



New Jersey Housing and Mortgage Finance Agency

Servicing Guide

Revised Date: August 11, 2023

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SECTION 1: GENERAL INFORMATION

1.1 The Guide

This Servicing Guide (“Guide”) replaces the Servicing Guide dated December 2, 2013, and, together with all subsequent revisions, modifications or updates provided by the New Jersey Housing and Mortgage Finance Agency (“NJHMFA”), contains information about servicing NJHMFA loans. This Guide is effective immediately and applies to all NJHMFA loans in the servicing portfolio.

NJHMFA may revise, modify or update this Guide from time to time and will notify Sub-Servicers of such changes. NJHMFA may provide notice of changes by posting such changes to its website at www.njhousing.gov.

When servicing NJHMFA loans, refer to FHA, VA, MI, USDA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured use FNMA guidelines as a guide to applicable servicing requirements.

All Sub-Servicers must also comply with the final Consumer Financial Protection Bureau mortgage servicing rule effective January 10, 2014, as subsequently amended.

This Guide includes required information and instructions concerning unique requirements related to servicing loans that are owned by NJHMFA. These areas consist of loan modifications, assumptions, rental or vacancy issues, and recapture tax.

All requirements in this Guide apply to all NJHMFA loans secured by first deeds of trust and to all NJHMFA loans secured by second deeds of trust, if any.

1.2 Definitions

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

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

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

CFPB: Consumer Financial Protection Bureau.

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

Eligible Property: A residential building located in the State of New Jersey which is (i) an existing Single Family Dwelling; (ii) a newly constructed Single Family Dwelling which has never been occupied; (iii) a 2-4 family dwelling that has been used as a residence for the previous five years;

(iv) a 2 family dwelling located in a Target Area that will be used for residential purposes (need not meet the five-year requirement). A building or condominium unit shall not qualify as an Eligible Property if any portion is used or intended to be used for non-residential purposes unless a waiver has been granted in advance. A building in which the mortgagor cannot legally occupy a unit within sixty days of closing shall not qualify as an Eligible property.

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

FHA: Federal Housing Administration.

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

FNMA: Federal National Mortgage Association (Fannie Mae).

GNMA: Government National Mortgage Association (Ginnie Mae).

HPA: Federal Homeowners Protection Act of 1998.

Manufactured Home: A home factory-built in the U.S. to the HUD Title 6 construction standards.

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

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

Mortgage Purchase Agreement: That certain agreement between the NJHMFA and the Participating Lender to which NJHMFA agrees to purchase from the Participating Lender Mortgage Loans in accordance with the Participating Lender's Guide and applicable Term Sheet.

Mortgage Servicing Agreement: An agreement between the NJHMFA and Sub-Servicer under which the Sub-Servicer agrees to service Mortgage Loans purchased by the Agency in connection with the Mortgage Program. When the Agency is master Sub-Servicer of a loan portfolio, the Sub-Servicers of such portfolios are subject to the terms and conditions of a subservicing agreement

with the NJHMFA.

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

Policy and Procedures Guide for Participating Lenders: Also known as the "Participating Lender's Guide", as it may be amended from time to time by the Agency, containing the rules governing the delivery of Mortgage Loans purchased by the Agency from the Seller under the Mortgage Purchase Agreement.

QCP: Qualify Control Plan

Recapture: Internal Revenue Code requirement that affects some tax-exempt bond financed loans. As of the adoption of this Guide, loans closed with tax exempt bond financing, after December 31, 1990, are subject to a repayment of the interest savings to the IRS if a property is sold or refinanced within the first nine (9) years after closing. The maximum recapture amount is 6.25% of the original loan amount or 50% of the net appreciation.

Reaffirmation Agreement: An agreement by which a bankruptcy debtor becomes legally obligated to pay all or a portion of an otherwise dischargeable debt.

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

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

USDA: United States Department of Agriculture, a provider of loan guarantees.

VA: United States Department of Veterans Affairs.

1.3 NJHMFA Single Family Programs Division

The Single Family Programs Division has day-to-day responsibility for overseeing the servicing of NJHMFA mortgage loans.

The Single Family Programs Division mailing address is:

Single Family Programs Division
New Jersey Housing and Mortgage Finance Agency
P.O. Box 18550
637 South Clinton Avenue
Trenton, NJ 08650

The Courier address is:

Single Family Programs Division
New Jersey Housing and Mortgage Finance Agency
637 South Clinton Avenue
Trenton, NJ 08611

When sending items by mail or overnight courier, Sub-Servicers are strongly encouraged to include “Single Family Programs Division” or the name of a Single Family staff member within the address to preclude misrouted delivery.

The Single Family Customer Service line is 1-800-654-6873.

When sending loan documents or requesting information electronically, use the email address servicing@njhmfa.gov. If you are sending information on an REO electronically, use the email address servicing@njhmfa.gov.

1.4 Hours of Operation and Holiday Schedule

The Single Family Programs Division hours of operation are 8:00 a.m. until 5:00 p.m. Eastern Time, Monday through Friday, except for Official State holidays. At a minimum, servicers are required to maintain hours of operation of at least 8 am to 8 pm ET, Monday through Friday.

Official State holidays are as follows:

New Year’s Day	Labor Day
Martin Luther King Day	Columbus Day
Presidents’ Day	Election Day
Good Friday	Veteran’s Day
Memorial Day	Thanksgiving
Juneteenth	Christmas Day
Independence Day	

1.5 Mortgage Servicing Agreement

A. Eligible Sub-Servicers

1. The Sub-Servicer is a business entity duly organized and validly existing and in good standing under the laws of the jurisdiction under which it was organized and is existing and has the power and authority, corporate and other, to own its properties and carry on its business as now being conducted and is duly qualified to do such business in the State of New Jersey and wherever such qualification is required.
2. The Sub-Servicer is not under any cease-and-desist order or other order of a similar nature, temporary or permanent, of any Federal or State authority, nor are there any proceedings presently in progress or to its knowledge contemplated which would, if successful, lead to the issuance of any such order. The Sub-Servicer is not subject to any bankruptcy or insolvency proceedings, either voluntary or involuntary, and is not aware of any such proceedings that may be contemplated. Sub-Servicer shall notify the Agency of any changes that would make the foregoing statements inaccurate at any time during the term of the Mortgage Purchase Agreement.
3. The Sub-Servicer is and shall be at all times while servicing Mortgage Loans:
 - a. An approved Seller and Sub-Servicer of mortgage loans to and for FHLMC, GNMA and/or FNMA; and/or
 - b. A "Supervised Lender" as classified by the VA Under Section 500 (d) of the Servicemen's Readjustment Act; and/or
 - c. A FHA approved mortgagee; and
 - d. Service a minimum of \$250 million of single-family mortgage loans; and
 - e. Demonstrate satisfactory delinquency ratios (current and 36 months previous) that are acceptable to the Agency or bond insurer or credit enhancement provider to which the Agency is bound.

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

any federal, state or quasi-governmental agency having appropriate jurisdiction.

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

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

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

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

B. Servicing Facilities

Sub-Servicer must maintain servicing facilities that are staffed with trained personnel to adequately service mortgages in accordance with standards normally employed by private institutional mortgage investors, as determined at the Agency's sole discretion. Sub-Servicer's personnel shall be familiar with all regulations and requirements affecting mortgages serviced for the Agency including, but not limited to, those adopted by any pertinent regulator, issued by MI Companies and any governmental agencies insuring or guaranteeing any mortgage loan being serviced. Out of state customer relations offices must be accessible by toll free telephone number. Unless the Agency gives a waiver, Sub-Servicers must be capable of electronic communication compatible with the Agency's Mortgage management reporting systems. The Sub-Servicer must designate and assign a knowledgeable employee to be the principal contact to the Agency for matters relating to customer services.

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

1.6 Fees-General Information

NJHMFA may charge fees for failure to comply with requirements contained in this Guide. Such fees will be monitored and assessed separately and are in addition to other remedies that may be available.

Sub-Servicers will receive written notification of any fee assessed. Fees shall be further described throughout this Guide and NJHMFA reserves the right to revise and change the methods of calculating fees at any time at NJHMFA's sole discretion.

Waiver of an individual fee by NJHMFA has no relation to any other fee that may have been imposed in the past or will be imposed in the future.

A fee may relate to the action the Sub-Servicer took or failed to take, or may be imposed to emphasize the importance of a particular aspect of the Sub-Servicer's performance. A fee may relate to the impact that the Servicer's actions cause to NJHMFA's cash flow.

NJHMFA reserves the right to invoke additional remedies, including, but not limited to the following: Requiring Sub-Servicer personnel attend training sessions; requiring the Sub-Servicer to indemnify NJHMFA for a loss; requiring the Servicer to purchase a loan or an acquired property; imposing additional or other fees on the Sub-Servicer; or disqualifying, suspending or terminating Servicer's authority to continue to service loans for NJHMFA to act as a Sub-Servicer hereunder.

NJHMFA, in its sole discretion, may pursue a variety of remedies either to correct a specific problem or to improve the Sub-Servicer's overall performance, in lieu of exercising the right to terminate the Subservicing Agreement.

1.7 Maintaining Approval

A. Sub-Servicer Requirements: In order to maintain approval, a NJHMFA -Sub-Servicer must:

1. Comply with the licensing requirements of the state in which the servicing office is located;
2. Must be in good standing as an approved servicer of FNMA, FHLMC, GNMA, FHA, VA and USDA loans.
3. Have an adequate number of staff with adequate experience in the servicing of mortgage loans;

4. Possess adequate computer hardware and software to efficiently service NJHMFA loans in accordance with NJHMFA requirements;
5. As a minimum, carry insurance (errors and omission, liability, employee theft, cyber, etc.) of the types and amounts of coverage as required by NJHMFA, and referenced in the Subservicing Agreement;
6. Comply with all insurer or guarantor requirements for each type of loan serviced (FHA, VA, USDA, FHLMC, GNMA and/or MI), and continually maintain applicable insurer or guarantor servicing approvals;
7. Comply with applicable State and Federal loan servicing laws and regulations;
8. Comply with the Subservicing Agreement and this Guide; and
9. Be capable of reporting to NJHMFA in a prescribed electronic format and remitting collected funds by wire on a daily basis.

B. Fees a Sub-Servicer May Earn:

1. NJHMFA Sub-Servicers earn a servicing fee for each scheduled principal and interest payment received. Payments are remitted to NJHMFA net of the servicing fee. The terms of the servicing fee shall be defined in the contract between the Sub-servicer and NJHMFA.
2. Sub-Servicers may retain late charge fees from borrowers that conform to the amount and conditions stated in each applicable note.
 - a. Sub-Servicers may not collect late charges by charging the borrower's escrow account, deducting from a regular monthly payment or adding to the outstanding principal balance of the loan.
 - b. In the case of a NJHMFA loan that is placed into foreclosure, the Sub-Servicer must include unpaid late fees and advances in the total foreclosure bid in order to recover uncollected fees.
 - c. The Sub-Servicer may not retain a portion of claim funds or REO proceeds as compensation for uncollected late fees or advances.
 - d. Sub-Servicers may earn and retain fees for processing the assumption of NJHMFA loans. Sub-Servicers may charge the maximum fees permitted by the applicable investor/insurer. In absence of a published maximum, use the Fannie Mae maximum.
3. Sub-Servicers may charge and retain fees for miscellaneous purposes, such as property inspections, only to the extent noted in other applicable sections of this Guide.
4. On a case-by-case basis, fees for special services rendered at the request of NJHMFA may be earned.

C. Outsource Service Providers

It is a common practice for loan sub-servicers to enter into contracts with third-party service providers to perform certain duties, such as tracking property taxes, paying homeowners insurance renewals, inspections, property preservation or handling bankruptcies and/or foreclosures. NJHMFA does not object to NJHMFA Sub-Servicers entering into such agreements; however, as stated in the Servicing Agreement, NJHMFA holds Sub-Servicers responsible for all servicing functions, including the actions of their outsource companies.

NJHMFA does not approve Sub-Servicers' selection of outside service providers; however, NJHMFA reserves the right to request Sub-Servicers to discontinue using certain outsource service providers for NJHMFA loans, due to unsatisfactory performance.

D. Transferring NJHMFA Servicing Rights

Sub-Servicers must comply with all pertinent CFPB and other regulators' requirements and obtain NJHMFA's approval prior to any transfer of NJHMFA servicing, including transfers that result from changes in corporate ownership. A transfer of servicing fee may apply.

If a Sub-Servicer fails to obtain NJHMFA approval at least 30 days prior to the effective date of the transfer of servicing, a fee may be imposed, as well as any other available remedy. The fee may vary, depending on the circumstances and may be as much as 1% of the unpaid principal balances of the NJHMFA loans that are being transferred.

NJHMFA has no obligation to allow a Sub-Servicer who has not been approved by NJHMFA to service NJHMFA loans regardless of any agreement between a NJHMFA Sub-Servicer and any entity that is attempting to take over NJHMFA servicing.

1.8 Custodial Accounts

Sub-Servicers shall establish a custodial account into which escrow payments must be deposited until disbursed for their intended use, and a separate custodial account into which borrowers' principal and interest payments must be deposited until remitted to NJHMFA.

Sub-Servicers must inform NJHMFA of intentions to change depositories or account numbers. NJHMFA reserves the right to direct the transfer of custodial accounts to a different depository upon 10 days written notice to the Sub-Servicer, or without notice if, in NJHMFA's sole discretion, the Sub-Servicer has violated the terms of the Servicing Agreement or this Guide. NJHMFA also reserves the right to require a Sub-Servicer to transfer funds out of a depository institution at any time at NJHMFA's sole discretion.

The name on the custodial account must clearly identify its purpose and the interests of NJHMFA. Example: "Principal and interest (Escrow) account, by [Sub-Servicer's corporate name], as Trustee for the New Jersey Housing and Mortgage Finance Agency."

Sub-Servicers must reconcile the custodial accounts monthly. Reconciliations are to be provided to NJHMFA monthly. Account records and reconciliations must be made available to NJHMFA auditors upon request.

1.10 Suspense Account

The Sub-Servicer shall deposit partial payments in suspense using the NJHMFA principal and interest or escrow custodial account.

If a borrower remits an amount less than or in excess of a full, exact regular or past due payment(s) that is not indicated for another purpose, the partial payment must be deposited to the suspense account on behalf of the borrower until sufficient funds are received to apply a full payment.

1.11 Escrow Requirements

All NJHMFA loans shall have an escrow for property taxes and hazard insurance. In addition, flood insurance, FHA premiums, MI premiums, special assessments and similar items shall be escrowed, if applicable. Condo or PUD association dues shall be escrowed if required by the association by-laws at the time of origination or if notified at a later date while servicing the loan.

Sub-Servicers shall maintain escrow accounts for each NJHMFA loan, perform an annual aggregate escrow analysis for each loan account and adjust the borrower's total monthly payment as needed.

If the borrower's escrow account balance is not sufficient to pay escrow bills when due, the Sub-Servicer shall deplete the escrow balance, then advance the remainder of the amount due from its corporate funds and reflect a deficit balance in the borrower's escrow account. Escrow advances cannot be charged to the principal balance of the loan or to another borrower's escrow funds or simply to the overall balance of the escrow custodial account. Escrow funds may only be used for their designated purpose, and cannot be used to pay late charges, inspection fees, assumption fees or any charges other than those for which the escrow account is intended. Escrow deficits will be reimbursed by NJHMFA on a monthly basis.

As deficits are collected, NJHMFA will be reimbursed by the Sub-Servicer on a monthly basis.

1.12 Corporate Advances

Funds expended to service NJHMFA delinquent loans for property inspections, legal fees, etc., will be advanced by the Sub-Servicer from its corporate account. Advances will be reimbursed to the Sub-Servicer on a monthly basis. As advances are collected by the Sub-Servicer, the Sub-Servicer will reimburse NJHMFA on a monthly basis.

1.13 Disclosures and Notices

Refer to FHA, VA, MI, USDA, FHLMC and GNMA requirements and follow their specific guidelines

based on the loan type. If the loan is conventional uninsured, use FNMA guidelines for servicing requirements.

The Sub-Servicer is responsible for monitoring returned mail to determine whether or not the borrower is occupying the property.

1.14 Annual Certification

A. Sub-Servicer Documentation Requirements

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

1. Proof of good standing status with FNMA;
2. Proof of good standing status with FHLMC;
3. Proof of good standing status with HUD/FHA ("Qualified Status");
4. Proof of good standing status with VA ("Supervised Lender");
5. Proof of current fidelity bond policy;
6. Proof of current surety bond policy;

B. NJHMFA reserves the right to request additional information, including the following:

1. Proof that the Servicer's current total loan portfolio meets the Agency minimum standard of \$250 million;
2. Proof of the current total loan portfolio delinquency rate;
3. Organization chart specifying the mortgage servicing department;
4. Attestation of compliance with CFPB mortgage servicing rule effective January 10, 2014, as subsequently amended;
5. Attestation that all due diligence has been performed on any vendors the Sub-Servicer is currently using to service NJHMFA portfolio.

Sub-Servicer must adhere to standards identified in the Report of Management on Compliance as set forth in the Mortgage Bankers Association of America's *Uniform Single Attestation Program for Mortgage Bankers* (USAP) for that year ended.

C. Late submission of annual renewal or reports:

Each year, Sub-Servicers must return their annual renewal to NJHMFA within 60 days of their fiscal year-end. Failure to comply may result in a fee of \$250 per month until such documentation is received by the NJHMFA Single Family Division.

If not received within 120 days of the Sub-Servicer's fiscal year-end, NJHMFA may, at its sole election suspend or terminate the Sub-Servicer's authority to continue to service NJHMFA loans, as permitted by CFBP transfer of servicing requirements.

NJHMFA, at its sole discretion, may also require Sub-Servicers to provide special reports or

information about their operations, such as financial data. If the requested reports or information is not received at NJHMFA when due, a \$250 per month fee may be assessed, or the Servicer's authority to continue to service NJHMFA loans may be suspended or terminated.

SECTION 2: NEW LOAN SET UP

2.1 Sub-Servicer 's Loan File

NJHMFA purchases loans from a pool of approved lenders. Once the loans are successfully purchased, they are boarded and exported to the Sub-Servicer's loan system with the exception of purchased government loans which are sent electronically to the Sub-Servicer through a third-party vendor. The Sub-Servicer will confirm receipt and accuracy of the data sent with NJHMFA within 24 hours. The Sub-Servicing shall maintain the servicing document file.

The Sub-Servicer shall maintain the loan servicing file. NJHMFA is responsible for assuring that all documents needed to service the loan including a copy of the endorsed note are delivered timely to the Sub-Servicer. The Sub-Servicer will store the loan file in a scanned electronic image. The collateral file must be maintained at a secured Custodian site.

Failure to maintain necessary loan documents: If an insurer denies claim payment due to the Sub-Servicer's failure to produce documents for review, the Sub-Servicer shall purchase the loan immediately upon NJHMFA's request. Alternatively, at NJHMFA's sole discretion, the Agency may accept compensation in lieu of repurchase.

2.2 Use of MERS System

NJHMFA does not accept loans recorded in Mortgage Electronic Registration Systems, Inc. (MERS).

2.3 Losses

The Sub-Servicer is responsible for losses or potential losses resulting from its and/or its vendor/affiliates' omissions or actions that are not in compliance with regulatory requirements, FHA, VA, USDA, FHLMC, GNMA or MI guidelines and/or this Guide. If a loss occurs, the Sub-Servicer shall repurchase the loan or reimburse NJHMFA for the amount of the loss, upon notice from and at the election of NJHMFA. The Sub-Servicer may request to have the repurchase retracted if sufficient documentation is provided to NJHMFA within 30 days from the date of the NJHMFA repurchase request. Any such request shall be approved by NJHMFA in its sole discretion. After 30 days no repurchase request shall be retracted.

If the Sub-Servicer fails to comply, NJHMFA may withhold any or all of the Sub-Servicer's future expense reimbursements (up to the amount of the repurchase or reimbursement) until the Sub-Servicer complies, or NJHMFA may seek other remedies deemed appropriate by NJHMFA.

A. Active Loans - NJHMFA reserves the right to require the Sub-Servicer to purchase loans that involve losses or potential losses that are the result of Sub-Servicer's inactions or improper actions, as determined by NJHMFA in its sole discretion.

Examples include, without limitation, the following:

1. Denial of a hazard insurance or liability claim due to the actions or omissions of the Sub-Servicer.
 2. Loss of hazard insurance proceeds disbursed by Sub-Servicer due to borrower or contractor fraud and Sub-Servicer's failure to monitor property restoration in a prudent manner.
- B. Foreclosed Loans** - NJHMFA reserves the right to require the Sub-Servicer to purchase loans that involve losses or potential losses that are the result of Sub-Servicer's inactions or improper actions, as determined by NJHMFA in its sole discretion.

Examples include, without limitation, the following:

1. Denial, curtailment or reduction of a claim by FHA, VA, USDA, FHLMC, GNMA or PMI, including shortage, reduction or curtailment of principal, interest or allowable expenses.
2. Deterioration of foreclosed property due to Sub-Servicer's inaction.
3. Delay in transferring real estate owned (REO) properties to NJHMFA.

2.4 Failure to Provide Critical Status Changes

NJHMFA is required to produce a variety of loan portfolio financial statements and reports to internal and external entities. Certain loan statuses greatly impact the accuracy of these reports. Examples of critical statuses: bankruptcy filed, bankruptcy dismissed/discharged, loan approved for foreclosure, scheduled foreclosure sale date, foreclosure sale conducted, loan reinstated, etc.

Sub-Servicers shall provide NJHMFA with loan status changes monthly as they occur. A pattern of late or omitted status changes will be viewed as late reporting and will be subject to a fee based on the number and times late.

Sub-Servicer shall send to NJHMFA a monthly Excel file containing current loan status for bankruptcies and foreclosures. These files should be sent to servicing@njhmfa.gov.

SECTION 3: REMITTANCE RECEIPTS AND REPORTING

3.1 **Reporting**

Reporting is accomplished by transmitting a specific electronic file and wiring funds each work day pursuant to instructions outlined in the Subservicing Agreement.

All errors shall be corrected on the Sub-Servicer's computer system the same day the error report is produced by first reversing the transaction indicated on the error report, then correcting the problem, and, finally, reapplying the transaction.

3.2 **Remittance**

Sub-Servicer shall collect all payments due from borrowers to the Agency. Sub-Servicer shall remit collections electronically daily to the Agency's designated financial institution in accordance with the remittance requirements outlined in the Sub-Servicer Agreement. Sub-Servicer shall retain for its own account any Agency permitted ancillary income.

3.3 **Third Party Receipts**

Payments received from third-party vendors shall be applied/reported to NJHMFA according to the agreed upon terms between NJHMFA and the Sub-Servicer.

3.4 **Month End Trial Balance**

Sub-Servicer shall email a trial balance in Excel format to NJHMFA at the end of each month. The trial shall include the Sub-Servicer's loan number, NJHMFA loan number, principal balance, last paid installment, principal and interest payment, interest rate, escrow balance, and unapplied balance.

3.5 **Failure to Report**

Each failure to report is evaluated individually and may result in fees without regard to other offenses or reporting periods, except as noted below.

- A. Failure to report mandated data elements required by NJHMFA, as listed in the Sub-Servicer Agreement.
- B. Failure to provide requested information to NJHMFA that is not a part of the regular reporting requirements, or providing late or unusable information.
- C. Failure to transmit loan-level electronic data files daily.

Failure to report may result in the following fees:

- D. Up to \$250 for the first instance of late or inaccurate reporting;
- E. Up to \$500 for the second instance of late or inaccurate reporting if it occurs within one year of the first instance;
- F. Up to \$750 for subsequent instances of late or inaccurate reporting if any instance occurs within one year of the most recent prior instance.

3.6 Failure to Remit in a Timely Manner

The amount indicated on the electronic reporting Confirmation and Wiring Report shall be wired to the NJHMFA's trustee daily. If a Sub-Servicer does not remit funds within the stated time frame, in addition to exercising other available remedies, NJHMFA may charge the following fees:

- A. For the first instance of delayed remitting, a fee that is determined by multiplying the calculated late remittance by the number of days the remittance is late and then multiplying that product by the sum of the prime interest rate most recently published in the *Wall Street Journal's* prime rate index, plus 3%. The minimum amount of such fee shall be \$250.
- B. For the second instance of late remitting, if it occurs within one year of the first instance, a fee that is determined by multiplying the calculated late remittance by the number of days the remittance is late and then multiplying that product by the sum of the prime interest rate most recently published in the *Wall Street Journal* prime rate index, plus 3%. The minimum amount of such fee shall be \$500.
- C. For subsequent instances of late remitting, if they occur within one year of the most recent instance, a fee that is determined by multiplying the calculated late remittance by the number of days the remittance is late and then multiplying that product by the sum of the prime interest rate most recently published in the *Wall Street Journal* prime rate index, plus 3%. The minimum amount of such fee shall be \$1,000.

SECTION 4: GENERAL SERVICING

4.1 Name Changes

NJHMFA borrowers request changes to the names indicated on their loan accounts for various reasons. NJHMFA Sub-Servicers shall be alert to name change requests to detect possible NJHMFA policy violations. **Sub-Servicers shall maintain documentation of name changes in the servicing loan file.**

Refer to FHA, VA, PMI, USDA, FHLMC, or GNMA requirements and follow their specific guidelines based on the loan type.

4.2 Divorce/Death

The Sub-Servicer shall require that the following specific requirements be met to avoid repayment of the NJHMFA loan:

- A. If a Borrower divorces a non-qualifying spouse** and the non-qualifying, non-titled spouse retains and occupies the property, the Sub-Servicer may change the loan record after obtaining a copy of:
1. The divorce decree, signed by the court;
 2. The final settlement, signed by the court;
 3. A copy of the recorded quitclaim deed if one has been executed;
 4. Approval by FHA, VA, USDA, FNMA, FHLMC, GNMA or MI; and
 5. Sub-Servicer must provide and receive a completed copy of the investor/insurer's "Agreement to Assume Liability" from a non-qualifying surviving spouse who wants to occupy the property.
- B. If the Borrower dies and the spouse was a non-qualifying spouse or married the borrower after loan closing or assumption**, the Sub-Servicer may change the loan record after obtaining a copy of:
1. The marriage certificate (in the case of marriage after loan closing or assumption);
 2. The death certificate;
 3. Sub-Servicer must provide and receive a completed copy of the investor/insurer's "Agreement to Assume Liability" from a non-qualifying surviving spouse who wants to occupy the property.
- C. If the Borrower dies and there is no surviving spouse**, the Garn-St. Germain Depository

Institutions Act of 1982 does not apply to NJHMFA loans.

1. Borrower dies intestate (without a will):

Obtain a copy of the death certificate and retain it in the servicing file. The name on the loan account may be changed to an appropriate descriptive form, such as “The estate of ” Affidavits of Heirship may be acceptable. The heir(s) may be required to apply to assume the loan (see Section 5) and be approved by the insurer/guarantor and NJHMFA. If the deed of trust requires owner occupancy, the heir(s) must occupy the property as their principal residence or the loan must be paid off. Sub-Servicers should contact NJHMFA for this determination. If more than one heir is involved, and all heirs will not occupy the property as their primary residence, the occupying heir(s) will be required to acquire sole title to the property prior to loan assumption.

2. Property is willed to heir(s):

Action: After probate, obtain a copy of the death certificate and documentation to prove ownership by inheritance and retain in servicing loan file. The heir(s) may be required to apply to assume the loan (see Section 5) and be approved by the insurer/guarantor and NJHMFA. If the deed of trust requires owner occupancy, the heir(s) must occupy the property as their principal residence or the loan must be paid off. Sub-Servicers should contact NJHMFA for this determination. If more than one heir is involved, and all heirs will not occupy the property as their primary residence, the occupying heir(s) will be required to acquire sole title to the property by the time the loan is assumed.

D. Other Situations:

Some situations that arise are difficult to categorize, such as a borrower who abandons the property and leaves behind a spouse who either was a non-qualifying spouse when the loan was granted, or married the borrower after the loan was closed. In such cases, the Sub-Servicer shall obtain approval from any investor/insurer. NJHMFA will work with the Sub-Servicer to resolve the situation for conventional, non-insured loans on terms acceptable to NJHMFA in its sole discretion.

4.3 Change of Property Address or Mailing Address

Sub-Servicers shall investigate and document the reason for a mailing address that differs from the property address. A mailing address may legitimately differ from the property address, but it could be an indication that the property is being rented or vacant. When a request for change of mailing address is received, Sub-Servicers shall determine whether the property acquired with the NJHMFA loan is being rented and shall treat such rental as a breach.

4.4 Release of Liability – Other Than Assumption

Generally speaking, NJHMFA does not release borrowers from liability until their loan is paid in full. In the rare instance where NJHMFA might consider releasing a borrower from liability, there must be, in NJHMFA’s sole opinion, a compelling reason. In addition, the remaining borrower’s credit

must be approved by the insurer or guarantor of the loan, and evidence of approval provided to NJHMFA. NJHMFA reserves the right to review the credit package prior to assumption.

4.5 Quitclaimed Interest

Quitclaiming an interest in the subject property to another person for any reason without NJHMFA's permission is a breach under the deed of trust. Sub-Servicers shall send a breach letter upon the discovery of a quitclaim.

4.6 Owner-Occupancy Requirement

Most NJHMFA deeds of trust contain language either in a statement stamped on the face of the document or in a deed of trust rider that requires the borrower to continually occupy the property. Generally, NJHMFA's policy is to require that the borrower occupy the property that is security for the NJHMFA loan as his/her primary residence and to not permit properties to remain vacant or to be rented; however, under certain limited circumstances, in NJHMFA's sole discretion, NJHMFA may grant temporary permission for a property to be vacant.

4.7 Vacancy Requests

NJHMFA may grant special temporary exceptions to the owner-occupancy requirement on a case-by-case basis for limited periods of time, typically for circumstances beyond the borrower's control. For this to apply, the property must be insured and payments must remain current.

Vacancy requests that are based on circumstances that are within the borrower's control are usually not acceptable. Unacceptable reasons include: Marriage (combining households), outgrowing the home, or dissatisfaction with the home.

Sub-Servicers are not authorized to approve vacancy requests. To receive a formal decision from NJHMFA, the Sub-Servicer must:

- A.** Send the borrower a *Request for Temporary Permission to Vacate Residence* form and a Financial Statement form (these forms should only be sent to borrowers upon request);
- B.** Borrower completes their portion of the form and sends it to the Sub-Servicer with a copy of documentation supporting the request (e.g. military orders, employer's letter, listing agreement and current broker price opinion (BPO), contract for sale, etc.);
- C.** Sub-Servicer completes the appropriate portion of the form once returned from the borrower and sends it and the documentation to NJHMFA;
- D.** NJHMFA will approve or reject the request, at its sole discretion, and notify the Sub-Servicer;
- E.** Sub-Servicer notifies the borrower of NJHMFA's decision.

- F. NJHMFA permission to vacate is voided if the borrower fails to make any scheduled payment within the month it is due, fails to maintain proper hazard insurance, or, in the case of vacancy, fails to winterize the home (when appropriate) or properly maintain the yard or home.
- G. Sub-Servicers shall monitor approved vacancy time periods. Sub-Servicers shall verify, by any reasonable means, that the borrower has reoccupied the home, or a sale is pending. If inspections are performed, the cost may be charged to the borrower.
- H. If the approved time period passes and the borrower has not sold or reoccupied the residence or received a time extension from NJHMFA, the Sub-Servicer shall follow the steps of a standard breach.
- I. Important: If a borrower has violated the occupancy requirement and has a monetary and/or nonmonetary default, each situation must be addressed individually. When a “double default” is referred to a foreclosure attorney, the attorney must be notified of both defaults. The cure of a monetary default does not cure a non-monetary default or vice versa.

For cases involving a borrower who is on active military duty, see Section 4.20.

4.8 Mortgage Insurance (MI) Requirements

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

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

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

If MI cancellation is requested by the Mortgagor, a completed HMFA Form #180, Request for PMI Deletion, is to be submitted to the NJHMFA for approval.

4.9 Mortgage Insurance Requirements:

When determining mortgage insurance requirements, refer to applicable insurer/Investor guidelines for each respective mortgage program.

A. Full Force and Effect

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

B. Homeowners Protection Act of 1998 (HPA)

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

Applies only to loans closed after July 29, 1999;

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

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

Written notification is required for all PMI cancellations.

4.10 MI Cancellation

Refer to FHA, VA, MI, USDA, FNMA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. Use FNMA guidelines as the applicable servicing requirements for all other loans.

On NJHMFA loans with a second deed of trust, the second shall be included in ratio calculations or paid in full.

NJHMFA Conventional MI loans closed **prior to** July 29, 1999, must conform to the corresponding official statements of the tax-exempt bond issues from which they were funded as detailed above. This is the only difference from the FNMA guidelines.

Sub-Servicers must forward such requests to NJHMFA for approval or rejection, at NJHMFA's sole discretion. If a Sub-Servicer cancels MI coverage on a conventional MI loan without NJHMFA

approval, and the LTV is greater than 80%, the Sub-Servicer shall purchase the loan from NJHMFA, or restore the mortgage insurance at the Sub-Servicer's expense.

On NJHMFA conventional MI loans closed after July 29, 1999, if the borrower has initiated cancellation of conventional mortgage insurance based on the original value, the Sub-Servicers must forward such requests to NJHMFA for approval or rejection, at NJHMFA's sole discretion along with a current BPO or Appraisal. If a Sub-Servicer cancels MI coverage on a conventional MI loan without NJHMFA approval, and the LTV is greater than 81% or does not comply with the tax-exempt bond issue, the Sub-Servicer shall purchase the loan from NJHMFA, or restore the mortgage insurance at the Sub-Servicer's expense.

4.11 Replacement Hazard Insurance Policies

Sub-Servicers shall monitor to determine whether a property that is security for a NJHMFA loan has been rented or is vacant when a renter's insurance policy or a fire and extended coverage policy replaces a homeowners insurance policy. Sub-Servicers shall take steps as specified in Section 4.6 are required to be alert for possible rental of properties that secure NJHMFA loans.

4.12 Taxes

Refer to FHA, VA, MI, USDA, FNMA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured use FNMA guidelines as the relevant servicing requirements.

Sub-Servicers shall ensure that all taxes on a property are paid on time to avoid any penalties. Any penalties will be the responsibility of the Sub-Servicer. If there is a tax sale on the property, the Sub-Servicer must repurchase the loan from NJHMFA.

4.13 Hazard Insurance

Refer to FHA, VA, MI, USDA, FNMA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured use FNMA guidelines as the applicable servicing requirements.

Losses resulting from insufficient coverage, non-payment of premium, coinsurance non-compliance, lapse of coverage, or any other omission of prudent performance, shall be borne by the Sub-Servicer.

The minimum acceptable amount of hazard insurance coverage is the appraised value less the site value, as provided in the appraisal, or an amount sufficient to cover the first and second loan balance and to replace the structure as determined by NJHMFA.

The maximum allowable deductible is 5% of the coverage amount. The deductible clause may apply to either fire, extended coverage, or both. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible may be in an amount usual and customary in the industry.

The mortgagee clause should be worded in a manner to assure notice and correspondence is delivered to the Sub-Servicer, not NJHMFA. Example: "New Jersey Housing and Mortgage Finance Agency, c/o [Sub-Servicer's name and mailing address] Its successors and assigns" or "Sub-Servicer's name and mailing address, followed by the phrase "its successors and assigns".

Mortgagee clauses on policies that insure new NJHMFA loans may indicate the name of the originating lender if followed by "its successor and assigns," however; the Sub-Servicer should initiate a mortgagee clause change with the insurance company no later than the first annual renewal.

Sub-Servicers shall monitor hazard insurance policies in order to detect changes in coverage or form that would indicate a property is being rented, such as when a rental coverage policy replaces a homeowner insurance policy.

4.14 Force-Placed Hazard Insurance

Sub-Servicers must have force-placed hazard insurance available to cover NJHMFA's interests in the event a borrower's hazard insurance policy lapses or is cancelled.

4.15 Flood Insurance

Refer to FHA, VA, MI, USDA, FNMA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured use FNMA guidelines as the applicable servicing requirements.

The minimum coverage required is the loan balance or the maximum insurance available under the appropriate National Flood Insurance Program. The maximum allowable deductible is \$2,500.

Sub-Servicers must have force-placed flood insurance available to cover NJHMFA's interests in the event a borrower's hazard insurance policy lapses or is cancelled.

For mortgagee clause information see "Section 4.13 Hazard Insurance" and use the same criteria.

4.16 Hazard Insurance Claims

Refer to FHA, VA, MI, USDA, FNMA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured, use FNMA guidelines as the applicable servicing requirements.

In the case of damaged residences, the objective is to get the property restored as soon as possible. If a property has been totally destroyed or the loss payment exceeds the principal balance, the Sub-Servicer shall contact NJHMFA for instructions as to whether the residence should be rebuilt or insurance proceeds should be used to pay the loan in full.

4.17 Hazard Insurance Claim Checks

Refer to FHA, VA, MI, USDA, FNMA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured, use FNMA guidelines as the applicable servicing requirements.

If the claim is for total loss or greater than current principal balance, contact NJHMFA to determine if the loan is to be paid in full or repairs can be done.

Sub-Servicers are authorized to endorse hazard insurance claim checks on behalf of NJHMFA.

Sub-Servicers are responsible for proper disposition of insurance proceeds. Sub-Servicers may decide whether to place the funds into an escrow account pending restoration of damage or to release the funds to the borrower. It is the Sub-Servicer's responsibility to inspect the property to make sure that repairs are being completed timely and to verify the contractors' credentials as to avoid misuse of the insurance proceeds.

Sub-Servicers are responsible for assuring that repairs are completed and that all proceeds are only used for repair, restoration or related costs. Sub-Servicers are responsible for ensuring that no liens or claims are created that could supersede the NJHMFA first lien. Sub-Servicers are also responsible for reimbursing to NJHMFA any funds that have been misdirected and not used for the completion of repairs.

4.18 Partial Releases

Sub-Servicer shall refer to FHA, VA, MI, USDA, FNMA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type to prepare the partial release documentation. If the loan is conventional uninsured use FNMA guidelines as the applicable servicing requirements to prepare the partial release documentation.

NJHMFA will either sign the partial release and return it to the Sub-Servicer, or will deny the request and notify the Sub-Servicer. Proceeds received in payment for a partial release are applied first to the borrower's delinquency, if any; loans secured by a second deed of trust, if applicable; then as may be indicated in the deed of trust, or absent that, to the principal balance of the loan.

Sub-Servicer shall not exercise any power of attorney to sign partial releases on the Agency's behalf, without prior authorization of NJHMFA.

4.19 Loan Payoffs

Refer to FHA, VA, MI, USDA, FNMA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured use FNMA guidelines as the servicing requirements.

NJHMFA loans secured by a second deed of trust must be paid off at the same time a NJHMFA loan secured by the first deed of trust is paid off. Sub-Servicers shall not accept a payoff unless

the amount paid is sufficient to pay off the NJHMFA loan secured by a first deed of trust and the NJHMFA loan secured by the second deed of trust, if any.

In the case of NJHMFA FHA loans that are paid in full on a date other than the first day of a month, NJHMFA does not require interest to be paid through the end of the month of payoff. Sub-Servicers shall quote and process all NJHMFA loan payoffs based on the actual day funds are received.

Sub-Servicers shall prepare, execute and record releases of liens for paid-in-full NJHMFA loans. Releases must be mailed for recording within 45 days of receipt of payment in full.

Failure to prepare and mail a release of lien for recording within 45 days of payment in full may result in a \$250 fee per loan charged to the Sub-Servicer. In addition, the Sub-Servicer shall reimburse NJHMFA any penalty that is imposed on NJHMFA that is the result of the Sub-Servicer's failure to record a release of lien within the specified time as determined by NJHMFA.

4.20 Service Members Civil Relief Act (SCRA)

Refer to FHA, VA, MI, USDA, FNMA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured use FNMA guidelines as the applicable servicing requirements.

A. Sub-Servicers shall be responsible for the following:

1. Determine borrower eligibility.
2. If relief can be granted, reduce the interest rate and the corresponding principal and interest payment on the Sub-Servicer's system to 6%. (Because the requirements of the SCRA are explicit, a written modification agreement is not required.)
3. Coordinate any interest rate and principal and interest payment changes with NJHMFA prior to the first scheduled 6% payment by immediately submitting a *Residential Loan Status Report/Reinstatement* form and a copy of the borrower's military orders.
4. During the term of relief, contact the borrower at least semi-annually to determine when the interest rate and monthly payments can be restored to the terms contained in the original note.
5. When the period of relief expires, coordinate the restoration of the note interest rate and principal and interest payment with NJHMFA by submitting a *Residential Loan Status Report* prior to the first effective payment.
6. If appropriate, forbearance or loan modification may be considered.
7. When a borrower is approved for relief under the Service Members Civil Relief Act, or when the borrower's period of relief ends, the Sub-Servicer shall coordinate interest rate and principal and interest payment changes with NJHMFA prior to the first affected payment. Failure to do so may result in a \$100 per month fee per affected loan

imposed on the Sub-Servicer and reimburse NJHMFA for any penalties accrued

If situations arise during the period of relief that are not covered in this section, such as bankruptcy or foreclosure, the Sub-Servicer shall contact NJHMFA.

SECTION 5: ASSUMPTIONS

5.1 General Information

Refer to FHA, VA, MI, USDA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured use FNMA guidelines as the applicable servicing requirements. Loans previously modified will not be eligible for assumption.

Certain program and IRS rules affect the loan assumption process and the eligibility of borrowers. This Section is designed to assist Sub-Servicers in understanding the unique requirements of NJHMFA assumptions.

Assumption applications must be approved by the investor/insurer prior to being submitted to NJHMFA. NJHMFA must approve all assumption applications. If a Sub-Servicer allows a NJHMFA loan to be assumed outside of NJHMFA eligibility rules, the Sub-Servicer shall repurchase the loan from NJHMFA.

Certain NJHMFA mortgages may not be assumable. Refer to the terms of the mortgage note for guidance.

The assumption application must conform to the eligibility requirements of the applicable Investor/Insurer and NJHMFA (See Section 5.2 below). With the exception of older loans that permit increases in the interest rate in the case of non-qualifying assumptions, the note interest rate and principal and interest payment do not change for the assuming buyer, and cannot be negotiated.

5.2 Eligibility Requirements

NJHMFA loans may have some unique requirements that must be fulfilled upon loan assumption. Sub-Servicer should refer to the Participating Lender's Guide at the NJHMFA website <https://nj.gov/dca/hmfa/lenders/lenderportal/> for further guidance.

5.3 Assumption Process

All assumption applications must be approved by FHA, VA, MI, USDA, FNMA, FHLMC and GNMA, as applicable, and also by NJHMFA. Uninsured conventional loans must only be approved by NJHMFA.

Regardless of loan type, NJHMFA reserves the right to evaluate the acceptability of the applicant's credit. NJHMFA is not obligated to approve applicants with unacceptable credit or high ratios, even if approved by the insurer/investor. Sub-Servicer shall refer to the Participating Lender's Guide at www.njhousing.gov for all current Agency eligibility rules, including but not limited to, First Time Homebuyer requirements, income and purchase price limits and occupancy requirements.

5.4 Household Income Calculation

Household income calculation is required for Mortgage Revenue Bond loans. When calculating Household Income, refer to the NJHMFA Participating Lender's Guide at <https://nj.gov/dca/hmfa/lenders/lenderportal/> for any exclusions.

5.5 Targeted Areas

Refer to the NJHMFA Participating Lender's Guide at <https://nj.gov/dca/hmfa/lenders/lenderportal/>

5.6 Acquisition Cost and Income Limits by County

Refer to the NJHMFA Participating Lender's Guide at <https://nj.gov/dca/hmfa/lenders/lenderportal/>

SECTION 6: DELINQUENCY

6.1 Guidelines for Dealing with Delinquencies

Refer to FHA, VA, MI, USDA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured, use FNMA guidelines as the applicable servicing requirements.

The financial circumstance of many NJHMFA borrowers is such that seemingly small budget challenges may upset their ability to satisfy financial obligations. The Sub-Servicer's best method to guard against high delinquency rates, bankruptcies and foreclosures is early intervention.

It is NJHMFA's general philosophy that the borrower is permitted to pay their loan current and remain in the property, providing they cooperate with the Sub-Servicer and fulfill their promises to pay. Particular attention should be paid to the promptness with which payments are received from new borrowers. Collection records for each loan account must be retained and are subject to NJHMFA review.

A great degree of attention should be given to borrowers who frequently allow their payment schedule to become 30 days past due. The Sub-Servicer shall develop a plan to reduce the number of borrowers who fall in this category. It is highly recommended that slow-paying borrowers be referred to credit and/or housing counseling agencies, if practical.

Loan accounts that are 30 or more days past due must be collected in a consistent manner until current or liquidated.

NJHMFA loans that exceed four (4) delinquent payments must be recommended for foreclosure, unless the borrower is in bankruptcy or the Sub-Servicer has negotiated a loss mitigation agreement whereby the borrower will pay the loan current.

Sub-Servicers' delinquencies are evaluated to determine their impact on NJHMFA's cash flow. Comparisons may be made between the Sub-Servicer's NJHMFA and non-NJHMFA delinquencies, trends in a Sub-Servicer's NJHMFA delinquency rates as compared to New Jersey delinquency rates reported by the Mortgage Bankers Association of America, NJHMFA delinquency rates and trends of one Sub-Servicer compared to NJHMFA delinquency rates of other or all NJHMFA Sub-Servicers, or other comparative methods.

6.2 Loss Mitigation Program

Refer to FHA, VA, MI, USDA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured, use FNMA guidelines as the applicable servicing requirements.

NJHMFA supports the loss mitigation philosophy and highly recommends that Sub-Servicers employ such methods with all delinquent loan types. However, Sub-Servicer is responsible for timely follow up on loss mitigation actions. If Sub-Servicer does not follow up within three (3) months from when an item is due, NJHMFA may retain the right for Sub-Servicer to purchase the loan.

If the Sub-servicer misses any required deadlines from a loan insurer or investor and these missed deadlines create loss for NJHMFA, Sub-Servicer shall reimburse NJHMFA for such losses, or agree to purchase the loan.

Loan purchase shall be at the amount of the unpaid principal balance including usual or customary fees.

A. Repayment, Forbearance Agreements: Sub-Servicer may grant the borrower a specified period of time (up to the maximum allowable by the applicable investor/insurer). The Sub-Servicer is encouraged to negotiate a repayment agreement with each delinquent borrower, which should conform to the applicable investor/insurer requirements. NJHMFA approval is not required except for conventional uninsured loans.

A forbearance agreement must be a logical solution to the borrower's financial situation, and must have a reasonable expectation to succeed. This remedy should not be proposed unless the loan can be expected to be paid current within the applicable investor's repayment schedule.

B. Short Sales: Follow FHA, VA, MI, USDA, FHLMC and GNMA instructions for short sales. Conventional insured or conventional uninsured loans will need NJHMFA's approval for a short sale. If the loan is an insured conventional loan, the Sub-Servicer will also need the approval from the MI company prior to sending to NJHMFA for approval. The Sub-Servicer will send the following documents to servicing@njhmfa.gov for approval:

1. Conventional insured –
 - a. Copy of the MI approval letter
 - b. Copy of latest (most recent) BPO and /or appraisal
 - c. Copy of a payoff statement.

2. Conventional uninsured –
 - a. Hardship letter and written request from the borrower

- b. BPO and or appraisal within 60 days of request
- c. Pay history
- d. Pay off statement

- C. Deed in Lieu of Foreclosure:** Refer to FHA, VA, MI, USDA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured, use FNMA guidelines as the applicable servicing requirements.

If the borrower offers or is willing to execute a deed in lieu of foreclosure, the Sub-Servicer should recommend NJHMFA approval if the Sub-Servicer determines that such action is in the best interest of NJHMFA, that clear, marketable title will be obtained, and that insurance or guaranty benefits from FHA, VA, MI, USDA, FHLMC or GNMA will not be reduced or impeded. A cash consideration will not be paid to the borrower for voluntary conveyance of the property unless the cash payment is eligible for reimbursement by the insurer or guarantor of the loan.

The property must be vacant at the time the borrower executes a deed-in-lieu. If the Sub-Servicer obtains the prior approval of the loan insurer or guarantor, the Sub-Servicer may allow a reasonable predetermined period of time for the borrower to vacate the property.

D. NJHMFA Conventional Loan Modification Procedures

A modification or extension of a mortgage loan shall be recommended by the Sub-Servicer when a borrower has a legitimate and verifiable hardship. Modifications will only be considered on a primary residence loan. The modification will be a written agreement that permanently changes one or more of the original terms of the note.

1. Hardships:

- a. Hardship must be a permanent or long-term decrease in income and/or increase in expenses.
- b. Documentation must demonstrate the hardship, as set forth below.

Modification requests will require a full documentation of the hardship, income, debt and assets of the borrower(s) in order to make a sound underwriting decision. Follow respective Insurer/ Investor underwriting Guidelines for modifying all loans.

All modification requests must be approved by the Agency. The modification request must be submitted to the Agency with full documentation for a decision. The Sub-Servicer will obtain any mortgage insurance approvals prior to submission to the Agency for approval.

2. The modification package must contain the following items:

- a. Modification application;
- b. Two years income tax returns;
- c. Most recent income information (1 month pay stubs/ income information);

- d. Three months most recent bank statements;
- e. Current credit report.
- f. Date-down title endorsement will be required if the new loan amount exceeds the original loan amount or if the maturity date exceeds original maturity.

Approved modifications must meet all standard documentation requirements and comply with all state and federal laws. Disclosures will be delivered by the Sub-Servicer based on State and federal requirements and in a timely manner. The Sub-Servicer will obtain required signatures of all borrowers within a 30-day period following approval. All modifications will be recorded with the county where the property is located. Any required subordinations will be obtained and recorded by the Sub-Servicer. A copy of the fully executed modification agreement and all disclosures will be provided to the Agency for its records.

3. Eligibility requirements for modification:

- a. Loan origination date must be at least 12 months prior to consideration for modification;
- b. Loan must be at least 90 days delinquent but not more than 720 days delinquent;
- c. Must be a first lien mortgage;
- d. Loan must continue to be a first lien mortgage;
- e. Subsequent loans must be subordinated;
- f. Loan must not have been modified in the past 12 months;
- g. Loans cannot be modified more than two times;
- h. Must have a successful 3-month trial modification period;
- i. Must be approved by Mortgage Insurance company, if applicable;

The goal is to reach an affordable housing ratio of 35% housing debt to Income (HDTI) ratio while keeping total debt to income (TDTI) ratio at 50% or lower. If the borrower has only housing debt, a HDTI ratio of 40% will be considered.

4. Process to reach target ratios:

- a. Extend term and maturity up to 480 months from original loan date.
- b. Reduce rate in steps by 0.125% to the minimum rate allowed by the investor/insurer.
- c. Principal forbearance of up to the maximum percentage allowed by the investor/insurer. No interest will be charged on this amount. The principal will continue to be a lien on the property in the event of sale or pay-off.

E. Government Guaranteed Loan Modifications

Loans serviced for NJHMFA and guaranteed by FHA, VA, MI, USDA, FHLMC and GNMA are to be modified based on the applicable guidelines pertaining to such loans.

All Modifications MUST be approved by the Agency.

6.3 Delinquency Inspections

Refer to FHA, VA, MI, USDA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured, use FNMA guidelines as the applicable servicing requirements.

Inspection reports must be retained by the Sub-Servicer and are subject to NJHMFA review.

In the case of an REO, the Sub-Servicer shall inspect the property monthly to make sure there is no additional damage, that there is a lockbox and a "For Sale" sign in the yard until the property is sold or transferred to NJHMFA. Failure to inspect and maintain property could result in purchase demand.

6.4 First Payment Defaults

The Sub-Servicer should conduct a face-to-face interview with new borrowers who fail to remit their first scheduled payment by the 36th day of default. When it is not possible to conduct a face-to-face interview, the Sub-Servicer must contact the borrower by telephone, by mail or other available means. Records of telephone conversations and attempts to contact the borrower must be retained, and are subject to NJHMFA review.

6.5 Abandonment

Refer to FHA, VA, MI, USDA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured, use FNMA guidelines as the applicable servicing requirements.

Immediately upon discovering that the property that is security for a NJHMFA loan has been abandoned, the Sub-Servicer shall inspect the property to determine if damage or vandalism has occurred and secure the property. Sub-Servicer shall also notify the borrower's hazard insurance carrier that the property is vacant and mail an occupancy breach letter to the borrower. (See Section 4.13).

SECTION 7: BANKRUPTCY

7.1 **Notification of Bankruptcy Filing**

Refer to FHA, VA, MI, USDA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured use FNMA guidelines as the applicable servicing requirements.

The Sub-Servicer is responsible for sanctions or monetary losses that result from the Sub-Servicer's violation of procedures mandated by federal bankruptcy law.

7.2 **Notification of Bankruptcy Discharge or Dismissal**

The Sub-Servicer shall notify the Agency of bankruptcy cases in the Agency's servicing portfolio via a monthly Excel file as of the last day of that month. The spreadsheet shall include the borrower's name, investor and Sub-Servicer's loan #, bankruptcy case number, the type of filing (Chapter 7 or 13), the date of filing, the meeting of creditors date, the plan approval date and the discharge or dismissal date. Current case details should always appear at the beginning of the report.

7.3 **Bankruptcy Attorney**

The Sub-Servicer shall engage a qualified bankruptcy attorney or law firm to protect NJHMFA's interests in the loan and property in bankruptcy. NJHMFA does not approve bankruptcy attorneys, but reserves the right to require the Sub-Servicer to discontinue use of individual attorneys or law firms for NJHMFA loans due to unsatisfactory performance or conflict of interest.

Attorney fees must comply with FHA, VA, MI, USDA, FHLMC and GNMA guidelines, as applicable.

7.4 **Meeting of Creditors**

Refer to FHA, VA, MI, USDA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured, use FNMA guidelines as the applicable servicing requirements.

Representation of NJHMFA's interests at meetings of creditors by an attorney or their representative is mandatory. The Sub-Servicer shall provide for timely delivery of bankruptcy notification and documentation to the selected attorney, in order to allow the attorney sufficient time to attend the Meeting of Creditors. The attorney must be prepared to offer a formal reaffirmation agreement (Chapter 7 cases), object to an unrealistic repayment plan (Chapter 13 cases) or move that the property be excluded from the bankruptcy, as appropriate.

7.5 Bankruptcy Inspections

Refer to FHA, VA, MI, USDA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured, use FNMA guidelines as the applicable servicing requirements.

7.6 Chapter 13 Bankruptcy

Refer to FHA, VA, MI, USDA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured, use FNMA guidelines as the applicable servicing requirements.

If the Sub-Servicer does not receive a payment from the bankruptcy trustee (Trustee) for three consecutive months, the Sub-Servicer shall:

A. Contact the Trustee for a status of the plan.

B. Seek relief from automatic stay.

The Sub-Servicer must immediately instruct their bankruptcy attorney to file a motion with the bankruptcy court for relief from the automatic stay.

C. Order a drive-by inspection of the property.

If the property is found to be abandoned, the Sub-Servicer shall immediately instruct their bankruptcy attorney to file a motion with the bankruptcy court for relief from the automatic stay.

Sub-Servicers shall provide annual escrow analysis notification to the Trustee to allow adjustments to the plan. If the Sub-Servicer fails to notify the Trustee of escrow adjustments, and, as a result, the borrower's account remains delinquent at the end of the Chapter 13 plan, and the bankruptcy court declares the payment schedule current, the Sub-Servicer shall be liable to NJHMFA for the excess.

7.7 Chapter 7 Bankruptcy

Refer to FHA, VA, MI, USDA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured, use FNMA guidelines as the applicable servicing requirements.

The Sub-Servicer may approve a reaffirmation agreement with a borrower who is in an active Chapter 7 bankruptcy if the loan is current.

If the loan is not current, but the Sub-Servicer feels that it is in the best interests of NJHMFA to allow a borrower who is in a Chapter 7 bankruptcy to reaffirm the debt, the Sub-Servicer may approve a reaffirmation agreement with the borrower.

7.8 Payments from the Trustee

Payments received from the Trustee should be applied first to bring the NJHMFA loan(s) current. Once the loan is current, the remaining payments may be used to reimburse Sub-Servicers for legal fees and other expenses.

If the borrower becomes 90 days delinquent in making contractual payments, the Sub-Servicer shall refer the case to the bankruptcy attorney to seek relief from automatic stay or a dismissal of the case. Failure to comply could result in the Sub-Servicing purchasing the loan.

SECTION 8: FORECLOSURE

8.1 Foreclosure - General

Refer to FHA, VA, MI, USDA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured, use FNMA guidelines as the applicable servicing requirements.

Sub-Servicers are authorized to approve and carryout all foreclosure activities as required by the relevant insurer or guarantor based on loan type and as required under State law on behalf of and in the name of NJHMFA. This authorization includes authority to execute all documents as may be required by the relevant insurer or guarantor based on loan type and as required under State law. Sub-Servicers shall immediately notify NJHMFA of this loan status change. As evidence of foreclosure approval and that the loan has been referred to a foreclosure attorney, the Sub-Servicer shall notify NJHMFA using Form 173/173A. For cases involving a borrower who is on active military duty, see Section 4.20.

The Sub-Servicer shall comply with all federal, State and local laws and regulations regarding foreclosure, claims and property disposition.

The Sub-Servicer shall advance funds for expenses incurred during foreclosure proceedings. After the foreclosure sale and disposition, the Sub-Servicer may request reimbursement of expenses incurred by submitting NJHMFA Form 108, Request for Reimbursement. NJHMFA may reimburse expenses that NJHMFA considers reasonable and necessary and that are not reimbursed by FHA, VA, MI, USDA, FHLMC or GNMA. The Sub-Servicer is responsible for any loss incurred due to failure to comply with FHA, VA, USDA, FHLMC, GNMA or MI foreclosure guidelines or failure to file timely claims and reports to the applicable insurer or guarantor on behalf of NJHMFA.

8.2 Choice of Foreclosure Attorney

The Sub-Servicer shall select foreclosure attorneys. NJHMFA does not approve foreclosure attorneys, but reserves the right to request the Sub-Servicer to discontinue use of individual attorneys or law firms for NJHMFA loans due to unsatisfactory performance or conflict of interest.

8.3 Responsibilities During Foreclosure

Refer to FHA, VA, MI, USDA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured, use FNMA guidelines as the applicable servicing requirements.

Sub-Servicer shall report any damages found at the time of inspections to the insurance company and claim proceeds shall be used to repair the damages. The Sub-Servicer shall take immediate action to protect and secure property that is discovered to be vacant. The Sub-Servicer shall

contact NJHMFA immediately if a property is found to be condemned, vandalized or damaged by fire, storm or other hazard.

The Sub-Servicer shall retain the borrower’s escrow funds, unapplied suspense funds, insurance proceeds, tax receipts and expense bills. If the borrower’s escrow funds are insufficient to pay taxes, insurance premiums or other escrow expenses as they become due during foreclosure, the Sub-Servicer shall advance their corporate funds to pay such expenses to protect NJHMFA’s interests. Such advances will be reimbursed by NJHMFA upon receipt of eligible claim or liquidation proceeds.

The Sub-Servicer shall strictly conform to all loan insurance or guaranty guidelines and promptly forward all required reports and documentation to the loan insurer or guarantor.

The maximum allowable foreclosure related fees that NJHMFA will reimburse are the insurer’s standard allowable fees. Conventional loans will follow the Fannie Mae approved fee list. All invoices must be presented with the “Servicer Reimbursement Form” - NJHMFA Form 108-Bankruptcy Section to be eligible for reimbursement.

While a foreclosure is pending, a NJHMFA loan shall not be reinstated unless the Sub-Servicer receives the full amount necessary to reinstate. If a loan has been referred to an attorney for foreclosure, the Sub-Servicer must receive full reinstatement before removing the loan from foreclosure or accepting a payment. Once payments reinstate the loan and are posted to the account, the Sub-Servicer shall remove the date on the “In Foreclosure” status. In the Excel reporting. If a loan is six months delinquent and a Sub-Servicer accepts a partial reinstatement payment without NJHMFA’s approval, or the Sub-Servicer brings a loan current without including attorney’s fees, the loan will be subject to purchase by the Sub-Servicer.

Sub-Servicers shall remit foreclosure claim settlement funds to NJHMFA immediately upon receipt.

8.4 Bidding Instructions

The Sub-Servicer shall issue bidding instructions to its attorney who will conduct the foreclosure sale, unless directed otherwise by NJHMFA. Refer to FHA, VA, MI, USDA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured, use FNMA guidelines as the applicable servicing requirements.

- A. Uninsured conventional mortgages: Bid should be for the total amount due, including all Sub-Servicer expenses.
- B. Insured conventional loans: The Sub-Servicer shall follow the PMI company instructions on arriving at a bid amount.

After a bid is issued to the foreclosure attorney, the Sub-Servicer shall insure that the foreclosure attorney does not deviate from the authorized bid. Bids may not be rounded up or down after legal fees are added.

8.5 Offer to Pay Current During Foreclosure Proceedings

This section does not apply in the case of a non-monetary default.

Refer to FHA, VA, MI, USDA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured, use FNMA guidelines as the applicable servicing requirements.

During the foreclosure process (monetary default), the Sub-Servicer may accept an offer by the borrower to pay their loan current without NJHMFA permission.

When an offer to pay the loan current is accepted, and funds are received, the Sub-Servicer shall:

- A. Prevent additional foreclosure costs and expenses from being incurred,
- B. Apply the funds needed to pay the borrower's NJHMFA loan current,
- C. Pay all foreclosure expenses not reimbursed by an Investor/Insurer.

8.6 Reinstatement During Foreclosure Without Paying Current

Refer to FHA, VA, MI, USDA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured, use FNMA guidelines as the applicable servicing requirements.

The Sub-Servicer shall inform NJHMFA of this status change by the next due monthly Excel spreadsheet.

If the Sub-Servicer agrees to cancel a foreclosure sale and enters into a repayment agreement, the Sub-Servicer shall collect incurred foreclosure expenses from the borrower. If the borrower defaults on the Repayment Agreement and the loan is placed into foreclosure again, NJHMFA will not reimburse the Sub-Servicer for previously reimbursed foreclosure expenses.

8.7 Bankruptcy During Foreclosure

Refer to FHA, VA, MI, USDA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured, use FNMA guidelines as the applicable servicing requirements.

When a borrower files bankruptcy during the foreclosure process, NJHMFA foreclosure approval is void, and the Sub-Servicer shall cancel the foreclosure sale and shall not incur additional foreclosure expenses. The Sub-Servicer shall remove the foreclosure approval date and notify NJHMFA of the status change in the next monthly Excel spreadsheet.

If the bankruptcy is subsequently dismissed and the loan is reinstated and is again approved for foreclosure, the Sub-Servicer must submit a new foreclosure approval date and notify NJHMFA in the next monthly Excel spreadsheet.

8.8 Responsibilities Following Foreclosure

Refer to FHA, VA, MI, USDA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured, use FNMA guidelines as the applicable servicing requirements.

Within five (5) business, the Sub-Servicer shall notify NJHMFA that the foreclosure sale occurred. Within one (1) month following the foreclosure sale, the Sub-Servicer shall take appropriate action to prevent the loan from appearing as an active loan in their database.

NJHMFA is exempt from payment of transfer taxes and recording taxes. Sub-Servicers shall notify their foreclosure attorneys of this exemption. NJHMFA will not reimburse Sub-Servicers for transfer taxes or recording taxes paid to record a Trustee's Deed that conveys foreclosed property to NJHMFA.

8.9 Conveyance and Claim Procedures

Refer to FHA, VA, MI, USDA, FNMA, FHLMC and GNMA requirements and follow their specific guidelines based on the loan type. If the loan is conventional uninsured, use FNMA guidelines as the applicable servicing requirements.

Sub-Servicers are authorized to execute instruments conveying foreclosed properties to HUD, on behalf of NJHMFA. The Sub-Servicer shall ensure that the correct instrument of conveyance is used to convey foreclosed properties to the insurer or guarantor. Sub-Servicer shall convey the property to the insurer or guarantor within their timeline or no later than seven days from the time they are notified that the property is in conveyance condition. Properties should be in conveyance condition no more than 120 days from the date of the foreclosure sale or there should be documentation to

justify any extra time.

If the Sub-Servicer fails to convey the property in a timely manner, the Sub-Servicer may be required to purchase the loan. On a loan that has been purchased by the Sub-Servicer and a claim is received by NJHMFA, it will be forwarded to the Sub-Servicer. NJHMFA will only pay expenses reimbursed at that point. All claims should be completed within one year from the foreclosure date. Any outstanding claims may result in a purchase obligation by the Sub-Servicer.

The Sub-Servicer shall expeditiously file claims with FHA, VA, MI, USDA, FHLMC and GNMA. The Sub-Servicer shall indicate NJHMFA's mortgagee number and the applicable NJHMFA loan number when filing FHA claims.

Sub-Servicer shall convey all FHA insured foreclosed properties to HUD no later than 6 months from the first vacancy date reported to the Sub-Servicer as a result of the Sub-Servicer's inspections. On properties not conveyed within the time limit, Sub-Servicer shall pay NJHMFA the principal and interest due on the account beginning on the date of the foreclosure sale until claim proceeds are received by NJHMFA.

If a property is not conveyed to HUD in a timely manner, as specified above, the Sub-Servicer shall still convey the property to HUD and file the HUD Part A Claim.

Sub-Servicer shall file the HUD Part B Claim within 60 days of HUD issuing title approval.

Simultaneous with the filing of an expense claim with FHA or claim form 26-1874 with VA, the Sub-Servicer shall submit NJHMFA Form 108, Section "Foreclosure Expenses" to NJHMFA, accompanied by a copy of the FHA/VA claim filed. NJHMFA will reimburse Sub-Servicer's foreclosure and disposition expenses when claims are filed in a timely manner to the lesser of the amount of Sub-Servicer's expenses or the amount reimbursed by FHA or VA.

The Sub-Servicer shall instruct FHA, VA, MI, USDA, FHLMC and GNMA to deliver their correspondence to the Sub-Servicer and copy NJHMFA.

Supplemental expense claims will be paid based on the insurer/Investor (FHA/VA, USDA, FHLMC, GNMA or MI) requirements. NJHMFA will reimburse Sub-Servicer for expenses incurred if Sub-Servicer submitted a NJHMFA Form 108 request for that expense and if NJHMFA received supplemental claim proceeds from the insurer/investor.

On occasion, the insurer or guarantor may disallow a specific foreclosure expense from the claim or may curtail the amount of interest paid as part of the claim settlement. If that happens because the Sub-Servicer did not follow required procedures, the Sub-Servicer shall reimburse NJHMFA for the curtailed interest, or NJHMFA will offset the Sub-Servicer's expense reimbursement by the amount that was disallowed or curtailed by the insurer/guarantor.

Periodically, a Sub-Servicer's handling of seriously delinquent loans is reviewed to determine that specific actions, such as a referral for foreclosure, foreclosure sale, conveyance, claim filing, etc. are being taken in a timely manner. If a review discloses that the Sub-Servicer has an unsatisfactory number of delays, NJHMFA, in its sole discretion, may impose a fee that relates to the costs incurred as a result of those delays.

Sub-Servicers shall submit the insurer's expense reimbursement claim and the NJHMFA Statement of Foreclosure Expenses Form contained in NJHMFA Form 108, along with copies of all invoices, to request reimbursement of their advances within the following time frames:

- A. Within 60 days after completion of a loss mitigation alternative, conveyance to the insurer or guarantor, acquisition of a property by a third party at foreclosure sale or disposition of an acquired property.
- B. NJHMFA Statement of Foreclosure Expenses contained in NJHMFA Form 108 within 30 days after the receipt of Part B funds.
- C. Supplemental claims must be filed within 30 days of original expenses paid.

NJHMFA reserves the right to deny any late filed reimbursement requests. NJHMFA may apply late submission charges on a case-by-case basis, taking into consideration the severity of the filing delay and the frequency with which the Sub-Servicer files late requests for reimbursement.

NJHMFA will not pay reimbursement requests filed after the loan has been written off unless NJHMFA receives funds from the insurer and the reimbursement shall not exceed the amount NJHMFA receives less deductions and a late filing fee, as determined by NJHMFA in its sole discretion.

8.10 Manufactured Home Title Issues

Manufactured Homes must be affixed to a permanent foundation. Refer to FHA, VA, MI, and USDA requirements and follow their specific guidelines based on the loan type.

SECTION 9: PROPERTIES IN FORECLOSURE - REAL ESTATE OWNED (REO)

9.1 Maintenance and Security:

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

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

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

- A. Property is vacant on day of sale: Sub-Servicer shall pay all items due for sixty (60) days after the Sheriff's sale;
- B. Property is occupied by Mortgagor at time of sale: Sub-Servicer shall obtain eviction of borrowers and pay all items due until completion of an eviction.
- C. If Mortgagor files bankruptcy after Sheriff's sale - Sub-Servicer shall keep all escrows current until such time as the action is dismissed and property is vacant.
- D. Property is occupied by any tenant at the time of sale: Sub-Servicer shall pay all escrows due for 60 days after the sale. The Sub-Servicer shall advise the Foreclosure Attorney **not** to evict the tenant **nor** to collect rent from the tenant. These procedures will be handled by the Agency's Asset Manager.
- E. Sub-Servicer shall remit the following to the Agency as soon as possible:
 - 1. Original recorded Sheriff's Deed
 - 2. Copy of Certificate of Regularity
 - 3. Title Policy showing Agency as owner of record with clear title and insured for the total indebtedness
 - 4. Lock-box code or keys to property
 - 5. Receipts for property taxes paid
 - 6. Copy of claim for benefits to insurer
 - 7. Copy of Order Vacating Automatic Stay (if Bankruptcy was filed)

8. Request for Reimbursement (HMFA Servicer Reimbursement Form #108).

Please note that the Agency is exempt from real estate taxes the calendar year, beginning January 1st, following the sheriff's sale. Most municipalities require exemption requests to be filed by November 1st of the year prior to the exemption effective date. Any taxes that are paid during that time period may result in a curtailment on the HMFA#108 form. It will be the responsibility of the Sub-Servicer to obtain a refund from the tax collector for the curtailed taxes. You may contact the Agency for guidance regarding this procedure.

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

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

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

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

Sub-Servicer's Request for Reimbursement will be **curtailed** when attorney's fees exceed the maximum allowable fees and for adjustments, disallowed charges and curtailments from FHA, VA

and MI insurers.

9.2 Charge Off:

A charge off discontinues efforts to collect on a mortgage debt that is believed to be uncollectable. The lien is not released. The charge off prevents properties of little value from being an added liability to the REO portfolio.

A. A charge off should be used when:

1. The property has been, or will be, condemned
2. The net repair estimates far exceed the value of the property
3. There is a need for hazardous waste removal which increases liability
4. Further loss mitigation efforts are inappropriate
5. The municipality has issued a condemnation order
6. Professional experts' opinions that advise of loss
7. Government's intent to enforce right of eminent domain

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

1. Copy of Appraisal
2. Copy of Adjuster Report
3. Declaration of uninsurable losses (if applicable)
4. Mortgagor's credit report
5. Mortgagor's financial disclosure (FNMA-1020) (if applicable)
6. Complete repair estimate
7. applicable documentation from DEP or private waste management company

C. The following information must be submitted following a charge off:

1. Completed HMFA Form #108
2. Sub-Servicer reimbursement of escrow advances
3. Escrow advance documentation
4. Copy of MI claim
5. Copy of MI approval letter
6. MI proceeds

9.3 Sales Subject to Existing Mortgage Loan

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

9.4 Property Inspections

Sub-Servicer must inspect each mortgaged property in foreclosure at least once every month. The scope of the inspection must cover the maintenance of the property and the general condition of the neighborhood and the occupancy status of the property. The Sub-Servicer is responsible for the selection and quality of the inspector/maintenance company.

Entry to the dwelling is not necessary during a routine property inspection unless the property is vacant. The inspector should pay special attention to items that are in disrepair and can ultimately affect the value of the property. In the event there are items found to be in disrepair, the Sub-Servicer should contact the Mortgagor in writing, advising him/her of the suggested repairs that should be made. A record of the property inspection must be contained in the Sub-Servicer's Mortgage Loan file.

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

The field inspector should be instructed to determine the occupancy status of the mortgaged property and the names of any and all tenants. The inspector should provide the Mortgagor with the name and telephone number of a contact at the Sub-Servicer's office.

Inspections are not required if:

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

10.1 **Quality Control Plan (QCP)**

HMFA requires that all approved Sub-Servicers must establish and maintain their own Quality Control Plan.

The basic elements of a Quality Control Plan (QCP) in general, and the required elements for the servicing portion of quality control are intrinsically the same for Fannie Mae, Freddie Mac, HUD, FHA, VA, and USDA. An acceptable QCP should include a system of internal controls that sets standards, measures performance, and determines compliance with applicable legal, federal and State regulator, and insurer/investor requirement. A QCP should also provide for the timely identification, correction and prevention of future recurrence of any deficiencies identified during quality control reviews.

NJHMFA requires that the QCP be reviewed no less than annually by the Sub-Servicer's senior management. The QCP as well as internal and external audit/compliance reports will be reviewed by NJHMFA to ensure that management objectives are attained and that corrective actions where necessary are implemented.

10.2 **Audit and Compliance**

NJHMFA will perform monthly and annual financial and compliance audit/reviews of its portfolio in order for NJHMFA to determine that the Sub-Servicer is complying with all of the following that apply to the portfolio being serviced: this Servicing Guide, FHA Handbook 4000.1, VA Sub-Servicer Guide, USDA Handbook, GNMA MBS Guide, Fannie Mae Servicing Guide, Freddie Mac Servicing Guide, CFPB requirements, requirements of any other State or federal regulator with authority over the Sub-Servicer, and any other authoritative official literature as recognized by the servicing industry.

Furthermore, NJHMFA Audit and Compliance must be able to confirm that the Sub-Servicer's policies and procedures are in compliance with all applicable State and federal laws and regulations applicable to the particular Sub-Servicer and its activities on the NJHMFA's behalf.