forming a new corporation, then the forms in Appendix Form A5 must be completed. DHCD reserves the right to terminate its Servicing Agreement, if, in our opinion, corporate changes make a company no longer qualified to service DHCD loans.
- 3. Savings Association Insurance Fund (SAIF)** - Servicers are in default of their Servicing Agreement with DHCD whenever SAIF, the FDIC, or a similar entity or successor is appointed as receiver, liquidator or trustee of the company. Servicers are expected to notify DHCD promptly whenever this occurs. DHCD will issue a written notice that terminates our Servicing Agreement and gives sixty (60) days for DHCD loans to be transferred. The notice will provide the contact information for the Servicer where the loans are to be transferred. There is no compensation paid for this transfer.
- 4. Transfer of Servicing** - Currently Servicers of Maryland Mortgage Program (MMP) loans, that are in good standing and not the Primary Bond Servicer, are permitted to transfer their MMP portfolio to another Servicer who meets DHCD’s servicing qualifications. Such transfers must have DHCD’s prior written approval. If the transfer is approved by DHCD, the Servicer may charge a fee to the receiving entity. Please be aware that Servicers do not own the “servicing rights”, as that term is typically used within the industry, to the MMP portfolio that they are servicing.

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

- Copy of Deed of Trust Note with all pertinent riders
- Copy of the recorded Deed of Trust with all pertinent riders
- Copy of the Title Insurance Policy
- Copy of the Mortgage Insurance Certificate/Guarantee/Policy
- Current Hazard Insurance Policy/Declarations Page

Notice to Hazard Insurer advising of loan transfer and change in mortgagee clause
Current Flood Insurance Policy/Declarations Page (if applicable)
Notice to Flood Insurer advising of loan transfer and change in mortgagee clause, if applicable
Flood Certification form
Ground Rent owner information (if applicable)
Notice to ground rent owner advising of loans transfer (if applicable)
Complete loan transaction history
Collections history, if applicable
Escrow information and statement at time of transfer
Most recent escrow analysis or aggregate analysis from loan closing
Most recent tax bill or tax information
Contact information for borrower (mailing address, phone numbers, e-mail, etc.)
Copy of good-bye letter to borrower
Any other miscellaneous loan documents in the current servicer's possession

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

C. Monitoring of Servicer Performance

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

random selection of files selected at site visits of the Servicer's offices, information the Servicer submits to DHCD, information from loans via the Servicer's website, or information obtained from an outside customer.

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

- Initial loan set up
- Servicing loans during construction period, if applicable
- Timeliness of cash receipt to DHCD
- Timeliness of reporting to DHCD
- Presentation of Reports/Disclosure (data fields)
- Accuracy of data
- Delinquency Reports – timely, complete, correct
- Foreclosure and loss mitigation packages – timely, complete, appropriate request, accurate reason for default
- Loss mitigation efforts – all options given, appropriate options discussed, number of collection calls per month, appropriate outside referrals for assistance.
- MMP/Mortgage Insurer guidelines being followed – timely legal referrals, notices, and reports to Mortgagor/investor/Mortgage Insurer, and interest curtailments
- Servicer 60+ delinquency rates must stay at or below Maryland FHA All loans as published quarterly by the Mortgage Banker's Association.
- Customer service to DHCD and the mortgagor – complaints, compliments, responsiveness to requests from DHCD
- Mortgage insurance claims – timely, complete, correct
- Post foreclosure sale servicing performed timely – requests for eviction, cleaning property, securing, winterizing, forwarding keys, grass cuts, etc.
- Hazard insurance claims – filed and resolved timely
- Escrow payments handled properly
- Annual certification performance to DHCD
- Requests for loan changes (subordinations, assumptions, partial releases)
- Servicer provides detailed property condition report at initial inspection
- Other issues – other servicing errors, failures, etc.

Non-Compliance with Servicing Guidelines: A letter will be forwarded listing items that are not in compliance. Servicer's are subject to monetary penalties, mandatory training (which may involve travel to DHCD), warning letters, being placed on probation, repurchase of specific loans, indemnify DHCD for any loss incurred, or termination. For more information on penalties and fees, please refer to Section 8 – Foreclosure Legal Action, Section E. Penalty Fees for Delays and Section 4 – Reporting and Remittance Requirements, D. Reports and

Remittances to CDA Finance Dept. , #16. . Penalties and Remedies Sections - Servicer Reports and Remittances to CDA Finance. If the Servicer is placed on probation, they will be given a period of 3 – 6 months to bring the deficiencies into compliance. At the end of this time, Servicers who are unable to comply with DHCD 's requirements, may have their probation extended or be sent a notice of termination of the Servicing Agreement. Any material deviation from applicable state or federal laws, the Servicer's Servicing Agreement with DHCD, this Manual, Mortgage Insurer/Guarantor requirements and/or Program documents, may be cause for termination of the Servicing Agreement.

D. Termination of Servicing Agreement

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

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

SECTION 3 – GENERAL LOAN SERVICING

A. Loan set up

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

2. State Loans

- a. **Home Buyers Assistance Programs (DSELP, MHFP).** Single Family Housing, approved DHCD Lenders, or local non-profit organizations are required to send the Primary State Servicer a copy of the loan closing documents within 5 days after the loan has closed, along with the setup sheet which outlines the terms of the loan. The original Deed of Trust and Title Policy will be forwarded to the Servicer to retain once the local agency has recorded the Deed of Trust. The original Deed of Trust Note will be held by DHCD. Servicers are to have the loan on their system and begin servicing the loan within 5 business days from receipt of the loan closing documents.
- b. **State Funded Rehabilitation Program Loans (MHRP, IPP, LHRGLP).** DHCD's Single Family Housing section, as well as a network of local county and city housing agencies, originates housing rehabilitation loans under various programs, noted above. Single Family Housing or the local agency are required to send the Primary State Servicer a copy of the loan closing documents within 5 days after the loan has closed, along with the setup sheet which outlines the terms of the loan. The original Deed of Trust and Title Policy will be forwarded to the Servicer to retain once the local agency has recorded the Deed of Trust. The original Deed of Trust Note will be held by DHCD. Servicers are to have the loan on their system and begin servicing the loan within 5 business days from receipt of the loan closing documents.

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

- 1. The construction period -** Loans are to be set up by the Primary State Servicer in the database during the construction period but the loan balance must show zero (\$0) balance until the Servicer is notified in writing of construction draws. During the construction period, funds are disbursed on draw schedules by the local housing agency or Single Family Housing to the contractor as work progresses. Single Family Housing or the local housing agency will provide a disbursement report monthly for each loan which identifies principal disbursements for the preceding month. The Servicer will adjust the loan balance within ten (10) working days of notification. The Servicer shall use this information to bill the Mortgagor interest based on the amount of principal advanced to date. The loan balance must reflect the construction draws to the contractor not the disbursement by DHCD to the local housing agencies. Once the construction draws have been made, it may be necessary to bill for accrued interest in accordance with the loan documents. A loan may start as deferred or with escrow-only payments during the construction phase and become an amortizing loan after the work is completed. It is also possible that construction period interest will be added to the loan principal. Accrued interest must be calculated and reported monthly on all loans in accordance with the loan documents, even if billings are not necessary.
- 2. Post Construction -** At project closeout, the return of unused funds on a construction loan by a local housing agency must be accounted for as both a construction draw increasing the principal and a loan collection decreasing the principal. Once the construction period is over and the loan is fully disbursed, DHCD prepares a closeout statement and sends it to both the Primary State Servicer and the Mortgagor. The Servicer should use this information to reconcile the principal balance and prepare the loan billing to begin fixed principal and interest payments at the note rate. Discrepancies between Single Family Housing/local agencies' records and the Servicer should be brought to Single Family Housing's attention. Should the construction period extend beyond the original term, the Servicer or Mortgagor should forward a request to Single Family Housing *through the local housing agency* asking for a change in the date that fixed principal and interest payments are to start. The local housing agency will verify the status of the construction for Single Family Housing and request a new first payment date for the loan. Single Family Housing will prepare and send an Allonge to the Note to the local housing agency for the Mortgagor to sign.
- 3. Requests for payoff quotes during the construction period –** If the Servicer receives a request to payoff the loan, the Servicer should contact Single Family Housing at (410) 514-7565 to confirm the principal balance owed. Single Family Housing will work with the local agency if necessary.

C. Initial Contact – All Loans

1. Verification of Mortgagor Address and Phone Number - Prior to the first payment, the Servicer should contact the Mortgagor to introduce themselves, clarify their basic procedures and to verify critical data obtained from settlement. A sample Introductory Letter is supplied in Appendix C, Form C1. It is understood that the Servicer may have to change this letter to fit their operations; however, the basic information outlined in this section must be included.

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

3. Servicer Offices & Phone Numbers - Information must be provided to the Mortgagor on how to contact the Servicer both by letter and by telephone. Telephone numbers provided in letters should direct the Mortgagor to the Servicer's telephone number not DHCD. Servicers located outside the State of Maryland are required to provide a toll free number to the Mortgagor.

D. Processing Mortgage Payments – All Loans

1. Payment Processing - The Servicer must at all times maintain adequate facilities for the collection of mortgage payments. At least one location must be clearly identified where payments can be received on a business day and be processed the same day. Payments received at other locations should take no more than five (5) working days to process. Mortgagors should be informed of these possible processing delays. The Servicer's method of collecting payments should be explained to the Mortgagor in detail. The explanation should include the place or places where payments are accepted, and the form of payment notice or coupon that is used. Payments are to be credited in full monthly amounts only. Partial payments are to be held in suspense as part of a payment plan or while the Servicer attempts to contact the Mortgagor regarding the balance owed. Payments received should be applied as outlined in the Mortgage Note or Deed of Trust Note.

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

E. Information Required in the Servicing File – All Loans

1. Required information - The Servicer must maintain an individual file for each loan. Within each file the following documentation and information must be included, either on paper, on microfiche, or electronically:

- Copy of the most recent escrow analysis
- Copies of all legal notices or correspondence concerning the loan
- Copies of all loan assumption documentation
- Copies of the Note, Deed of Trust, Title Policy, HUD I Settlement Statement, mortgage insurance/guarantee certificate appraisal, and the survey
- Records of all insurance loss settlements and related documentation
- Payment and collection history from loan inception
- Copy of current hazard insurance policy or insurance declarations page
- Any other records required by law
- All documents required per the CDA Lender Servicing Manual, Attachment P, Page 1

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

- you may destroy mortgage records after a period of five years from the date a loan become inactive by foreclosure, payment in full, or loan maturity except if loan was accelerated, unless a greater period is required by the Mortgage Insurer/Guarantor, State, or Federal law.
- Records must be maintained on accelerated loans for a minimum of seven (7) years.

F. Custodial accounts and account records – All Loans

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

2. Account Records - The Servicer's records must clearly show the respective interests of DHCD/CDA and each individual Mortgagor on all accounts. Accounts may be held in the Servicer's own depository facilities if the Servicer is authorized to exercise trust or custodial powers. Such accounts must be managed in accordance with rules and regulations established by the applicable Federal, State, and Local laws. The Servicer is expected to furnish DHCD with copies of statements regarding these accounts at any time upon request.

Furthermore, as part of DHCD's/CDA's Annual Audit, the Servicer and the Servicer's bank must confirm to DHCD's/CDA's Auditor that these accounts are in DHCD/CDA's name and that DHCD/CDA funds are not commingled with any other moneys held by the Servicer.

G. Payoffs & Account Close-outs

1. Bond Loans - Releasing Documents on Payoffs of MMP Loans -

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

2. State Loans - Releasing Documents on Payoffs for all loan programs

except MMP – When a loan is paid off, a Request For Original Documents (Appendix B, Form C7), a copy of the payoff check, and any original documents held by the Servicer must be mailed to DHCD's Single Family Asset Management within 5 days of settlement. DHCD will endorse the documents for release and prepare a Certificate of Satisfaction. Payoff funds must be forwarded to DHCD Finance. Payoff funds must be wired or direct deposited to the Maryland State Depository Bank daily. Please refer to *Section 4 Reports and Remittances, Subsection E. Reports and Remittances for DHCD Finance* for remittance instructions.

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

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

H. Escrow Accounts – General Information – All Loans

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

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

2. Obtaining Statements – The Servicer is expected to obtain escrow expense bills required for each mortgage account and pay the expenses from funds accrued in the escrow account on or before the due date. The Servicer must maintain adequate records with proof of payment of all escrow bills including, but not limited to, tax receipts and hazard insurance receipts. The Servicer must further keep a detailed listing of disbursements.

3. Advancing Funds – The Servicer is to advance its own funds to pay a Mortgagor’s escrow bill if sufficient funds are not available in the Mortgagor’s escrow account when an expense becomes due. Collection from the Mortgagor of escrow shortages due to increases in taxes or other bills may be accomplished by prorating the shortage or requesting a lump sum payment. When lump sum payments are requested, Servicers will offer counseling to any Mortgagor who needs a reasonable amount of time to acquire the sum due or refer them to a HUD approved housing counseling agency.

4. Reimbursement on Delinquent Accounts – Escrow advances made on delinquent accounts will be reimbursed by DHCD only after foreclosure proceedings have been concluded and all mortgage insurance claims paid. Delinquent Mortgagors should be informed of advances made on their behalf and reminded that these amounts are due in addition to the principal and interest when the account is brought current.

5. Escrow Analysis – The Servicer will perform an analysis of the escrow account at least annually to determine if any change in the monthly escrow installment is required to pay future escrow bills. The Servicer shall comply with all State and Federal laws regarding any escrow surpluses or deficiencies. Mortgagors must be given at least thirty (30) days advance notice if payments must be increased. The Servicer must provide the Mortgagor with an annual

statement detailing all transactions affecting their escrow account. The results of the analysis must be disclosed in the annual statement to the Mortgagor in accordance with RESPA and any applicable state and federal laws.

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

I. Hazard Insurance Coverage – All Loans

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

- The coverage shall include all fire and extended coverage risks customarily insured against within the geographical area in which the property is located. The value placed on improvements by the insurer will be acceptable for hazard insurance coverage.
- Hazard insurance must be in effect on the date of closing of the mortgage loan and remain in effect as long as the mortgage is in effect.
- Servicers are required to have copies of the current hazard insurance policy or declarations page in the loan file.
- Insurance policies shall be sufficient in amount and scope of coverage to meet the requirements of the Mortgage Insurer/Guarantor.
- Policies containing a deductible clause up to \$500 applicable to either fire or extended coverage, or both, are acceptable.
- Each hazard insurance policy must be written by an insurance company which has an A. M. Best's Policyholder Rating of "B" or better and a Best's Financial Category Rating of Class VI or better (as described in Best's Key Rating Guide), and which is licensed or authorized by law to transact business within the State of Maryland.
- All policies of hazard insurance must contain or have attached the standard mortgagee clause:

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

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

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

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

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

Certificates which have no fixed expiration date (i.e. “continuous”) are acceptable only if the Servicer maintains a copy of the current master or blanket policy with a fixed expiration date.

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

4. Failure to Maintain Insurance – Any failure to maintain hazard insurance will be considered a default of the Servicing Agreement. The Servicer must immediately contact the Mortgagor on any notice of lapse of coverage. Servicers are also expected to obtain forced placed coverage. The value placed on the improvements by the insurer will be acceptable for forced placed hazard insurance coverage.

5. Notice of property damage on current loans - The Servicer shall promptly notify DHCD in writing within 10 days using DHCD Report of Hazard Loss For C-

11. - Report of Hazard Loss of any loss, vandalism, damage by fire, disrepair or damage from any other cause to the mortgaged premises in excess of \$30,000. If the mortgagor does not initiate restoration of the property within 60 days of the date of notification of loss, the Servicer must submit a supplemental C-11 form recommending appropriate action to DHCD, Compliance Department.

6. Hazard claims – If the Mortgagor does not file a hazard claim within 10 business days from notification of property damage, the Servicer should automatically file claims under the hazard insurance policy. The Servicer must file a hazard insurance claim in all instances of damaged property and let the hazard insurance company evaluate for coverage. The Servicer shall use its best efforts to assist in the collection of the proceeds of such policies with respect to all losses which may occur. The Servicer shall supervise all repairs if so instructed by DHCD Single Family Compliance and protect the interest of DHCD as mortgagee. Single Family Compliance must be notified of any hazard loss resulting in a claim of \$5,000.00 or more. Servicer is responsible for:

a. If the loan is current, the Servicer must:

- File a hazard insurance claim within 10 days of notification of damages
- Collect, endorse and disburse the insurance loss proceeds
- Verify that the contractor is duly licensed, qualified & experienced
- Review the estimate to determine that the described repairs are generally consistent with the damage reported on the proof of loss statement
- Establish a reasonable schedule for completion of each phase of repair
- Confirm that the Mortgagor and contractor have an executed contract. The contract must state the contractor will perform the work described in the plans & specifications and that the contractor will comply with applicable codes and regulations
- If the contractor requests an advance, Servicer has authority to approve the request using normal industry standards for advance and draw schedules
- Inspect the property for the status of the repairs, prior to issuing draws, with the exception of the deposit or first draw
- Obtain a letter from the Mortgagor stating the repairs have been completed in a satisfactory manner
- Provide written confirmation to DHCD that repairs have been completed and all payments made
- Ensure the security of the loan is not impaired
- Ensure the priority of our lien
- Servicer should be named as mortgagee on all drafts
- Comply with all FHA, VA, RHS, MHF, or Mortgage Insurer/Guarantor requirements for hazard claims and repairs.
- If restoration or repair is not economically feasible or if the security of the Deed of Trust would be impaired, DHCD may elect to have the

insurance proceeds applied against the outstanding mortgage balance secured by this Deed of Trust if allowed by Maryland statute. The excess, if any, would be paid to the Mortgagor.

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

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

c. If the loan is in foreclosure,

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

d. If the loan has already foreclosed:

- If the property is vacant, Servicer is required to take action to keep the property from sustaining more damage
- DHCD expects the hazard claim to be settled and to receive the loss statement within 45-60 business days from discovery of the damage for force place coverage and 60 – 90 days for other insurance carriers
- It will be the Mortgagor Insurer's/Guarantor's decision as to the disposition of the hazard proceeds.

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

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

- Within 48 hours ascertain the extent of damage to the property
- Secure the property and take any other action necessary to protect the abandoned property from vandalism and the elements
- Forward a written property condition report to DHCD Single Family Compliance by use of Form C-11.
- Counsel Mortgagors on any available disaster relief programs, discuss loss mitigation options, and refer the Mortgagors to a HUD approved housing counseling agency for assistance.
- Follow all requirements of Mortgage Insurer/Guarantor

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

J. Flood Insurance Coverage

Servicers are required to maintain adequate flood insurance coverage when the improved portion of a property is located in a special flood hazard area as defined by the Federal Emergency Management Agency and the National Flood Insurance Act. The coverage must comply with all applicable FHA, VA, RHS, MHF, and private Mortgage Insurer/Guarantor's flood insurance requirements. Servicers acquiring DHCD loans through a transfer of servicing must have in place appropriate procedures for performing due diligence with respect to flood insurance coverage and monitoring of changes in flood maps and community designations.

K. Mortgage Insurance/Guaranty – Bond loans

Most Maryland Mortgage Program loans made prior to August 1, 1997 are covered by a primary and pool insurance policy. FHA, RHS, and VA are considered primary Mortgage Insurer/Guarantors. The private mortgage insurance company usually covers the full mortgage amount, but in some cases, it only covers twenty-five percent (25%) and the pool insurer covers the remaining seventy-five percent (75%). DHCD pays pool insurance premiums and handles all reporting requirements. The Servicer's responsibility is to satisfy private mortgage insurance requirements. The pool insurer will honor claims after the private mortgage insurance company has paid its claim. The Servicer is

responsible for complying with all pool insurance requirements for disposition of the property and timely filing of the pool insurance claims.

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

- **Loans with private mortgage insurance financed under the 1982A bond series** (CDA Series #62) with must have a loan balance equal to or less than 80% of original fair market value. Fair market value is defined as the lesser of the original sales price, not including settlement costs, or appraised value.
- **Loans with private mortgage insurance financed under the 1983 Second bond series** (CDA Series #67) must have a loan balance equal to or less than 75% of original fair market value.
- **Loans insured through Maryland Housing Fund prior to January 1, 1998** financed under all other bond series must have a loan balance less than 75% of the original principal loan amount. In all cases, current appreciation in property value does not count in the determination of cancellation.
- **Under the Homeowners Protection Act of 1998, private mortgage insurance for a loan originated on or after July 29, 1999**, that is secured by the borrower's one-family principal residence will be cancelled at the borrower's request when the loan-to-value ratio (LTV) reaches 80% based on the value of the home at loan origination or the principal balance is 80% of the original appraisal in order to have private mortgage insurance cancelled at this point, the borrower must have a good payment history, have no other loans taken out on your home and the property value must not have declined.
- **Loans insured through private mortgage insurance companies or through the Maryland Housing Fund made after January 1, 2005**, in addition to termination and cancellation rights available to the borrower under the Homeowners Protection Act, DHCD also permits a borrower to request cancellation of, provided that: (1) the loan balance is 75% or less of the current value of the home as established by a new appraisal acceptable to DHCD; (2) none of the borrower's payments were 30 days or more past due within the 12-month period before the mortgage insurance will be cancelled; (3) none of the borrower's payments were 60 days or more past due during the 24-month period before the mortgage insurance will be cancelled; and (4) the loan is between two and five years old. If the loan is more than five years old, the loan balance may be 80% (instead of 75%) or less of the current value of the home as established by a new appraisal acceptable to DHCD; conditions (2) and (3) also apply. If the borrower does not request private mortgage insurance cancellation,

the servicer must automatically cancel private mortgage insurance on these loans when the LTV is scheduled to reach 78 percent, based on the value of the home at loan origination, provided that the loan is current at that time.

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

Using the above formulas, Servicers will advise Mortgagors when they inquire about mortgage insurance cancellation. If the Servicer agrees that a Mortgagor meets the qualifications under HOPA, they are to cancel the mortgage insurance, notify the MI insurance company and send a letter to CDA Finance advising them the mortgage insurance premium has been cancelled. DHCD retains the right to refuse cancellation of mortgage insurance, regardless of principal balance, due to poor payment history.

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

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

L. Real Property Taxes – All loans

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

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

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

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

Under the Soldier's & Sailor's Civil Relief Act of 1940 as amended, Mortgagors who are **called to active duty** may have the interest rates on their mortgages reduced to 6.0% and any foreclosure proceedings may have to be suspended. The law applies to persons in the Army, Navy, Air Force, Marines and Coast Guard including various related Reserve units. If any DHCD Mortgagor wants to invoke this Act and have the interest rate on their loan reduced to 6% or have foreclosure proceedings halted, they must submit a written request to the Servicer along with a copy of their military orders. It is the Servicer's responsibility to obtain necessary documentation to determine the eligibility of any Mortgagor seeking relief under this Act. A follow-up procedure must be established to learn when Mortgagors are released from service and are no longer covered by this Act. DHCD is not requiring any Mortgagor who may be eligible for relief to prove financial hardship. Although Mortgagors have the responsibility to make a written request for relief under this Act, Servicers are responsible to follow up on any indications should they become aware of a Mortgagor who might be covered under this Act. Servicers are to report loan adjustments using Form MMP10 Soldiers and Sailors Civil Relief Act Notice of Interest Rate Change (see Appendix B) and include it in the monthly ABS report

to CDA Finance (Refer to *Section 4 – Reporting and Remittance Requirements Subsection C. Reports and Remittances to CDA Finance*).

N. Annual Statements – All loans

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

O. Modification, waiver, release – All loans

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

P. Non Occupancy of Mortgaged Property – All loans

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

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

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

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

DHCD may grant a waiver to this requirement, but only upon written request from the Mortgagor and only for a temporary period of time. Servicers should advise

Mortgagors seeking such a waiver that requests will only be considered if they fall into one of the following categories:

- **Temporary Job/School Relocation** - Occasionally Mortgagor's employers may require a move to another location for long periods of time, but not necessarily permanently. Mortgagors also sometimes pursue educational opportunities that require them to move. Requests for permission to rent the property under these circumstances must be accompanied by a letter from the Mortgagor's employer explaining the nature and duration of the assignment. If it is a military assignment, a copy of the military orders must be provided. In the case of returning to school, evidence of enrollment is needed.
- **Listing for Sale** - Mortgagors sometimes have changes in their personal lives (marriage, divorce, children etc.) that necessitate moving. In these cases, it will be necessary to list the property for sale. Requests for permission to rent the property under these circumstances must be accompanied by a sales listing agreement and/or any sales Servicing Agreement as well as an explanation of why a move from the property is necessary.
- **Inability to Sell** - Mortgagors sometimes have changes in their personal lives that **necessitate** moving, but could not sell the property without taking a substantial monetary loss. Requests for permission to rent under these circumstances must be accompanied by a Real Estate Market Analysis and Closing Cost Estimate showing the loss the Mortgagor would suffer by selling at this time.
- **Financial Hardship** - Permission to temporarily rent the property may be considered if the Mortgagor is unable to meet monthly mortgage obligations because of financial problems. Requests to rent the property under these conditions must be accompanied by documentation of the Mortgagor's financial situation and a copy of the proposed rental agreement.

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

3. Notice of Non-Occupancy - Servicers should notify DHCD of any circumstances indicating that the Mortgagor has failed to move into the property within 60 days after closing. If a Mortgagor occupying the property gives notice

that the Mortgagor intends to move from the property or has already done so, Servicers should refer the notice to DHCD's Compliance Section immediately upon receipt of any notification.

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

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

Q. Second Lien Requests – All loans

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

R. Loan Assumptions

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

Appendix C, Form C8 is a checklist of documents that must be included in a loan assumption package sent to DHCD's Compliance section. The form should be completed by the Servicer's loan processor and sent as a cover to the application. For loans which are insured by FHA, RHS, VA, or a private mortgage insurance company, the application must include evidence that the assumption meets the Mortgage Insurer/Guarantor's requirements. For loans which are insured by MHF, the application should be submitted to DHCD Compliance first for both MHF approval and DHCD approval.

All applicants for assumption must qualify as an eligible borrower under the current rules governing DHCD's program as they exist at the time of application. Servicers who participate as originating lenders for DHCD's program will receive regular updates on changes. Other Servicers should contact DHCD Compliance Section on 410-514-7316 for an update prior to taking an application. In addition to standard underwriting criteria, DHCD's program has the following special limitations:

- Income Eligibility - DHCD applicants must be low and moderate income, the definition of which is based on the median income in the State of Maryland.
- First Time Homebuyer - For properties located in certain parts of Maryland, the borrower cannot have owned other real property for at least the past three years.
- Maximum Sales Price - There are limitations on the sales price of homes financed by DHCD which vary by State regions.
- Conventional Test Rate – An applicant seeking DHCD financing must be unable to obtain conventional bank financing. This is determined by whether or not the applicant has monetary assets sufficient to make a down payment of twenty per cent (20%) of the sales price. If the applicant has that amount, his or her ability to qualify for a regular loan at conventional interest rates must be tested.
- Owner Occupancy - Purchasers must occupy the property as their principal place of residence for the remainder of the mortgage term.

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

2. Bond Loan assumptions (without monetary consideration) - Please contact the Compliance Section on 410-514-7316 to obtain information on documents and procedures.

3. State Loan assumptions (with or without monetary consideration) - Please contact the Compliance Section on 410-514-7316 to obtain information on documents and procedures. Terms for the assumed loan (such as rate of interest charged) may be changed depending on loan program, loan documents, and new borrower's current income. Assumptions may be denied if the borrower's income is too high.

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

Please contact the Compliance Section on 410-514-7316 to obtain information on documents and procedures.

T. Partial Release of Security – All loans

All partial releases must have the prior written approval of both DHCD and the Mortgage Insurer/Guarantor. The Servicer shall submit what is required directly to the Mortgage Insurer/Guarantor and send a copy of the submission to DHCD. The Servicer shall then notify DHCD of the Mortgage Insurer/Guarantor's decision and forward the release documents to DHCD for execution. DHCD charges \$50.00 for processing such releases. Please contact the Compliance Section on 410-514-7316 to obtain information on documents and procedures.

U. SUBORDINATION INSTRUCTIONS – State loans in junior lien position only contact DHCD Compliance Section at (410) 514-7316.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

V. Deceased Mortgagor Policy – All loans

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

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

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

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

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

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

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

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

SECTION 4 – REPORTING AND REMITTANCE REQUIREMENTS

A. Information Technology Requirements

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

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

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

2. State Loans - Loan Portfolio Data Submission – – this is currently done by hard copy reports. See [#4 Communication Methods](#) for further information.

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

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

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

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

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

B. DHCD Monthly Delinquency Reports to Single Family Collections

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

- a. Statistical Delinquency Report** - Please be advised the statistical summary (Form 8A) is no longer required for loans in the Maryland Mortgage Program. DHCD will be obtaining Servicer's statistical information from our in house system once updated from Servicer's monthly remittance reports sent to CDA Finance (Refer to Part D. of this Section - Reports and Remittances to CDA Finance).

b. Report of individual loans 60 days of more delinquent - The monthly delinquency information on all loans more than 60+ days delinquent has changed. The Servicer must start using the new format by July 1, 2002. The Servicer should forward a report generated from their own system (Form 8B is no longer required) with the following information:

- DHCD's 11 digit loan number.
- Mortgagor name
- Property address
- Mortgage insurance company
- Current principal balance
- Due date
- Last transaction date (or date last payment posted to account)
- Mortgage Insurance Company
- FNMA Default reason code
- FNMA Default status code
- FNMA occupancy code

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

a. Statistical Delinquency Report - The requirement for statistical Page 8A is still in effect for all loan programs *other than Bond Loans*.

Servicers are to send this report to DHCD's Single Family Collection section by the 10th day of the next month. Loans are to be sorted by loan program. Once a loan has foreclosed, it is not to be included in this report under total number of active loans or any other category. Statistical information for this report is to be separated into the following categories (Form 8A is no longer required):

- Total number of active loans
- Total principal balance of active loans
- Total number of 60 day delinquent loans
- Total number of 90+ day delinquent loans (loans in bankruptcy or where a request for a Motion for Relief of Bankruptcy stay is requested should be included)
- Total number of loans referred for foreclosure legal action.
- Total number of 60 days or more delinquent loans (include 60 day delinquent, 90+ delinquent loans, and loans referred for foreclosure legal action, exclude any loans already foreclosed)
- Total principal balance of all loans 60 days or more delinquent (include 60 day delinquent, 90+ delinquent loans, and loan in legal action, exclude any loans foreclosed)
- Delinquency rate for loans 60 days or more delinquent (Total number of loans 60 days or more delinquent divided by total number of active loans)

- Once a loan has foreclosed, it should not be included in the statistical report but must be included in the report of the status of individual loans (b. below).
- b. Report of individual loans 60 days of more delinquent** - Servicers are required to report individual loans as outlined in Subsection B. 1. DHCD Monthly Delinquency Report for Bond Loans, above. The Servicer will also report foreclosed loans until they receive a letter from Manager, Single Family Collections authorizing release of servicing responsibility.

3. Non-DHCD investor loans that are Maryland Housing Fund Insured

Servicers should forward their monthly delinquency report for the Maryland Housing Fund insured, non-DHCD investor loan portfolio to the attention to Single Family Compliance.

C. Reports for Mortgage Insurer/Guarantors – All loans

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

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

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

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

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

Example:

- **Bond Series-** 1984 Second has a series code of 069. The bond series may be alpha/numeric.

- **Originator-** ABC Savings & Loan has originator code of 999.
- **Loan Purchased-** John Doe has a code of 00001. Therefore, CDA'S loan number for this loan is 06999900001.

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

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

AES Reports are due in the CDA Finance office within five days following the monthly cutoff.

Reports are to be mailed overnight delivery to:

Maryland Department of Housing and Community Development
Community Development Administration
100 Community Place, Room 4.447
Crownsville, Maryland 21032-2023
ATTN: Single Family Reporting Supervisor
CDA Finance

2. Cash Remittance, Reporting and Cutoffs:

- **Remittances_-** Monies collected for CDA mortgages must be remitted to the Trustee no later than next business day after the day of receipt. (Use form #MMP01)
- **Loan Paid In Full_-** Money collected on loans paid in full **MUST** be mailed or wired by the end of the first business day following payoff. (Use Forms #MMP01 and #MMP09 for mailing/wire instructions)
- **Final Remittance_-** A final remittance to close out the current cycle must be remitted to the Trustee within two business days of the monthly cutoff. (Use from #MMP01)
- **Wire Instructions**

M&T Bank
25 S. Charles Street
Mail Code 101-591
Baltimore, MD 21201

M&T Bank
ABA #022-0000-46
Account #01950200
F/F/C Trust Division/CC880

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

CDA Finance
100 Community Place, Room 4.447
Crownsville, Maryland 21032-2023

3. Form #MMP01 Summary of Remittance:

PLEASE DO NOT ATTEMPT TO REMIT NEGATIVE TOTALS.

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

The Servicer is required to complete Form #MMPOI for Payoff and all Remittances.

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

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

- Servicer Number - CDA assigns a three digit numeric computer code to each Servicer. **This code is very IMPORTANT.** All activity is processed and sorted by this code.
- Servicer Name and Address - Include city for positive identification.
- Amount - List the exact amount to be applied, in the space provided, by each bond series.
- Total Remittances - List the total of all columns combined. **The Trustee requires a proof tape be included with remittances.** Check whether "Interim", "Payoff", or "Final" remittances.

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

M&T Bank M&T Bank
25 S. Charles Street
Mail Code 101-591
Baltimore, MD 21201

Wire Instructions:

M&T Bank
ABA #022-0000-46
Account #01950200
F/F/C Trust Division/CC880

A copy of the MMPO1 and a copy of the wire transmittal are to be sent to:
Maryland Department of Housing and Community Development
Community Development Administration
100 Community Place, Room 4.447
Crownsville, Maryland 21032-2023
ATTN: CDA Finance

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

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

- **Servicer Number** - This is the three digit computer code assigned by CDA. (Not the originator code unless they are the same) If you are not sure of your computer code, call your representative.
- **Servicer and Address** - Include the city for identification.
- **Series** - List the three character computer code or name of the bond series.
- **Date Payoff Received** - List the date your company received the payoff (This should also agree with the final - "Interest Collected To" date- see *Interest Collected* bullet below).

- **Date Remitted to Trustee** - List the date the payoff wire and Form #MMP09 were sent to the Trustee. (Payoff funds must be wired by the end of the first business day following payoff.)
- **CDA Loan Number** - List the CDA'S 11 digit loan number.
- **Servicer Loan Number, Interest Rate, and Service Fee Rate** - List each.
- **MHF/FHA Insurance Certificate Number** - If applicable.
- **Name and Address** - List the Mortgagor's complete name and address.
- **Paid-To-Date Before Payoff** - This is the due date of the last installment paid by the Mortgagor, prior to payoff.
- **Principal Balance Before Payoff** - This is the current outstanding principal balance. Verify for agreement with DHCD Billing Trial Balance, provided additional activity did not occur after the cutoff.
- **Interest Collected:** From _____ to _____. "Interest Collected From", will be the due date of the last installment paid by the Mortgagor. "Interest Collected To", will be the date the loan paid off. REMEMBER: DHCD uses a 30 day month and a 360 day year, not actual days. Interest is collected through the day before payoff (or the "Interest Collected To" date).
- **Sub-Total** - List the total principal and interest.
- **Service Fee Earned** - Is calculated as a flat fee per loan per month.
- **Total Remittance To Trustee** - This is the sum of the principal balance, Interest, less service fee.
- **Signature** - The signature is the Servicer's certification that the loan is paid in full and the mortgage should be released.
- **Paid-In-Full Remitting Instructions**

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

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

M&T Bank
25 S. Charles Street
Mail Code 101-591
Baltimore, MD 21201

M&T Bank
ABA #022-0000-46
Account #01950200
F/F/C Trust Division/CC880

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

CDA Finance
100 Community Place, Room 4.447
Crownsville, Maryland 21032-2023

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

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

Loan Portfolio Data Transmission:

Currently, loan Servicers are required to electronically submit exception-based data on the loan portfolio to CDA. The electronic data supplied to CDA is an ASCII data file (see Appendix B, Form MMP11). The ASCII file must conform to the CDA’s specifications and layout requirements and must be delivered to a designated DHCD

e-mail account as an e-mail attachment by the specified deadline. CDA may change it’s requirements with regard to the specifications, layout and other file format changes as well as the media of transmission. Such changes can be made at the discretion of CDA and the cost of compliance will remain the responsibility of the Servicer.

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

Electronic email files or data are to be mailed to:

dhcd_Servicers@dhcd.state.md.us.

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

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

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

These forms must be completed manually:

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

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

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

How To Complete Forms for AES Reporting:

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

7. Form #MMP02 - Monthly Cash Reconciliation

- **Servicer Number** - The three (3) digit computer code assigned by CDA.
- **Servicer name and address** - Include city for positive identification.
- **Series Code** - The three (3) character alpha/numeric computer code assigned by DHCD.
- **Line #1. Amount Due** - Each month CDA Finance sends the Servicer a **Level Payment Billing Statement and Trial Balance**. This report generates your beginning (or forecasted) figures, based upon the activity reported during the previous cycle. Line 12 of the Level payment Billing Statement, **NOT THE BILLING TRIAL BALANCE**, will list your beginning figure, (or line #1 of the MMP02).
- **Line #2. Additions**

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

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

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

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

- **Line #3. Reductions**

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

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

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

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

- **Line #4. Servicing Fees Earned** - This total is calculated on the total interest collected during the cycle and earned by the Servicer. (Servicing fees earned on loans paid in full **MUST** be included in this figure.) This total must agree with the total servicing fees listed on line 10 of this form.
- **Line #5. Total Remittance Due CDA. Exclusive of Foreclosures.** This is the sum of lines #1 through #4. (Be sure to follow the signs to the left of each dollar sign). Proof for accuracy.
- **Line #6. Remittances To Trustee**

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

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

Final Remittance - List date of remittance and total remitted per the series.

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

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

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

- **Line #8. Principal Payments Collected This Cycle** - Form #MMP07 must be completed and attached to document the total (include payoffs).
- **Line #9. Interest Payments Collected This Cycle** - Form #MMP07 must be completed and attached to document the total (include payoffs).
- **Line #10. Servicing Fee Earned** - This total is calculated from the total interest collected during the cycle (line #9). The total must also agree with line #4 of the MMP02 (include payoffs).
- **Line #11. Prior Month's Overage (Per Billing)** - This total is picked up from the Level Payment Billing Statement. The line is labeled "Overage". If the Billing Statement indicates the total is 0.00, **do not** list a total here. (Overages may be due to unrecovered money for payment reversals, curtailment reversals and/or remittance errors made in a previous cycle). Always correct an overage during the next cycle, do not let it continue for several months.
- **Line #12. Prior Month's Shortage (Per Billing)** - This total is picked up from the Level Payment Billing Statement. The line is labeled "Shortage". If the Billing Statement indicates the total is 0.00, do not list a total here. (Shortages may be due to errors in payment reporting or calculations during a previous cycle). Always correct a shortage during the next cycle, do not let it continue for several months.
- **Line #13. TOTAL (Lines 8 Through 12)** - This is the sum of lines #8 through #12. Be sure to follow the signs to the left of each dollar sign and proof for accuracy. This total should also agree with the totals listed on lines #5 and #7. If they do not agree, your Monthly Cash Reconciliation is out of balance.

Any discrepancy in the reconciliation should be researched and corrected PRIOR to submitting the report to CDA. However, if you are unable to determine what problem is causing the discrepancy, CALL YOUR REPORTING

REPRESENTATIVE. Often, we are able to assist you by phone when provided with a little background information.

- **Line #14. Over/Short This Month (if #5, #7 & #13 are not equal, enter difference here)**- If a remittance for this cycle was incorrect, the difference should be listed here. If the total is a shortage, the amount should be added to the next remittance. If the total is an overage, the amount should be subtracted from the next remittance.
- **Line #15. Other Remittances (NOT DUE PER LEVEL PAYMENT BILLING STATEMENT)**-This line should not be included in any total or part of the report's documentation. This line is to track additional amounts remitted by the Servicer to clear up shortages not billed.

8. Form MMP03 - Principal Reconciliation

- **Servicer** - List Servicer name.
- **Servicer Number** - The three (3) digit computer code assigned by DHCD.
- **Series Code** - The three (3) character alpha/numeric computer code assigned by DHCD or the bond series name. (Example: 069 or 1984 Second)
- **Line #1. Total Per CDA Level Payment Billing Trial Balance** submitted to the Servicer with the level payment billing statement. The beginning figures on line 1 are picked up from the total line of the trial balance sent to the Servicer, with the billing statement. These figures are the ending figures (plus new purchases) from the previous cycle. **DO NOT** attempt to use figures from the billing statement as they may not be the same and will throw you out of balance.
- **Line #2. LESS Total Number of Paid-In-Full loans and Total Level Payments of Loans Paid-In-Full This Cycle (attach Form MMP06 to document)**. On the lines provided, you must list the total number of loans paid-in-full and the total of their monthly level payments. These figures **MUST** agree with the total indicated on Form #MMP06. This action will take the loan out of the beginning control figure. Form #MMP09 must be completed and mailed to CDA at the time of payoff to document figures here and on Form #MMP06 (repurchased loans should be reported as paid-in-full).
- **Line #3. LESS Loans Foreclosed this Cycle**. On the lines provided, you must list all loans foreclosed during the current cycle. You will need to list the CDA loan number, the final principal balance, and the monthly level

payment. This action will take the loan out of the beginning control figure (short sales should be reported as foreclosures).

- **Line #4. LESS Loans Purchased, But Not Setup by Servicer.** You must list any loan purchased by CDA, and the loan's level payment, that is not included in the Servicer's trial balance. Again, this action will remove the loan from the beginning control figure. Remember to complete and attach Form #MMP05, if payments are due on these loans.
- **Line #5. LESS PRINCIPAL PAYMENTS Received (include Paid-In-Full Principal collected).** You must list the total principal payments collected during this cycle. Remember to include payoff money. THIS TOTAL MUST EQUAL THE TOTAL USED ON LINE #8 OF THE MMP02 -MONTHLY CASH RECONCILIATION. Complete and attach Form #MMP07 to document the total.
- **Line #6. OTHER DIFFERENCES (Explain).** To arrive at this figure, you must subtract the totals listed in lines #2, #3, #4 and #5, from the beginning control figures (line #1). The sum of the figures should equal the Servicer's trial balance totals (line #7). If they do not equal the Servicer's trial balance totals, the difference should be listed on line #6. Any difference listed must be accompanied by an explanation.

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

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

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

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

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

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

- **Prepaid Installments Received This Month** - Prepayments are complete (principal & interest) payments paid in advance. In this section of the MMP04, you must list each loan prepaying installments during the reporting cycle. Each prepaid installment **MUST** be listed by CDA's eleven digit loan number. The loans **MUST** be listed in order by the transaction date. Each transaction **MUST** be listed as a separate item. **DO NOT LUMP MULTIPLE PREPAYMENTS TOGETHER AS ONE TRANSACTION. DO NOT REPORT PARTIAL PAYMENTS.** If you receive three prepayments on one loan, list each separately by transaction date. Enter section total on #2A of Form MMP02.
- **Curtailments** - Curtailments are payments of additional principal only. In this section of the SF04, you must list each loan paying curtailments during the reporting cycle. The activity **MUST** be listed by CDA's loan number. The curtailments **MUST** be listed in order by transaction date. Each curtailment must be listed separately, for each payment received. (If a borrower paid three payments in advance and a curtailment with each payment, the three curtailments must be listed individually by transaction date.) **DO NOT LUMP CURTAILMENTS TOGETHER AS ONE ITEM.** This will cause a major difference in the amortization. **ALWAYS INCLUDE THE DUE DATE OF THE PAYMENT THE CURTAILMENT WAS APPLIED TO.** This action can also create a major difference in amortization. **CURTAILMENTS CAN NOT BE APPLIED TO A LOAN THAT IS DELINQUENT.** Enter the section total on line #2B of Form #MMP02.
- **Additions to Amount Due_** - **DO NOT USE THIS SECTION OF FORM #SF04 FOR ANY PURPOSE OTHER THAN THOSE LISTED HERE.**

Code #1 - N/A

Code #2 - N/A

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

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

- **Delinquencies on Loans Reported by Servicer.** This section of the MMP05 must list by loan, any payment, or payments due, but not

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

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

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

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

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

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

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

NOTE: When performing payment and/or curtailment reversals, **EACH** payment and/or curtailment **MUST** be reversed as a separate transaction. (Use the same method as applying payments and/or curtailments.) Do not perform a net reversal/adjustment to correct an error requiring multiple reversals.

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

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

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

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

- **Monthly Level Payment** - List the regular monthly level payment for each loan paid-in-full. Include the sum of this column on the line provided.
- **Payments Not Collected** - This figure equals the total payments due CDA (or BILLED but not processed due to payoff or foreclosure during the current cycle). These payments were collected as a part of the payoff and MUST be removed from the beginning control total. Include the sum of this column on the line provided.

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

- **Principal (collected per payoff)** - List the total principal collected, per each payoff.
- **Interest (collected per payoff)** - List the total interest collected, per each payoff.
- **Total Principal + Interest** - List the sum of the principal + interest collected, per each payoff.
- **List the sum of** -The monthly level payments, payments not collected, total principal + interest, and the total number of loans removed on the lines provided.
- List the total level payments and the total number of loans removed on line #2 of Form #MMP03.

- List the total payments not collected on line #3D of Form #MMP02.
- List the total (principal + interest) on line #2D of Form #MMP02.

12. Form #MMP07 - Collection Report.

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

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

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

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

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

13. Form #MMP08 - Trial Balance.

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

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

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

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

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

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

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

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

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

Delayed Remittances

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

End-of-month Reporting Format

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

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

Inadequate Reporting

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

The following matrix summarizes penalties and corresponding offences.

Penalty Matrix

Note: the table below references the following penalty types:

- #1** Greater of \$250 or per diem charge at the prime rate plus 3% per annum assessed on the amount past due
- #2** First occurrence within a 24-month period a warning letter is sent, second occurrence charge of \$500 plus \$50 for each day the report remains late, third and subsequent occurrences \$750 plus \$50 for each day the report remains late.
- #3** Penalty equal to total servicing fees due to servicer for all loans reported incorrectly or required to be set up manually

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

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

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

1. Remittance Instruction:

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

Bank of America

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

- Detail to the daily deposit must be faxed or emailed to DHCD Finance's State Loan Accounting Dept. within (1) working day of each remittance. The detail must include by program and between single family and multi-family, principal, interest, and total remittance.
- Direct deposits require that a copy of the deposit ticket and customer receipt from the Bank be mailed to DHCD Finance, Central Finance, within (1) working day of each remittance. Mail to:
DHCD – Finance and Administration
100 Community Place
Crownsville, Maryland 21032-2023
- The Servicer is required to send payoff statements to Mortgagors or their authorized agents upon written request free of charge. DHCD must be notified of any Single Family loan payoff within three (3) working days of fund receipt. The payoff notice must identify the loan, the amount of the payoff and include any original documents held by the Servicer. This payoff notice must be sent separately from the actual remittance of funds to DHCD Finance.

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

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

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

SECTION 5-DEFAULT SERVICING

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

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

B. Servicer General Collection Responsibilities – All Loans

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

- An accounting system that immediately alerts the appropriate department that a mortgage is delinquent.
- A Collection Department and Loss Mitigation staff that is familiar with all FHA, VA, RHS, MHF, private mortgage insurance, Freddie Mac and Fannie Mae procedural and reporting requirements.
- Counseling procedures to advise Mortgagors how to avoid or cure delinquencies/defaults;
- Guidelines for the individual analysis of each delinquency;
- An internal collection procedure manual;
- Instructions and adequate controls for sending delinquent notices, assessing late charges, returning partial payments, maintaining collection histories, reporting delinquencies to credit bureaus, etc.

- Management review procedures to evaluate both the Mortgagor's actions and the Servicers' collection efforts before a final decision is made to either accept some form of repayment arrangement or to start liquidation proceedings;
- A method for comparing the Servicers' own delinquency and foreclosure ratios with those of others in the industry.
- It is preferred that Servicers have an automated Loss Mitigation System which includes software which assists decision-making.

C. Billing Procedures – All Loans

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

At a minimum, the Servicer must provide the Mortgagor with a monthly bill or coupon book which clearly indicates the monthly amount due, the payment due date and the date after which a late charge will be assessed. The notification should also include the late charge amount. The notification must also indicate the location where payments are to be sent.

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

D. Late Charges – All Loans

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

2. Collecting Late Charges - The amount of the late charge is determined in the Mortgage Note or Deed of Trust (mortgage documents). Servicers may neither compound nor capitalize late charges. Servicers should not use the late charge penalty as a collection tool. Servicers may not, under any circumstances, return payments to Mortgagors which do not include late charges. (See [#3 Waiving and Deferring Late Charges](#), below). Mortgagors are to be counseled as to the negative affect of making late payments to their credit rating or their ability to obtain future credit.

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

E. Phone Calls – All Loans

Servicers are required to contact Mortgagors by phone at least once a week during any period of default until contact is made. Calls prior to default are optional. Servicers are required to contact Mortgagors both at home and at their place of employment. However, calls to the Mortgagor's place of employment may only be made within the limits of the Fair Debt Collection Act. Servicers should make every effort, using all available resources, to obtain accurate phone numbers for all Mortgagors who are signors of the loan documents.

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

Servicers are not required to make evening or Saturday phone calls to defaulted Mortgagors. However, Servicers must have a review procedure in place which clearly identifies defaulted loans with no Mortgagor contact. These loans must be referred to a senior collector or Supervisor for special handling. Servicers must designate these loans for evening or Saturday calls and must continue collection efforts until contact is made.

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

F. Late payment notices – All Loans

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

G. Letters

1. All Loans - Servicers are required to send a minimum of one letter a month to Mortgagors during each month of delinquency following a default until the loan is reinstated, a workout or payment plan is in place, or the loan is placed in foreclosure. The letters must advise the Mortgagor of the seriousness of the situation and must include the total amount due for reinstatement. The letters must also include a phone number and contact person or department where the Mortgagors may reach the Servicer to discuss their situation. Servicers must provide a toll-free number for Mortgagors who are outside their local dialing area.

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

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

H. Notice of Mortgage Default – All Loans

Servicers are required to send all Mortgagors a Notice of Mortgage Default letter (Appendix C Form C3) when a loan reaches the 31st day of delinquency. This letter must be sent no later than the 35th day of delinquency and may include a financial questionnaire or loss mitigation package to be completed by the Mortgagor.

I. Notice to Mortgage Insurer/Guarantors – Bond Loans

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

J. Default Counseling – All Loans

Some DHCD Mortgagors may encounter financial difficulties early in the term of their mortgage and may not be aware of the consequences of a mortgage default. Default counseling is necessary for these Mortgagors at the first indication of financial difficulty to insure that the Mortgagor does not develop a

pattern of late payments. Servicers must offer counseling to all Mortgagors who contact them, especially to those Mortgagors who call **before** their payments are in default or who are early in the default process.

- 1. Authorization to discuss Mortgagor's accounts:** Servicers are required to speak to the Mortgagor or their designated agent. It is recommended that a Limited Power of Attorney or similar document be obtained by the Servicer before speaking to anyone other than the Mortgagor or their attorney. Servicers may speak with HUD Counseling Agencies at anytime with proper authorization signed by the Mortgagor.
- 2. Establish the reason for default:** Establishing the reason for potential or actual mortgage default at an early stage is critical to the prompt resolution of problems. Servicers must emphasize to the Mortgagor the importance of resolving the underlying reason for the default during the early stages of delinquency. The Servicers must work with the Mortgagor to establish a relationship which will encourage the Mortgagor to communicate their problems to the Servicer. Servicers are cautioned against utilization of Installment Loan collection techniques when dealing with Mortgagors who are experiencing financial difficulty. Simply collecting payments without attempting to resolve the underlying cause of the default may result in the creation of chronically late paying Mortgagors, and is not consistent with the policies of DHCD.
- 3. HUD Counseling Agencies:** The use of HUD approved Counseling Agencies is mandatory in all instances where it appears that the Mortgagor is experiencing long-term financial difficulty. Additionally, all DHCD Mortgagors must be referred to HUD Counseling Agencies if they have previously been in foreclosure or broken previous repayment/forbearance plans. The loan collection history must clearly document this requirement.
- 4. Discussion of DHCD Loss Mitigation Options** (Refer to Section 6 Loss Mitigation Guidelines for policies and procedures): Servicers are required to offer default counseling and discuss all loss mitigation options with DHCD Mortgagors who are in default or may anticipate being in default. The Collection history notes must be clearly annotated to show that the Mortgagor has been advised of all loss mitigation options and the Servicer has made sufficient attempts to offer default counseling. Servicers are required to structure their Counseling/Loss Mitigation Department in a manner which is consistent with DHCD's goal of preserving homeownership and avoiding foreclosure if at all possible. Each case is to be handled on an individual basis and based on the facts of that case only. Servicers must insure that their staff is adequate, properly trained and familiar with the Fair Debt Collection Act. They must be proficient in the discussion of all loss mitigation options.

5. Compliance with FHA/VA/RHS Collection/Loss Mitigation

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

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

K. Category of Default – All Loans

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

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

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

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

- Death of spouse, no insurance.

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

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

It is extremely important to distinguish the difference between a Mortgagor who is constantly paying late as a convenience and the chronically defaulting Mortgagor. A Mortgagor who pays every 30 to 45 days is not necessarily a chronic late payer. A chronically defaulting Mortgagor is more likely paying at 60 to 90 days. Their reason for paying in this manner is usually poor budget planning or excessive installment debt. The mortgage is no longer their most important bill or top priority.

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

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

L. Acceptance/Return of Payments

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

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

3. Partial Reinstatement

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

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

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

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

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

M. Property Preservation – All Loans

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

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

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

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

1. Securing Vacant/Abandoned Property - Should a property be found to be abandoned, the Servicer should take immediate action to protect DHCD's interests by having the property secured. It is the responsibility of the Servicer to determine that the property has been abandoned and is subject to possible vandalism or damage. Lock changes and boarding of the property should be done under Mortgage Insurer/Guarantor or FHA/VA guidelines and only after it is established

the property is abandoned. The Servicer is responsible for insuring the property is protected against possible damage or weather conditions and must have the property winterized according to insurer or FHA/VA guidelines.

N. Collecting Under an Assignment of Rents – State Loans

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

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

1. The mortgage provides for an assignment of rents
Other arrangements to repay the delinquency cannot be made
This action will not create any new rights for the occupant that might impair DHCD's ability to foreclose the mortgage at a later date.
2. When the Servicer believes that it is appropriate to pursue collection under the assignment of rents provision, it should recommend a specific action to DCHD by submission of a foreclosure recommendation package. DHCD will review the file and advise the Servicer if they should proceed with the action.

O. Non-Monetary Defaults – All Loans

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

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

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

P. Filing a Judgment - All Loans

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

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

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

If DHCD determines we cannot legally file a judgement or take further collection action due to bankruptcy, we will inform Servicer.

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

Q. Loan Writeoff – All Loans

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

1. The loan is not secured by real estate and :

- We are legally unable to collect the debt due to death of all debtors, filing of Chapter 7 Bankruptcy of all debtors, Chapter 13 bankruptcy protection, or when the estate does not have sufficient assets
- DHCD's Judgment Policy excludes a Mortgagor/debtor who meets certain hardship guidelines (death of one or more of the Mortgagors, default due to disability, severe medical problems, high medical bills, or other serious

hardship where a Secretarial Determination has approved waiver of policy guidelines).

2. The loan is secured by real estate and:

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

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

R. Loan Acceleration – All Loans

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

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

If they require mailing within the first 60 days of delinquency, the timing of the acceleration letter must meet Mortgage Insurer/Guarantor guidelines. In no case, however, will these letters be mailed later than the DHCD mandated 61st day of delinquency. Acceleration letters must be sent certified and regular mail, to all parties who signed the loan documents, at the property and mailing addresses (if different).

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

SECTION 6 - DHCD SINGLE FAMILY LOSS MITIGATION GUIDELINES

In addition to the Mortgage Insurer/Guarantor requirements, DHCD requires the following on All Loans:

- Servicers are required to discuss loss mitigation guidelines with the Mortgagor by the 90th day of delinquency. The notes in the collection history must document why each option was considered or denied.
- Servicers are required to suggest that the Mortgagor seek housing counseling and provide a list of HUD approved housing counseling agencies by the 90th day of delinquency. Such counseling is essential for loans which are chronic defaults and/or distressed circumstances, such as 2 or more foreclosure referrals, multiple broken promises to pay, multiple broken forbearance plans, death or serious illness of the Mortgagor. The notes in the collection history must document the referral to housing counseling.
- Servicers are not to refer Mortgagors to DHCD. Servicers are to contact DHCD with any questions or policy clarification and relay the information to the Mortgagor.
- Any application for loss mitigation which requires DHCD approval should be forwarded to DHCD Single Family Collections.

A. Forbearance

1. Bond Loans - Servicer is to follow Mortgage Insurer/Guarantor guidelines.

2. State Loans - Forbearance plans may include temporary suspension of payments, graduated payments, and plans with fixed payments that include part of the delinquent amount. Servicer may approve forbearance plans with a maximum term of one year for loans no more than 5 months delinquent without DHCD Single Family Collection's approval. A review of income and expenses should demonstrate the Mortgagor's ability to adhere to the plan. Informal, verbal forbearance plans of short duration (less than 3 months) are acceptable unless the Mortgagor has broken a previous forbearance plan. Forbearance plans of longer duration (3 months or more) or for Mortgagors with a previous broken forbearance plan must be in writing. **Servicers are encouraged to refer Mortgagors to HUD-approved housing counseling agencies** for budget counseling. If legal action has started, legal fees must be paid in advance and cannot be included in the forbearance plan. If there are extenuating circumstances, this requirement may be waived with DHCD approval.

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

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

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

B. Loan Modification

Servicers are responsible for obtaining approval from the Mortgage Insurer/Guarantor before submitting modification applications on all loans except Maryland Housing Fund insured loans. DHCD will consider a loan modification when the reason for delinquency is beyond the Mortgagor's control, such as unemployment, illness, divorce/separation, accident, or permanent reduction of income. The Mortgagor's income cannot be sufficient for a forbearance plan (unless the length of the forbearance plan is unrealistic). A review of income and expenses must demonstrate the Mortgagor's ability to make the modified mortgage payments. The Mortgagor cannot have received a previous loan modification. The Mortgagor must receive housing counseling related to the current delinquency. Servicers should use HUD's guidelines to determine Mortgagor's financial eligibility for a loan modification. DHCD may use HUD's guidelines to determine approval for loan modifications. Terms for loan modifications depend on the loan program:

1. Bond Loans - The loan must be at least 2 months delinquent and the property must be owner occupied. Delinquent interest should be capitalized. If needed, the maturity date on Maryland Mortgage Program loans can be extended 10 years for a maximum 40 year term. If the Mortgagor does not qualify for the payment based on a new capitalized loan, DHCD will consider a loan modification where the delinquent principal and interest payments are deferred and paid as a lump sum at loan maturity. Another option to capitalizing the interest, would be to extend the maturity date and have the

Mortgagor make monthly payments past the original maturity date in the exact number of delinquent monthly payments owed at the time of the loan modification. A promissory note or second mortgage for the deferred delinquent interest will be required. Delinquent escrow cannot be capitalized but may be paid under a forbearance plan. Several monthly payments can be paid directly to the escrow account to fully cure any escrow deficit. Additional monthly principal and interest payments not paid during the term of the forbearance may also be capitalized or deferred. Interest rate changes will only be considered for loans in default of payment if there is a **permanent loss of income** such as death of co-Mortgagor, the Mortgagor is elderly and on retirement income, or reduction of income due to permanent disability . *Default due to separation, divorce, or spousal abandonment does not qualify.*

2. State Loans - The terms available for a loan modification depend on the particular loan program. Some loan programs must be 2 months delinquent and owner occupied. For many programs, the interest rate can be changed, deferred, or forgiven. Interest rates range between 0% and 7%. The interest rate will be determined by using HUD's median income for the area. Delinquent interest can be capitalized, deferred, or forgiven. If the Mortgagor cannot afford capitalized interest, DHCD may extend the maturity date and have the Mortgagor make monthly payments past the original maturity date in the exact number of delinquent monthly payments owed at the time of the loan modification. The delinquent principal or even the entire principal balance of the loan may be deferred to maturity date. Maximum loan term is 30 years. Contact Single Family Collections for details of what loan terms for a modification are available for the type of loan you are servicing.

3. Loan programs not eligible for a loan modification include:

- Home & Energy Loan Program and HUD HOME Program
- Loan programs with escrow only payments are not eligible for consideration of a loan modification other than an extension of the maturity date.

4. All Loans eligible for a loan modification - If the new principal balance exceeds the original principal balance, the new maturity date exceeds 40 years from the closing date or the new maturity date is 12 years past the original maturity date on the Deed of Trust or Note (whichever is less), the modification agreement must be recorded. A title search, appraisal, or subordination agreement for junior mortgages may be required. If the property has junior liens and DHCD has determined the loan modification must be recorded, it will be the Servicer's responsibility to obtain subordination approval from the junior lien(s). Escrow expenses, legal expenses, etc. cannot be capitalized. The modification may be combined with a forbearance and be used to bring the escrow account current before

processing the loan modification. Servicer must submit the following documentation to DHCD for approval:

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

DHCD will review the information and forward a decision to the Servicer in writing. The Office of the Assistance Attorney General at DHCD will prepare any required loan modification documents. The loan modification documents will be forwarded to the Servicer to obtain the Mortgagor's signatures. Servicer will forward the original executed documents back to DHCD. Servicer is responsible for having documents recorded if it is determined that the loan modification agreement and any subordination agreement must be recorded. Not all loan modification agreements must be recorded.

C. Refinancing

1. Bond Loans - Servicer is to follow Mortgagor insurer guidelines

2. State Loans - If the loan is no more than 5 months delinquent, Servicer may request that DHCD delay legal action an additional 90 days while the Mortgagor attempts to refinance. If the Mortgagor makes additional payments, more time may be granted. DHCD will require the following documentation:

- Completed Delinquency Status Report Form 6A (see Attachments)
- Last 2 year's payment and collection history

- Written request to defer legal action
- Copy of the application for refinancing from the lending institution

D. Sale of Property

1. Bond Loans - Servicer is to follow Mortgage Insurer guidelines

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

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

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

E. Short Sale

1. Bond Loans - Servicer is to follow Mortgage Insurer guidelines. DHCD must be paid in full once all mortgage insurance claims are paid.

2. State Loans - Sale of the property should be strongly encouraged if the Mortgagor is no longer in the property, cannot afford the mortgage payment, or has defaulted on several payment plans. If the Mortgagor wants to place

the home for sale with a licensed Real Estate Agent or has a written offer to buy neither of which will generate enough proceeds to pay the loan in full, the Servicer may request that DHCD approve a short payoff of the loan.

To qualify for a short sale, the loan must be at least 60 days delinquent, unless the Mortgagor has documented their inability to continue making payments. If our loan is in junior position and the first mortgage is in default, we will consider a short sale as well. Other extenuating circumstances may be considered on a case by case basis. The property does not need to be owner occupied. DHCD must be the only mortgagee/lien holder on the property; otherwise, a written agreement must be obtained from the junior lien holder(s) agreeing to a short sale of their loan(s). The Mortgagor may list the property for sale at an amount less than the full payoff with DHCD's prior approval. If the loan is no more than 5 months delinquent, the Servicer may request that DHCD delay legal action an additional 90 days while the property is listed for sale. Additional time may be granted to sell the property if the Mortgagor can continue making full or partial payments. DHCD may still decide to initiate foreclosure or deed in lieu of foreclosure during this time. If the loan is in foreclosure and the Mortgagor has a Contract of Sale on the property, DHCD will consider placing legal action on hold. DHCD must approve the proposed Contract of Sale before the Mortgagor signs the Contract. Servicer must submit the following documentation:

- Completed Delinquency Status Report Form 6A
- Letter of explanation from the Mortgagor detailing the reason for default
- 2 years collection and payment history
- Financial form listing income and debts/expenses
- Verification of employment (written VOE or two paystubs) for all jobs, for all Mortgagors
- Two month's checking and savings statements (including retirement accounts, stocks, bonds, etc.) for all Mortgagors
- Federal income tax returns for all Mortgagors for the last two (2) years
- Documentation of property value (copy of appraisal or Realtor market analysis)
- Payoff statements for all mortgages/liens
- Copy of listing agreement (if applicable)
- Copy of the proposed Servicing Agreement of sale (if applicable)
- Copy of buyer's pre-qualification approval letter
- Accurate estimate of net proceeds from settlement

The Servicer will receive written approval or denial of the short sale request. The maximum allowable Realtor's commission for a short sale is 6%.

3. Payment Instructions (for all loan programs no matter who insures/guarantees the loan): The Servicer must instruct the settlement

company to forward a copy of the signed HUD I and a check for the agreed upon short payoff to:

Bond Loans: Make check payable to:
Community Development Administration
Finance Section
100 Community Place, 4th Floor
Crownsville, MD 21032
Attn: Ms. Mabel Cline

State Loans: Make check payable to:
Department of Housing and Community Development
P.O. Box 500
Crownsville, MD 21032

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

Upon receipt of the agreed upon sale proceeds and copy of the signed HUD 1 Settlement Statement, DHCD will issue a certificate of satisfaction and consider our loan paid in full. DHCD will forward a copy of the signed HUD I and check to the Servicer. The Servicer should file a mortgage insurance claim within 15 business days after receipt of the copy of the HUD1 and short payoff check. For uninsured loans the Servicer is to send any escrow deficit bill to DHCD.

F. Deed in Lieu of Foreclosure

1. Bond Loans - Servicer is to follow Mortgage Insurer/Guarantor guidelines for approval of a deed in lieu of foreclosure (DIL). Servicer is required to forward a package to DHCD (Refer to Section 8A Foreclosure Referral Requirements) DHCD will forward the DIL paperwork to be processed by DHCD's Servicing Agreement foreclosure attorneys. Servicer is to monitor the process and should file a mortgage insurance claim after the deed has been recorded in compliance with Mortgage Insurer/Guarantor times frames.

2. State Loans - In order to qualify for a DIL, the loan must be at least 60 days delinquent unless the Mortgagor has documented their inability to continue making payments. Other extenuating circumstances may be considered on a case by case basis. The property must be free of other liens and mortgages and in a condition acceptable to DHCD. DHCD *may* consider a DIL for small liens (under \$1,000). The Mortgagor must attempt

to sell the property for at least 90 days. This requirement may be waived due to extenuating circumstances. The property does not have to be owner occupied. The property must be vacant or will be vacant (exact time depends on how delinquent the loan, if loan is being listed for sale first, etc.) once the DIL paperwork is signed and forwarded back to DHCD's attorneys. The Servicer should submit the following documentation:

- Completed Delinquency Status Report Form 6A (see Attachments)
- Letter from the Mortgagor detailing the reason for default
- Last 2 year's payment and collection history
- Completed Statement of Mortgage Debt (see Attachments)
- Financial form listing income and debts/expenses
- Verification of employment (written VOE or two paystubs) for all jobs, for all Mortgagors
- Two months bank statements
- Two years Federal Income Tax Returns
- Documentation of Mortgagor hardship (letter, bills, receipts, etc.) as applicable
- Written letter signed by all Mortgagors on Deed of Trust, requesting the deed in lieu and agreeing to sign whatever documents are required; and
- If property is listed with a Realtor, a copy of the listing agreement and Realtor market analysis

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

SECTION 7 – BANKRUPTCY

Unless otherwise directed by this Section, all bankruptcy actions must be performed by an attorney assigned by DHCD. DHCD, through the Office of the Attorney General, has contracted with private law firms for legal services related to foreclosure and bankruptcy matters. To get an attorney assigned to a specific bankruptcy matter, the Servicer must follow the procedures specified in this section. Please note that if the Servicer voluntarily utilizes a DHCD attorney that has not been assigned by DHCD to file proof of claims in bankruptcy matters, DHCD may assign a different attorney to handle the case in accordance with this Section when further legal action is required.

A. NOTICE OF BANKRUPTCY FILING – All Loans

When a Mortgagor files a bankruptcy petition, the Servicer must take all actions necessary to protect DHCD's interests. The initial step in this process is to direct our attorney to take the appropriate action under the Bankruptcy code. If an attorney has not been assigned by DHCD or if an account was brought current on a loan that was previously assigned to a DHCD attorney, the Servicer must request that DHCD assign an attorney. There are three types of Bankruptcy filings. They are a Chapter 7, 11 or 13. Chapter 11 is normally a business or commercial filing and would be unusual for the DHCD portfolio.

- Chapter 7 - A liquidation procedure where a Trustee is appointed to collect debtors' assets, minus any state-allowed exemptions, and sell them to distribute any proceeds to creditors.
- Chapter 11 - A reorganization proceeding. This type of filing is usually done by a business or commercial enterprise with a substantial amount of debts/liabilities, and would be unusual for the DHCD portfolio.
- Chapter 13 - A wage earner reorganization. The Mortgagor's loan arrearage or delinquency will be made part of a reorganization plan, with the arrearages usually being repaid over a period of 3 to 5 years. The Mortgagor will pay post-petition payments directly to the Servicer. All pre-petition payments are made to the Trustee to be paid to the various creditors.

1. Notice of Chapter 7 Bankruptcy Filing

Upon receipt of a notice of a Chapter 7 bankruptcy filing by a Mortgagor, the Servicer must promptly file a Proof of Claim and Statement of Mortgage Debt on behalf of DHCD **only if the bankruptcy case lists assets**. If the

bankruptcy is a “no asset” case, the Servicer does not have to file a Proof of Claim. If the loan is delinquent or becomes delinquent, the Servicer should recommend to DHCD that a lift stay motion be filed. DHCD will assign an attorney to the case. The Servicer should also recommend a motion to lift the automatic stay when it appears that there is no equity in the property or the Mortgagor indicates that they are going to abandon the property.

2. Notice of Chapter 13 Bankruptcy Filing

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

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

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

- 1. Chapter 13** - In a chapter 13 proceeding, if a Mortgagor become two (2) months delinquent on their post-petition payments, the Servicer must request a motion to lift the automatic stay. The Servicer is to notify DHCD of this action.
- 2. Chapter 7** - If the Mortgagor filed Chapter 7 and the loan is delinquent, the Servicer must also request a motion to lift the automatic stay. The Servicer is to notify DHCD of this action as well.
- 3. Attorney assignment** - If a DHCD approved attorney has been previously assigned and the loan was NOT BROUGHT CURRENT, the Servicer may refer the case directly through the assigned attorney. If this is the first legal action on the account or the account was brought current after a previous legal referral, the Servicer must forward the request for motion to lift the automatic stay to DHCD’s Single Family Collections section. This request must include a copy of the bankruptcy filing, DHCD Delinquency Status and

Recommendation Form 6(Appendix C) and a Statement of Mortgage Debt Form. Within 15 days DHCD will forward a notice to the Servicer informing them which attorney has been assigned to perform the legal work. In the meantime, if the Servicer accepts reinstatement or any other workout, it is the Servicer's responsibility to contact DHCD and request that the legal referral be cancelled and to find out if any legal fees are outstanding. The Servicer will be held responsible for any legal fees outstanding if they do not contact DHCD and/or the assigned attorney to halt any legal referral sent.

C. FORECLOSURE AFTER AUTOMATIC STAY IS LIFTED

1. Bond Loans and State Loans in first mortgage position - The attorney for DHCD must notify the Servicer of the results of a motion to lift stay hearing within 5 business days from the date of the hearing. Should the motion be successful, the Servicer is to immediately notify the attorney to restart the foreclosure action unless further collections is appropriate or the Servicer has approved a workout. Servicer must initiate or resume foreclosure within 90 days of bankruptcy termination for uninsured first mortgages. Servicer must follow Mortgage Insurer/Guarantor guidelines to initiate/resume foreclosure. Should the motion be denied, the attorney must notify the Servicer of the failed motion, along with the reason cited by the court.

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

D. ABUSIVE FILING ACTIONS – All Loans

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

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

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

E. BANKRUPTCY ATTORNEY FEES – All Loans

Upon completion of a bankruptcy case, itemized invoices from the attorney are to be submitted to OAG for approval. Approved bills will be forwarded to the Servicer for payment. These expenses should either be included in the mortgage insurance claim, or collected from the Mortgagor if the loan is subsequently reinstated. If the Servicer is not reimbursed by payment from the Mortgagor, DHCD will reimburse the Servicer after the foreclosure has been completed or when the claim is settled.

SECTION 8 - FORECLOSURE AND LEGAL PROCEEDINGS

A. Foreclosure Initiation Time Frames

- 1. All Loans** - Servicers are required to submit a foreclosure package to DHCD's Single Family Collection section by the 120th day of delinquency (after reviewing the file for any loss mitigation options), unless the Mortgagor has been approved for some form of loss mitigation or repayment plan.
- 2. State Loans** - Servicers are to initiate or resume foreclosure within 90 days of a Bankruptcy termination for uninsured loans unless the mortgage is in a junior lien position.
- 3. Bond Loans** - Servicers must follow FHA, VA, RHS, MHF, or other private Mortgage Insurer/Guarantor guidelines to initiate or resume foreclosure within insurer time frames. Servicers will indemnify or repurchase loans when times frames or other Mortgage Insurer/Guarantor guidelines were not met during the foreclosure process. Prior to recommending foreclosure, the Servicer must have sent all required notices and made contact with the borrower as required by the mortgage, the DHCD servicing Manual, and the Mortgage Insurer/Guarantor. The Servicer has full authority to send all notices required by Mortgage Insurer/Guarantors without further approval from DHCD.

B. Foreclosure Referral Requirements – All Loans

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

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

Upon submission of a foreclosure recommendation package to DHCD, the Servicer will be responsible for collection of all costs and fees associated with the action from the Mortgagor. Servicers must contact DHCD, or the attorney assigned to the case, to determine the status of all foreclosure recommendations and any associated costs or fees before accepting reinstatement or initiating any loss mitigation action.

1. Foreclosure Recommendations – All Loans

When the Servicer's efforts to resolve the default have been unsuccessful, a foreclosure recommendation package must be submitted to DHCD. The following documentation must be included with the package:

- A completed Delinquency Status and Recommendation Form C6. (Appendix C). DHCD will use this form to assign the case to a DHCD Contract attorney. **Servicers may not assign foreclosure cases to their own attorneys.** Servicers will be responsible for all fees and costs incurred in conjunction with a foreclosure action that is not handled by a DHCD approved attorney.
- **Statement of Mortgage Debt** – Computer printout or with Servicers letterhead, Servicers name and account number, Mortgagor name. The loan payoff must be broken down by principal, interest and escrow. See Form C5.
- Two years of payment and collection history
- A copy of the Single Family Collection Loss Mitigation Letter
- A copy of the acceleration letter
- Any original loan documents which the Servicer may have in their file (Deed of Trust, Note, Title Policy, etc.
- Any other pertinent information, i.e., financial documentation, recent appraisals, real estate listing agreements, hardship letters, etc.
- Payoff statement for any senior mortgages, if applicable.

After receiving a foreclosure recommendation, DHCD may request additional information from the Servicer or require follow-up efforts to cure the default. Servicers are required to continue loss mitigation efforts if a Mortgagor contacts them after the foreclosure action has been started. **Under no circumstances should Mortgagors be referred directly to DHCD.** It is the responsibility of the Servicer to discuss options with Mortgagors who are in the foreclosure process.

Should the Servicer agree to accept a forbearance plan, reinstatement or a request for a short payoff after foreclosure has been recommended or initiated, they must notify DHCD in writing. It is also the responsibility of the Servicer to insure that they collect all outstanding attorney fees and costs should they accept reinstatement.

2. Foreclosure approval/denial - Within 30 days of receipt of a foreclosure recommendation, DCHD will notify the Servicer of a decision, which may be any of the following:

- Approval to proceed with foreclosure and the assignment of an attorney.
- Initiation of Judgement proceedings should foreclosure not be in the best interests of DHCD
- Write off of the loan
- Advise the Servicer to continue collection efforts
- Authorize the Servicer to delay the legal action with an explanation as to why foreclosure will not be pursued.

3. Subsequent Legal Referrals

- **Bond Loans and State Loans that are in first mortgage position** - If a DHCD approved attorney has already been selected for a previous legal referral and the loan was not brought current, the Servicer may forward future referral requests for that particular loan directly to the same attorney unless instructed otherwise by DHCD.
- **State Loans that are in junior lien position** - Servicers are required to forward all referral requests to foreclose on junior liens to DHCD for review. Servicers may not initiate or resume foreclosure without DHCD approval.

C. Servicing After Foreclosure has been Initiated

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

2. Payment of Escrow Items All Loans - Servicers are to required to advance all escrow disbursements during the course of the foreclosure action until a deed is recorded to either CDA, DHCD, the Mortgage Insurer/Guarantor or a third party purchaser. Servicers are not authorized to pay homeowner association or condo fees prior to the foreclosure sale. The fees may be paid after the sale and included on the Mortgage Insurer/Guarantor's claim. After the deed is recorded, the Servicer is not authorized to pay any further expenses. The Servicer will receive written approval from DHCD to remove the account from their control.

3. Property Preservation All Loans - The Servicer is to continue monthly inspections and all property preservation until the deed is recorded to DHCD, CDA, the Mortgage Insurer/Guarantor or a third party purchaser. If the property is found to be vacant during the foreclosure process, the Servicer is to secure and winterize the property and obtain forced-place hazard insurance in accordance with Mortgage Insurer/Guarantor guidelines. It is the responsibility of the Servicer to protect the property from damage or vandalism. The Servicer will be reimbursed for any expenses incurred to the extent allowed by the Mortgage Insurer/Guarantor. For State Loans that are uninsured, follow FHA guidelines for property preservation and protection. If amounts exceed FHA guidelines, please contact Single Family Collections for to obtain approval.

4. Notice of Property Damage to DHCD All Loans - The Servicer is required to notify DHCD immediately of any damage to a property discovered during the course of a foreclosure action. A damage report must be submitted and a claim must be filed with the hazard insurance carrier in the name of the Servicer or DHCD.

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

costs in escrow. The Servicer should immediately notify the attorney that reinstatement has been received. The attorney will then submit an itemized bill to OAG, which will forward the bill to the Servicer for payment.

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

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

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

- The progress of the foreclosure, reporting all problems/delays to DHCD in writing
- The efficient completion of foreclosure proceedings and subsequent acquisition of clear and marketable title, including eviction of the occupant of the property
- Compliance with all Mortgage Insurer/Guarantor requirements
- Payment of any lien certificate fees or tax sale redemption in the amount of \$2,999 or under. Tax sale redemption over \$3,000 requires DHCD's prior approval

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

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

11. Foreclosure Sale and Bidding Instructions

- a. **Bond Loans** - The Servicer and attorney must comply with the requirements of the Mortgage Insurer/Guarantor when setting sale dates. Notice of the sale date must be given to and bidding instructions obtained from the Mortgage Insurer/Guarantor in accordance with their requirements. **If there is no Mortgage Insurer/Guarantor, the Servicer is to follow instructions under b. State Loans, below.** The attorney will bid on behalf of DHCD according to the instructions provided by the Servicer unless an insurer representative attends the sale. If there are no higher bids than the minimum bid established by the Mortgage Insurer/Guarantor, the property will be acquired in the name of The Community Development Administration (CDA) of the Department of Housing and Community Development of the State of Maryland or such other name as DHCD shall advise the Servicer.
- b. **State Loans** - the Servicer is to instruct the Contract law firm handling the foreclosure sale to contact the Foreclosure Coordinator of DHCD's Compliance Section for bidding instructions at least 10 business days prior to the foreclosure sale date. She will need a copy of the Statement of Mortgage Debt that reflects current debt and cost figures. If there are no higher bids than the minimum bid established, the property will be acquired in the name of the Department of Housing and Community Development (DHCD) of the State of Maryland (State Loans), Community Development Administration of the Dept. of Housing Community Development (Bond Loans), or such other name as DHCD shall advise the Servicer.
- c. **State Loans in junior mortgage position** - the Servicer is to contact Foreclosure Coordinator of DHCD's Compliance Section, as detailed above, and **the sale must be advertised as subject to payoff of the first mortgage.** If there are no higher bids than the minimum bid established, the property will be acquired in the name of the Department of Housing and Community Development (DHCD) of the State of Maryland or such other name as DHCD shall advise the Servicer.
- d. **Bond Loans insured by VA - VA No-Bid** - The Servicer must immediately advise DHCD in writing upon notification from the VA of a proposed No-Bid. The Servicer must include the necessary buydown information, including the amount necessary to convert the No-bid to a VA acquisition. The VA foreclosure appraisal and buydown worksheet must be sent to DHCD with the No-bid notice. Prior to the foreclosure, DHCD will advise the Servicer if a VA buydown is to be granted.

D. POST FORECLOSURE SALE SERVICING

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

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

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

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

3. Sale Ratification, Eviction and Deed Recording

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

b. MHF/State Funded and Uninsured Loans – Within 30 days of notice of the foreclosure sale ratification date, the Servicer is required to verify occupancy. Within 30 days of verification that the property is occupied, the Servicer must request the attorney to proceed with the eviction. If the property is vacant or becomes vacant at the time of eviction, the Servicer must secure the property within 30 days of the notification of vacancy. Securing the property includes but is not limited to, lock change, boarding as

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

4. Third Party Sale – All Loans - If the property was purchased by a third party, the Servicer should continue regular inspections and advise DHCD, if any damages are discovered. Once the sale has ratified, the Servicer is responsible for monitoring and facilitating timely settlement of the 3rd party sale. Proceeds from the 3rd party sale are to be forwarded directly to DHCD along with a copy of the HUD1. Once the 3rd party settlement has taken place, the Servicer is to cancel all property preservation, hazard insurance coverage and should not pay any further escrow expenses. It is the responsibility of the 3rd party purchaser to handle any evictions, not the Servicer.

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

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

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

information to us in a timely manner. DHCD expects the Servicer to accomplish the following liquidation tasks in the following timelines:

- Referral for foreclosure - Servicer must refer a case to DHCD or DHCD's Servicing Agreement attorney to initiate legal action within Mortgage Insurer/guarantor time frames. For uninsured loans, if the Servicer does not have an active loss mitigation workout, foreclosure must be initiated by 6th month of delinquency. If the loan was in bankruptcy, the Servicer must resume foreclosure within 60 days of the bankruptcy termination. If loss mitigation failed, Servicer is to enter into another loss mitigation agreement or initiate foreclosure within 60 days.
- Foreclosure sale - The foreclosure sale must be held in accordance with Mortgage Insurer/guarantor guidelines. For uninsured loans, the sale must be held within 5 months of referral.
- Securing/winterizing - A vacant property must be secured and winterized within 30 days of its being found vacant.
- Eviction proceedings - Within 30 days of the sale being ratified, the Servicer must inspect the property for occupancy and request eviction proceedings be initiated, if occupied.
- Property cleanout - Within 30 days of the sale being ratified and property becoming vacant, Servicer is to clean out property per Mortgage Insurer/Guarantor guidelines.
- Conveyance to Mortgage Insurer/Guarantor - Within 90 days of sale ratification and property becoming vacant, Servicer is to convey property to Mortgage Insurer/Guarantor or DHCD (for uninsured properties).
- Mortgage Insurance Claims - Servicer is to file mortgage insurance claims within Mortgage Insurer/Guarantor time frames.
- Hazard Insurance Claims – Hazard insurance claims should be resolved within 60 days. In addition to any monetary penalty, DHCD may require the Servicer to repurchase the loan if the hazard claim has not been filed or resolved within six (6) months.
- Mortgage Insurer/Guarantor Timelines for Liquidation Process. Please follow Mortgage Insurer/Guarantor guidelines if Mortgage Insurer/Guarantor guidelines are stricter than the timeframes noted above.

SECTION 9 – MORTGAGE INSURANCE CLAIMS AND ESCROW REIMBURSEMENT

A. MORTGAGE INSURANCE CLAIMS – Bond Loans

DHCD has possession of most Mortgage Insurance Certificates. You may fax your request for the Mortgage Insurance Certificate. Your request must include:

- Borrower name and property address
- DHCD mortgage loan number
- Name of Mortgage Insurer/Guarantor
- Foreclosure sale date

Servicers are required to submit the mortgage insurance claims according to the Mortgage Insurer/Guarantors guidelines. Servicers are required to:

- Servicer must promptly process the claim for any mortgage insurance benefits on behalf of CDA.
- List CDA as payee on all claims
- Use CDA's payee number, #19435-0-9993, on all FHA claims
- Properties acquired through foreclosure in connection with FHA or VA Mortgage Loans, Servicer must arrange for prompt transfer of the property to FHA or VA within the required time period set forth by FHA or VA, file the necessary notices and satisfy all FHA or VA requirements.
- For RHS and private mortgage insurance companies, the Servicer must follow their guidelines and requirements as to the disposition of the property.

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

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

B. Reimbursement of Servicer Advances

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

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

Escrow reimbursements may be reduced or denied due to the Servicers failure to comply with the insurers requirement or the requirements of this Manual.

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

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

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

3. DHCD Allowable Expense Limits

- All attorney fees and cost, provided the attorney was approved and assigned by DHCD.
- Property inspections one every 30 days @ \$15.00 per inspection. Any inspections completed after the deed is recorded to DHCD, CDA, or the Mortgage Insurer/Guarantor, will not be reimbursed
- We do not reimburse for photographs unless they were requested by DHCD.
- Taxes, all property preservation, ground rent, and hazard insurance paid before the deed is recorded, as long as properly documented.

Any of these expenses paid after the deed is recorded will not be reimbursed.

- Any cost or fees that DHCD request the Servicer to pay
- You may follow FHA guidelines as to the maximum allowable on property preservation and protection

The Servicer has two years from the time the deed to DHCD has been placed on record to request reimbursement of advances. Any request received after the two year period will be denied.