

# SERVICER PROGRAM GUIDE

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## CHAPTER 1 - GENERAL SERVICING INFORMATION

### 1.00 INTRODUCTION

As a Participant Servicer (“Servicer”) in the Texas Veterans Land Board (“VLB”) Veterans Housing Assistance Program (“VHAP”), and Veterans Housing Improvement Program (“VHIP”), as evidenced by the execution of the Servicer Application to Participate, the Servicer has agreed to service the Program Mortgage Loans in accordance with the Servicer Program Guide (“Guide”).

These guidelines have been prepared by Nationstar Mortgage LLC dba Mr. Cooper Master Servicing (“Administrator”) for use in the VHAP and VHIP programs of VLB. These programs were created to provide veterans with low-interest long-term loans for use in home acquisition or home improvements.

These guidelines in their current form and as amended, modified, or updated from time to time by the Administrator, supersedes any prior instructions distributed by the Administrator. Any amendment, supplement, change, modification or alteration shall, upon notice to the Servicer, have the same force and effect as if originally contained in this Guide.

The procedures are intended to be straightforward and in conformity with industry standards for programs with similar objectives. Given the uniformity of these procedures, it is anticipated that full compliance will be accomplished with relative ease.

### 1.01 VLB LOAN NUMBER

The VLB assigned loan number must appear on all reports and correspondence received from Servicers.

### 1.02 GENERAL RESPONSIBILITIES

Servicers must maintain 1) minimum Net Worth requirements in accordance with these guidelines, and 2) sufficient facilities and staff to service loans on behalf of VLB in accordance with the Guide unless otherwise waived by VLB.

Servicers’ staff must be familiar with the Guide, any mortgage pool insurance or guaranty requirements, and local, state, and federal laws.

Servicers are responsible for and warrant that all local, state and federal laws and regulations governing mortgage servicing activities have been and will be satisfied and discharged with respect to each loan serviced on behalf of VLB.

The Administrator has established the servicing procedures as outlined herein. The Administrator is available to consult with Servicers on any matters requiring clarification and in any event the Servicer has a question concerning its duties or responsibilities under the Guide, or is in need of advice regarding any action or non-action with respect to any Program Loan, any property subject to a mortgage, any

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foreclosure, or any foreclosed property, easement or condemnation problems and claims under any Insurance Policy pertaining to the Program Loan and such property.

In cases where issues are not addressed in sufficient detail in the Guide, the Servicer should consult with the Administrator in order to develop appropriate guidelines to follow.

This Guide shall be construed in accordance with the Laws of the State, and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with such Laws.

All notices, certificates or other communications hereunder shall be in writing via email and shall be deemed given when delivered or five (5) Calendar Days after email is sent to the appropriate party. VLB, the Administrator or Servicer may, by notice given hereunder, designate any further or different email address to which subsequent notices, certificates and other communications shall be sent.

In the event any provision of this Guide shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate nor render unenforceable any other provision hereof. Such invalid or unenforceable provision shall be amended, if possible, in accordance with this Guide.

This Guide shall continue in full force and effect for so long as the Board owns any Program Loans or any Bonds are outstanding, whichever is later, or until sooner terminated in accordance with the terms hereof.

Words of any gender used in this Guide shall be held and construed to include any other gender, and words in the singular shall be held and construed to include the plural, unless this Guide or the context otherwise requires.

All forms or reports required by this Guide will be prescribed by the Administrator from time to time and may be amended, supplemented, or replaced as the Administrator shall deem appropriate.

The Servicer shall provide to VLB and its examiners and supervisory agents and to the Administrator, access to the Servicer's Loan Documents and all other documents or information maintained by the Servicer which relate to the Program Loans, during normal business hours and, except under circumstances relating to the termination of the Servicer, upon reasonable notice to the Servicer. Access to the Loan Documents and other documents or information shall be provided at no charge at offices designated by VLB or its representatives.

Any entity into which the Servicer may be merged or consolidated, or any entity resulting from any merger, conversion or consolidation to which the Servicer shall be a party, or any entity succeeding to the business of the Servicer, shall be the successor of the Servicer hereunder without the execution or filing of any document or instrument, except as provided in this Guide, or any further act on the part of any of the parties hereto.

### **1.03 SERVICER APPLICATION TO PARTICIPATE**

#### **Initial Application as Servicer Only**

Servicers desiring to participate should contact the Administrator to obtain a Servicer Application to Participate. The completed package along with a check in the amount of \$1,000.00 (made payable to the Texas Veterans Land Board) must be submitted to the Administrator. The Administrator will review applications and present recommendations to VLB.

The Servicer does not participate in production activities and typically enters the program as a result of

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bulk loan acquisitions. In addition to the general requirements listed above, the Servicer must meet the following specific requirements:

- Maintain applicable agency approvals (Fannie Mae/Freddie Mac, FHA, VA, and Ginnie Mae) as a seller/servicer or maintain depositor insurance with FDIC or NCUA
- Maintain a Net Worth equal to that required by Fannie Mae
- Must have been in business for at least three (3) years
- Must agree to service loans in accordance with the standards set forth by the applicable Agency (Fannie Mae or Freddie Mac) except as modified by the Administrator on behalf of VLB
- Must have in effect a Fidelity Bond and errors and omission coverage and agree to modify them as necessary to meet VLB's requirements

VLB requires a one-time fee of \$1,000.00 for the Servicer's initial certification. As Servicers do not participate in the origination process, they are not eligible to be a sponsor without written authorization from the Administrator. VLB reserves the right to reject any servicer.

### **1.04 SALE OR TRANSFER OF SERVICING**

VLB may sell all of the Program Loans, either singularly or in combination with other Program Loans, to Servicers, or any other person or entity at any price. All obligations of the Servicer with-respect to any Program Loan sold by VLB shall cease thirty (30) Calendar Days after the consummation of a sale by VLB and, on the date that is thirty (30) Calendar Days after the consummation of the sale, such Program Loan shall be deemed to be removed from VLB'S portfolio of Program Loans for purposes of calculating the Service Fee. No cancellation fee will be due and owing or paid to the Servicer by reason of VLB's sale of any Program Loan. However, nothing herein shall preclude the Servicer from entering into an agreement with the purchaser of any Program Loan to continue the servicing of such Program Loan.

The Servicer may not assign or transfer its servicing of VLB loans without the prior written permission of the Administrator. Any requests for such a transfer to another approved VLB Servicer will be considered on an individual basis. For consideration, the Servicer must complete and submit a Transfer of Servicing Agreement (see Form SG-6) and a list of the loans to be transferred, including their principal balance to the Administrator for review and approval at least thirty (30) Calendar Days prior to the effective transfer date. The new Servicer must be an approved Servicer in the Program.

The original Servicer will be liable to VLB for any servicing violation which may occur prior to, during, and until completion of the portfolio transfer.

### **1.05 SUB-SERVICING**

With prior approval of the Administrator, a Servicer may contract out VLB servicing if the Sub-Servicer is also an approved Servicer. In these cases, an executed Sub-Servicing Agreement (see Form SG-8) must also be submitted to the Administrator. The Servicer remains responsible for all actions (or failures to act) by its Sub-Servicer.

### **1.06 RESIGNATION OF SERVICING**

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The Servicer shall not have the right to resign from the obligations and duties hereby imposed on it except upon determination that its duties hereunder are no longer permissible under applicable law or regulation. Any such determination permitting the resignation of the Servicer shall be evidenced by an opinion of counsel satisfactory to VLB to such effect delivered to the Administrator. No such resignation shall become effective until the Administrator or a successor servicer shall have assumed the Servicer's responsibilities and obligations.

### 1.07 TERMINATION AND LIABILITIES

A default on the part of a Servicer may result in the termination of servicing privileges. Events of default include, but are not limited to the following:

- Failure to perform its obligations as stated in the Guide.
- Any change in the Servicer's financial condition or organization which, in VLB and Administrator's opinion, will adversely affect the Servicer's ability to service the loans.
- Appointment of a receiver, trustee or liquidator for the Servicer.
- Suspension, restriction, or discontinuation of Servicer's business by a government agency.
- Impending or actual insolvency of the Servicer.
- Failure to deliver any requested documents to VLB, Administrator, or any other party so directed by VLB or Administrator, such request being reasonable in nature.
- Sale of interests, rights or obligations without the Administrator's prior written consent.
- Filing for protection under any chapter of the United States Bankruptcy Code.

Generally, the Administrator will provide the Servicer with thirty (30) Calendar Days written notice of its intent to terminate servicing privileges. However, the Administrator specifically retains the right to act without notice if it is deemed necessary to protect VLB's interests.

Prior to issuing a formal notice of termination, the Administrator may elect to issue a warning, providing the Servicer with the opportunity to initiate corrective action within a specified period of time.

Upon termination of a Servicer, the Servicer shall immediately deliver or cause to be delivered to the Administrator all moneys held in escrow relating to the Program Loans serviced by the Servicer, and to VLB or its designee all Revenues received by such Servicer not theretofore remitted to VLB or its designee, and shall, within thirty (30) Calendar Days of said termination, deliver or cause to be delivered to Administrator all files of the Servicer relating to the Program Loans serviced by such Servicer. The Servicer hereby authorizes and empowers VLB to execute and deliver, on behalf of the Servicer, as attorney-in-fact or otherwise, any and all documents and other instruments, and to do or accomplish all other acts or things necessary or appropriate. The Servicer agrees to indemnify and hold VLB and the Administrator harmless from any and all loss, damage and expenses (including reasonable attorney fees) that any of them may incur in securing the delivery of all files, the transfer of all escrows, or the remittance of all Revenues received by the Servicer with respect to any Program Loan serviced by the Servicer.

If it is determined in a judicial proceeding that the Servicer has failed to perform under any provision of this



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Guide, and if the Administrator or VLB shall employ attorneys or incur other expenses for the enforcement, performance, or observance of the terms of the Guide on the part of the Servicer, then the Administrator or VLB, as the case may be, to the extent permitted by law, shall be reimbursed by the Servicer, on demand, for reasonable attorneys' fees and other out-of-pocket expenses.

Neither VLB nor the Administrator shall be liable in any respect for the termination of the Servicer for cause or owe any duty to the Servicer if terminated for cause.

Unless otherwise expressly provided, no remedy herein conferred upon or reserved to any party, is intended to be exclusive of any other available remedy, but each remedy shall be cumulative and shall be in addition to other remedies given under this Guide or existing at law or in equity. No delay or omission to exercise any right or power accruing under this Guide shall impair any such right or power, or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle VLB to exercise any remedy reserved to it or to the Administrator for its behalf, it shall not be necessary to give any notice.

### **1.08 OWNERSHIP INTEREST FOR TWO NOTE LOANS**

The ownership rights of the respective holders of the Program Loan and Participant Loan are equal. Rights associated with the funds received shall be proportionate to the outstanding principal balances of each loan. Payments received by the Servicer for these loans are to be distributed on a pro-rata share basis in accordance with the respective participating interests in the loans.

The collections reported by the Servicer to the Administrator shall reflect VLB's participating interest, except where additional information is specifically requested.

### **1.09 MONTHLY REPORTS**

The Servicer must deliver Monthly Default and Accounting Reports in accordance with these guidelines outlined in Chapters 3 and 4 herein.

#### **Reporting Penalties**

The Administrator shall assess penalty fees by bond program for late, incomplete, or inaccurate reports, in accordance with these guidelines or, if lacking specific guidance to the contrary herein, the Fannie Mae Guide.

### **1.10 MONTHLY REMITTANCES**

The Servicer must remit collections with respect to a Mortgage Loan in accordance with the guidelines outlined in Chapter 4.

#### **Remittance Penalties**

The Administrator shall assess penalty fees by bond program in accordance with the guidelines set forth in Chapter 4, Section 4.14 for late or inaccurate remittances.

### **1.11 EXPENSES**

The Servicer will be responsible for all out-of-pocket expenses involved in meeting VLB and

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Administrator requirements, including, but not limited to the cost of:

- Preservation and protection of the Mortgaged Property;
- Any enforcement of judicial proceedings including foreclosures; and
- The management and liquidation of properties acquired thru foreclosure or deed-in lieu of foreclosure.

Depending on the circumstances such expenses may be eligible for Servicer reimbursement from funds received from the Borrower, Liquidation Proceeds, Insurance Proceeds or other sources. The Servicer may recover expenses for a given loan only from proceeds, exclusive of principal and interest payments, received specifically for that loan.

The Servicer shall be required to pay all expenses incurred by it in connection with its servicing activities hereunder and shall not be entitled to reimbursement thereof except as specifically provided for herein.

### **1.12 CHANGES IN SERVICER'S ORGANIZATON**

The Servicer must send written notice to the Administrator of any major contemplated or completed changes in its organization. Additionally, the Servicer must advise the Administrator of any changes in business address.

Notice is required for these major changes:

- Any mergers, consolidations or reorganizations by completing a Certification of Merger (see Form SG-7);
- Any substantial change in ownership, regardless of whether it is by direct or indirect means;
- Any change in corporate name, accompanied by a copy of the Resolution by the Board of Directors and a filing with the Secretary of State;
- Any significant change in the Servicer's financial position; and
- Any change in contact person responsible for Servicer's actions with respect to the duties in this Guide.

The Servicer shall provide the Administrator with immediate notice if the Servicer's regulatory agency assumes a participatory role in the management of the firm's operations.

### **1.13 REPRESENTATIONS, WARRANTIES AND COVENANTS OF SERVICER**

The Servicer represents and warrants that it is licensed and authorized under all applicable federal, state and local laws to service the Mortgage Loans and to take all actions required under the Guide and the Loan Documents with respect to the Mortgage Loans.

The Servicer is duly organized, validly existing, and in good standing under the Laws governing its creation and existence and is duly authorized and qualified to transact in the State of Texas any and all business contemplated by this Guide and possesses all requisite authority, power, licenses, permits and franchises

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to conduct its business and to execute, deliver and comply with its obligations under the terms of this Guide, and performance of which have been duly authorized by all necessary action.

The Servicer's performance and compliance with the terms of this Guide contemplated herein will not violate the instruments creating Servicer operations or governing its operations, or any laws which could have any material adverse effect whatsoever upon the validity, performance or enforceability of any of the terms of this Guide applicable to the Servicer, and will not constitute a material default (or an event which, with notice or lapse of time, or both, would constitute a material default) under, or result in the breach of, any material contract, agreement or other instrument to which the Servicer is a party or which may be applicable to the Servicer or any of its assets.

The Servicer's performance and compliance with the terms of this Guide contemplated herein do not require the consent or approval of any governmental agency, or if such consent or approval is required, it has been obtained.

This Guide, and all documents and instruments contemplated hereby, which are executed and delivered by the Servicer, will constitute valid, legal and binding obligations of the Servicer, enforceable with their respective terms, except as the enforcement thereof may be limited by applicable Debtor Relief Laws.

The Servicer will be at the time of origination of any Mortgage Loan which has FHA Insurance, and at all times thereafter so long as the Servicer shall continue to serve in the capacity contemplated under the terms of this Guide, an FHA-approved mortgagee and a FNMA or FHLMC-approved seller and servicer of FHA-insured mortgages, or an institution the deposits of which are insured by FDIC, at the time of the origination of any Mortgage Loan which has a VA Guaranty, and at all times thereafter so long as the Servicer shall continue to serve in the capacity contemplated under the terms of this Guide, an eligible lender for mortgages guaranteed by the VA and a FNMA or FHLMC approved seller and servicer of VA-guaranteed mortgages, or an institution the deposits of which are insured by FDIC, and at the time of origination of any Conventional Loan, and at all times thereafter so long as the Servicer shall continue to serve in the capacity contemplated under the terms of this Guide, a FNMA or FHMLC approved seller and servicer of conventional mortgage, or an institution the deposits of which are insured by FDIC. Further, the Servicer, at the time of origination of any VHIP loan, will have a valid Contract of Insurance (as defined in the U.S. Department of Housing and Urban Development Title I Property Improvement Loan Operating Handbook), and will take all steps necessary to cause such VHIP loan to be covered by FHA Insurance.

The Servicer will comply with the non-discrimination provisions of the Civil Rights Act of 1964 (78 Stat. 252) and the regulations pursuant to such Act.

Servicer agrees that so long as it shall continue to serve the capacity contemplated under the terms of the Guide it will remain in good standing under the laws governing its creation and existence and qualified under the laws of the State to do business in the State, will not dissolve or otherwise dispose of all or substantially all of its assets and will not voluntarily consolidate with or merge into any other entity or permit one or more other entities to consolidate with or merge into it; provided, however, that the Servicer may, without violating the covenant set forth in this subsection, consolidate with or merge into another entity all or substantially all of its assets as an entirety and thereafter dissolve, if the surviving, resulting or transferee entity, as the case may be, shall have a Net Worth equal to or greater than the Net Worth of the Servicer immediately preceding any such merger, consolidation or sale of assets, shall be qualified under the laws of the State to do business in the State, shall be qualified under the laws and have all necessary approvals required of the Servicer to perform the Servicer's duties under the Guide, and shall assume in writing all of the obligations of the Servicer under the Guide, in which event VLB shall release the Servicer in writing, concurrently with and contingent upon such assumption, from all obligations so assumed.

No information, certificate of an Officer, statement furnished in writing, or report required hereunder,

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delivered to VLB, the Administrator or any other person as may from time to time be designated by VLB to receive same, will, to the knowledge of the delivering same, contain any untrue statement of a material fact or omit a material fact necessary to make the information, certificate, statement or report not misleading.

The Servicer meets all of the eligibility criteria for participation in the Program.

### **1.14 INDEMNIFICATION**

The Servicer agrees to indemnify the Administrator and VLB from any claims, losses, damages, fines, forfeitures, attorney fees and related costs, judgments and other expenses which may be incurred from:

- A breach by the Servicer of any representation, warranty or responsibility described in the Guide, or any other agreements between the Servicer and VLB or its designees.
- Any failure to disclose inaccurate or misleading information furnished by the Servicer.
- A breach in representation, warranty or responsibility made by any indemnified party in reliance upon such representation provided by the Servicer.

This indemnification shall survive the transfer of any interest in a Mortgage Loan by any indemnified party, the liquidation of such servicing rights with respect to such loan or termination or expiration of any agreement between the Servicer and VLB.

### **1.15 PAYMENTS IN FULL**

The Servicer must remit collections with respect to a Mortgage Loan that pays in full in accordance with the procedures outlined in Chapter 4, Section 4.10 of these guidelines.

### **1.16 REPURCHASE**

The Servicer must remit repurchase funds with respect to a Mortgage Loan in accordance with the procedures outlined in Chapter 4, Section 4.11 of these guidelines.

### **1.17 ESCROW / YEAR END REPORTS**

The Servicer shall provide the Borrower a statement at calendar year end indicating the amount of interest that the Borrower paid during the year and the amount of real estate taxes paid during the year. Such statement will be provided in a format and within the timeframes established by the IRS. In addition, the Servicer will comply with the Escrow Requirements outlined in Chapter 2, Section 2.13 of these guidelines.

### **1.18 CUMULATIVE REMEDIES**

All rights and remedies under the Guide are distinct and cumulative not only as to each other but as to any rights or remedies afforded by law and equity. They may be exercised together, separately or successively. These rights and remedies are for the benefit of VLB.

## **CHAPTER 2 - LOAN ADMINISTRATION**

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### **2.00 GENERAL**

This chapter details VLB's loan servicing guidelines exclusive of Default Management (see Chapter 3) and Investor Reporting and Remitting (see Chapter 4).

#### **2.01 FILE / RECORD MAINTENANCE**

The Servicer must maintain a file for each Mortgage Loan serviced for VLB. The file must be maintained throughout VLB's or any other subsequent ownership investment in the Mortgage Loan. The file is to be retained in accordance with state statute and regulatory guidelines.

Mortgage payment records must be maintained on each Mortgage Loan serviced for VLB. The system must be capable of producing an individual loan accounting that will:

- List in chronological order for the life of the loan, the amount and due date of each payment, posting date, payment application, and other pertinent data regarding amounts due;
- Indicate outstanding balances of principal, taxes and insurance escrow amounts and unapplied payments in the Custodial and Escrow Accounts; and
- Provide immediate disclosure of any overdrafts in the Escrow Account.

Upon request from the Administrator, the Servicer will deliver all documents requested in connection with any audit, inspection or review authorized pursuant to the Guide. Further, in the event that the servicing obligations of the Servicer are terminated, the Servicer shall promptly provide to the Administrator or its designee all files and records, as well as the proper balance of Custodial and Escrow Account funds held in trust by the Servicer relating to VLB Mortgage Loans, along with an accounting of such funds.

All paper and documents may be condensed (i.e. microfiche, electronic media, etc.) for Servicer convenience, provided such documents can be reproduced promptly and in their entirety at no cost to VLB, or a designated successor Servicer or the Administrator. The use of condensed media should not interfere with the servicing, liquidation or remittance processes. The Servicer is responsible for evaluating all state and federal statutes to determine that such condensed media will not hinder the Servicer's ability to produce documents that will be accepted in any legal proceeding as if the original document had been retained.

#### **2.02 AUDITS AND INSPECTIONS**

The Servicer agrees to allow the Administrator, VLB, and or their designees to conduct reasonable audits and inspections with advance notice during normal working hours. The choice of the Servicer's servicing office shall be at the Administrator's or VLB's sole discretion as the case may be.

The Servicer must allow the Administrator or VLB to inspect its records evidencing compliance with all regulatory, federal, state and local standards set forth in the Guide.

The Servicer must allow the Administrator or VLB to inspect its files and records relating to systems and procedures for servicing loans.

#### **2.03 REQUEST FOR DOCUMENT COPIES**

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Servicers are required to maintain copies of the original Loan Documents in their servicing files. As needed for servicing activities, the Servicer may request copies of documents maintained in the custodial file by paying a \$25.00 per loan copying and handling fee, remitted by ACH (Type 4), and submitting an Officer's Certification Statement (see Form SG-39) to the Administrator. VLB will then authorize the Administrator to forward the requested document copies directly to the Servicer. Request for original Loan Documents needed for servicing, or foreclosure action will be handled on a case-by-case basis after receipt by the Administrator of a written justification.

### **2.04 RELEASES FOR PAYMENT IN FULL**

When a loan that is not registered with MERS is paid in full, the Servicer must provide the Administrator the following documents within thirty (30) Calendar Days:

- Officer's Certification Statement (see Form SG-39)
- The appropriate release instrument (see forms Form SG-22, "Release of Lien for Two Notes Situation", and Form SG-23, "Release of Lien for One Note Situation") in an executable format.
- 2 Shipping Labels – one for the executed release, the other for release of the original Loan Documents.
- Copy of Deed of Trust
- Copy of all assignment(s) (if applicable) \*

\*Servicer must confirm there is a complete chain of title prior to requesting execution of the ROL

Two Note Releases must first be signed by the Participant Noteholder prior to being submitted to the Administrator for execution.

The Administrator will review the release instrument for completeness and, if deemed appropriate, execute on behalf of VLB then release the document to the Servicer.

When a loan that was registered with MERS is paid in full, the Servicer must provide the Administrator the following documents within thirty (30) Calendar Days:

- Officer's Certification Statement (see Form SG-39)
- Executed release instrument
- A Shipping Label for release of the original Loan Documents

The Servicer must assure the release instrument is properly prepared, executed and recorded, and the MERS database is properly updated per the guidelines and recommended operating procedures established by MERS.

VLB, or its designee, will return any original Loan Documents to the Servicer for final disposition.

A penalty will be assessed in the amount of \$100.00 per month for release instruments not received within

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sixty (60) Calendar Days after payment in full. The penalty fee must be remitted via ACH (Type 4). See Exhibits SE-16 through SE-18 for Instructions on submitting an ACH payment.

When a loan is repurchased, the Servicer shall provide the Administrator the following within 5 days:

- Officer's Certification Statement (see Form SG-39)
- Shipping Label for release of the original Loan Documents.

If the current Borrower's name differs from the original Borrower, the Servicer must provide supporting documentation (e.g. Assumption Agreement, Warranty Deed, and copy of the Deed of Trust with reference to property address. If copies of the documents listed are not available, an authorized Officer of the Servicer may sign a "Certification of Current Borrower" (see Servicing Exhibit SE-12 and Form SG-25).

See Chapter 2, Section 2.04 for additional information on the release process for MERS registered loans.

### **2.05 PARTIAL RELEASE**

Any matter relating to changes in the terms of the Mortgage Loan or the security for the loan requires the specific approval of the Administrator on behalf of VLB.

See Chapter 2, Section 2.18 for additional information on the partial release process for MERS registered loans.

Consideration will be given to requests for partial releases of the security, easements and taking or division of the security if 1) the consideration received by the Borrower is at least equal to the value of the property affected, 2) the amount of such consideration is applied to the outstanding principal balance, and 3) the value of the remaining security for the Mortgage Loan exceeds the resulting indebtedness.

The following are to be submitted to the Administrator for review:

- A survey or plat indicating the portion of the security to be released or affected by the easement showing the proper footage and its relation to the remaining security for the Mortgage Loan, including all improvements of the property.
- Restrictions to be imposed upon the property involved in the release or affected by the easement.
- A statement as to the future use of the property to be released or affected by the easement.
- The legal description of the remaining security of the Mortgage Loan.
- A current "on-site" appraisal of the portion to be released or affected by the easement in order to determine its market value. A statement must be included as to the effect the easement or the release of the security will have on the remaining security for the Mortgage Loan.
- A statement from the Borrower indicating his/her understanding that the entire consideration is to be applied towards the outstanding principal balance and of the effect the easement or the release of the security will have on the remaining security for the Mortgage Loan.
- A copy of the Deed of Trust or easement agreement that the Borrower will sign showing the amount of the consideration to be paid and the exact legal description of the property involved.

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- A certificate or letter evidencing that the release or easement has been approved by the primary mortgage insurer and that any subsequent claim for loss will not be affected.
- If, in the opinion of the Servicer's counsel, such action could jeopardize the primacy of VLB's interest, an endorsement to the Title Policy will be required reflecting the recording of the release or easement agreement and assuring that the lien is not adversely affected. Since the endorsement cannot be obtained during the approval process, the Servicer should seek in advance the title company's position on this matter.
- A statement concerning the outstanding loan balance, monthly payment amount, any unpaid taxes, special assessment, judgments or liens against the property and the payment habits of the Borrower.
- The Servicer's recommendation concerning this matter, including a statement as to any extenuating circumstances which may affect the decision.
- The release or easement document, in duplicate, prepared by the Servicer for execution by the holder of record.

If appropriate, the Servicer shall inform the tax authority or property insurance carrier of the action taken and request that the necessary adjustment be made in the levy or premium.

### 2.06 ASSUMPTIONS

Generally, VLB will not permit Borrower(s) to be released of liability on an assumption. The Servicer is responsible for making sure this is clearly communicated on all correspondence to the Borrower(s).

In cases involving a qualified assumption, VLB will consider a request for release of liability.

To request VLB's approval of a release of liability for the prior Borrower, a written request must be submitted to the Administrator establishing the hardship that would be imposed upon the Borrower and any benefits gained by VLB by granting the release. **Please note the Servicer should not grant a release without written consent of VLB.**

A Program Loan may not be assumed until the original Borrower has occupied the home as his Principal Residence for a period of three (3) years from the date of the home purchase.

VLB may waive the above three (3) year occupancy requirement upon receipt of satisfactory evidence of one of the following circumstances related to the Borrowers:

- 1) Death
- 2) Bankruptcy
- 3) Financial incapacity
- 4) Forced sale of the home due to:
  - (a) Divorce and property settlement
  - (b) Move required by change in employment of the Veteran or Veteran's spouse.
  - (c) Condemnation of the property through no fault of the Veteran
- 5) Any other circumstance for which VLB deems a waiver is in the best interest of the program.

The Borrower must submit a written request to the Servicer detailing one of the above circumstances in



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order to request a waiver of the three (3) year occupancy requirement.

The Servicer shall forward the request for waiver to the Administrator for review prior to authorizing the sale of the property by assumption. The Administrator will inform the Servicer in writing of VLB's decision related to any such request.

Should the Servicer allow an assumption within the three (3) year time frame without obtaining a waiver from VLB, the Servicer will be required, at VLB's option; to either 1) repurchase the loan or 2) indemnify VLB against any losses should the loan default in the future.

After the three (3) year period a home may be transferred, sold, or conveyed by an assumption subject to the terms of the mortgage and provided the payments are current and approval of VLB has been obtained.

The Servicer is responsible for underwriting the credit worthiness of the new purchaser on all assumptions. The following documentation is to be completed and submitted by the Servicer to the Administrator for consideration approval:

- Recommendation of the Servicer as to whether an assumption should be allowed or denied.
- Purchase Contract
- Private Mortgage Insurance (PMI) Approval Letter, FHA or VA Letter as applicable.
- VLB Waiver of (3) year occupancy (if applicable)
- Change of Ownership (see Servicing Exhibit SE-1 and Form SG-1)
- Assumption Agreement (see Form SG-2) executed in triplicate by the Borrower and the new purchaser. If approved, the original will be signed and held by VLB. The two copies will be executed and returned to the Servicer.

In any case where property subject to a Program Loan has been or is about to be conveyed by the Borrower, the Servicer shall ensure all insurance policies are endorsed to reflect the new ownership and take any action required to continue benefits under FHA insurance, VA Guaranty, or PMI if applicable, without interruption.

The Servicer must comply with the requirements of any applicable local, state or federal laws or regulations including, but not limited to, the federal Real Estate Settlement Procedures Act, the Consumer Protection Act, the Truth-in-Lending Act and any rules and regulations there under.

The Servicer may charge and retain an assumption fee not to exceed the amount permitted by FHA, VA, Fannie Mae or Freddie Mac for similar transactions in connection with loans not in the Program. The Servicer may also recover all reasonable and customary charges they have paid or incurred for attorney's fees, recording or registration charges, credit reports and similar charges customarily associated with mortgage assumptions, unless such charges are prohibited by FHA or VA with regard to mortgage loans subject to their regulation.

### **2.07 INSURANCE**

As applicable, the Servicer must ensure that each Mortgage Loan has the following insurance coverage or guaranty:

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- FHA Insurance or VA Guaranty
- Private Mortgage Insurance (PMI) as outlined in Chapter 2, Section 2.08 of these guidelines.
- Hazard and flood insurance as outlined in Chapter 2, Section 2.09 and 2.10 of these guidelines.

The Servicer shall take all action necessary to comply with the requirements of any mortgage insurer, or guarantor and shall take all action necessary to maintain coverage in full force to protect the interest of VLB.

### **2.08 PRIVATE MORTGAGE INSURANCE**

The Servicer is responsible for maintaining in full force and effect at all times PMI, if required at the time of loan origination. The policy must be with a qualified insurer. VLB will consider a waiver of the PMI requirement if, 1) as a result of amortization or property appreciation, the Loan-To-Value (LTV) ratio (both Notes combined, if a Two Note loan) is less than eighty percent (80%), the LTV will be calculated by using either a.) the lesser of the Appraised Value or the original sales price and or b.) a current appraisal of the property, and 2) the Borrower requests a waiver of the insurance requirement. The following conditions must be met:

- The Mortgage Loan has not been thirty (30) Calendar Days or more delinquent within the preceding twelve (12) months.
- If required for approval, the Borrower must obtain a current appraisal at his/her own expense; and
- The Servicer must provide a letter on their company letterhead stating the LTV and indicating if the Borrower is in good standing.

The Servicer must provide the required documentation to the Administrator. The Administrator will respond to the Servicer on VLB's behalf with either an approval or denial of the request for waiver.

For loans covered by PMI that are originated on or after July 29, 1999, the Servicer will follow all provisions of the Homeowners Protection Act of 1998 and the American Homeownership and Economic Opportunity Act of 2000 related to automatic termination of PMI coverage.

### **2.09 HAZARD INSURANCE**

The Servicer shall maintain proof of Hazard Insurance to ensure that all mortgage properties are insured against loss or damage from fire and other hazards covered by standard extended coverage endorsement. The Servicer shall be responsible for determining that the insuring company is qualified to do business in the State of Texas; and is approved by Fannie Mae or Freddie Mac pursuant to their guidelines.

#### **Insurance Amount**

The Servicer shall observe applicable laws and regulations concerning the management of insurance policies; and shall take such action as required to assure continuance of benefits from any Insurance Policy covering the Mortgage Loan or mortgage property. Each policy shall be in an amount equal to, or exceeding, the lesser of:

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- 100% of the insurable value of the improvements; or
- The unpaid principal balance of the Mortgage Loan, as long as it equals the minimum amount (eighty percent (80%) of the insurable value of the improvements) required to compensate for damage loss on a replacement cost basis. If it does not, then coverage that does provide the minimum required must be obtained.

Deductible amounts should not exceed those allowed by Fannie Mae or Freddie Mac pursuant to their guidelines.

### **Damage Procedure**

To the extent that a Servicer becomes aware of any damage or loss to the mortgaged premises, they shall assure that the insurance company concerned is immediately notified. All proceeds from the insurance claim shall be deposited and held by the Servicer in the Custodial Account until disbursed. In the case of a Two Note loan, the Servicer may deposit proceeds in the Custodial Account established for the Participant Loan.

Where only a Program Loan exists, proceeds must be deposited into the Custodial Account established for VLB Program Loans.

Although a Servicer is required to process insurance claim proceeds through a Custodial Account, a Servicer may immediately endorse a draft or check and release it to the Borrower provided that 1) the repair for the damage or loss has been completed, 2) proper documentation has been received, 3) all other requirements have been met, and 4) the mortgage is not delinquent. If the draft or check is received before these criteria are met, the funds must be deposited into the appropriate Custodial Account.

The Administrator shall be available for consultation and advice in regard to any repairs or restoration of the damaged property. The Servicer is required to report to the Administrator any loss or damage which exceeds \$2,000.00 and the action taken, using the Report of Hazard Insurance Loss (see Servicing Exhibit SE-10 and Form SG-20). The Servicer is required to report to the Administrator, confirmation of the completed hazard repairs using the Mortgagor' and Contractor's Affidavit Form (see Servicing Exhibit SE-11 and Form SG-21).

### **Mortgage Clauses**

All insurance policies that cover individual properties that secure first mortgages must contain (or have attached) a "standard" or "union" mortgage clause (without contribution) in the form customarily used in the area in which the property is located. When VLB's lien position is other than a first mortgage, the mortgage clause in the hazard policy must be amended to recognize the existence of the junior lien, and VLB's interest must be clearly set out in the policy. A mortgage clause that amounts to a mere loss payable clause is not acceptable. We do not require that VLB be named in the mortgage clause, unless the coverage would be impaired by their not being named. If VLB is named, the clause should read "Veterans Land Board of the State of Texas, in care of (insert Servicer's name and address here)." This will assure that all matters related to the policy will be referred directly to the Servicer.

When VLB is not named in the mortgage clause, the Servicer's name, followed by the phrase "its successors and assigns," should be shown as the mortgagee. In all cases, the insurer should be instructed to send all correspondence, policies, bills, etc. to the Servicer, rather than to VLB or the Administrator.

### **Evidence of Insurance**

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The Servicer of a first mortgage must keep the original Insurance Policy for the mortgage in its custody – unless it is covered by a mortgage impairment or mortgage interest Insurance Policy or uses other evidence of insurance that would be considered acceptable under Fannie Mae guidelines.

### **Penalty Assessment**

The Administrator will assess a penalty of \$200.00 per occurrence for the:

- Servicer's failure to file a hazard claim;
- Servicer's failure to report any loss or damage that exceeds \$2,000.00 to the Administrator; and
- Servicer's claim filing and processing errors that result in a claim curtailment.

The penalty fee must be remitted by ACH (Type 4) within thirty (30) Calendar Days of the penalty billing date.

In addition, the Servicer shall make VLB whole for 1) any denied or curtailed claims that result from failure to properly file a claim, and 2) any loss as a result of failure to maintain coverage as required in this document.

Any residence subject to a mortgage loan under the VLB Program that is damaged by fire, wind, water or other cause shall be restored to its original condition unless otherwise directed by VLB, or the Administrator. The Servicer may take any action it deems necessary to affect this result, but is encouraged to consult with the Administrator if in doubt as to the appropriate course of action.

### **2.10 FLOOD INSURANCE**

VLB requires that any mortgage secured by a property located in a Special Flood Hazard Area have adequate flood insurance when the mortgage is originated and that the coverage is maintained for as long as the mortgage is outstanding. VLB also requires flood insurance coverage for a mortgage if the remapping of a flood zone results in the security property being in a Special Flood Hazard Area (even though no flood insurance was required when the mortgage was originated). This means the Servicer must actively monitor all flood maps and community status changes and take appropriate action as changes occur.

Servicers may choose to monitor flood zone mappings themselves or use a flood zone determination company to perform the monitoring.

Servicers must make sure the properties securing mortgages they service for VLB are adequately protected by flood insurance when it is required, with no lapses of coverage for any reason. Because the maximum level of coverage available under the National Flood Insurance Program (NFIP) may increase from time to time, Servicers will need to review the coverage of the mortgages they service for VLB when such changes occur to determine whether additional coverage needs to be obtained for mortgages that are "underinsured" as the result of the coverage amount having been "capped" by the previous maximum limitations.

It is also important that Servicers acquiring VLB owned mortgages through a transfer of servicing have in place appropriate procedures for performing due diligence with respect to flood insurance coverage and the monitoring of changes in flood maps and community designations.

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### **Acceptable Flood Insurance Policies**

Flood insurance should generally be in the form of the standard policy issued by members of the National Flood Insurance Administration (NFIA) Program. The Policy Declarations page of a NFIA program policy is acceptable evidence of flood insurance coverage. Other policies that meet NFIA's requirements -- such as those issued by licensed property and casualty insurance companies that are authorized to participate in NFIA's "Write Your Own" program -- will also be acceptable.

### **2.11 DEPOSITORY RATINGS**

The Servicer shall make sure that the depository institution it selects for its Custodial Accounts and Escrow Accounts at all times is a Qualified Depository.

### **2.12 CUSTODIAL ACCOUNTS**

The Servicer shall establish separate deposit accounts for VLB using the Letters of Authorization (see Forms SG-4 and SG-5) with a Qualified Depository.

### **2.13 ESCROW REQUIREMENTS**

Except where prohibited by law or the Loan Documents, the Borrower will be required to deposit monthly into an escrow account sufficient amounts to pay estimated insurance premiums (including renewal premiums), taxes, ground rents, special assessments and other charges as they become due and payable. Payment of these items will be made from the Borrowers escrow account, or if insufficient, the Servicer shall collect the deficiency from the Borrower. If the additional funds have not been received prior to the time the payment is due, the Servicer must advance its own funds to ensure payment.

The Servicer assumes full responsibility for the administration of the Borrower's escrow account. Servicers shall perform at a minimum, an annual escrow analysis to estimate, as accurately as possible, the monthly deposit requirement in order to ensure the balances on hand are adequate, but not excessive, and make any adjustments necessary to meet estimated future charges as they become due and payable.

When it is determined a deficiency exists in the escrow account, the Borrower may be requested to pay the shortage in full or the shortage may be taken into consideration in establishing the amount of the monthly deposit for the following year. When an escrow analysis reveals that excess funds are being held on deposit, the surplus may be applied as payment of one or more full installments of principal and interest or as a curtailment, or returned to the Borrower, provided such actions are consistent with applicable law and the terms of the Loan documents.

As part of the escrow analysis, the Servicer will provide the Borrower an annual statement setting forth, in summary form the balance at the beginning of the year, the total amount deposited into the account by the Borrower during the year, the amount and nature of disbursements made during the year and the final balance of the account at year end.

The Servicer must maintain accurate records on the status of taxes, ground rents, homeowner association dues, assessments and other charges that are, or could become, a lien upon the property securing a Mortgage Loan. The Servicer must also assure the timely payment of all taxes, assessments, Hazard Insurance, and mortgage insurance premiums to avoid penalties and to take advantage of any discounts

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offered.

Unless specific guidance to the contrary is provided within these guidelines or the guidelines of an applicable insurer or guarantor, Servicers should administer escrow accounts in accordance with the Fannie Mae Guide as amended from time to time.

Since the Servicer assumes full responsibility for the timely payment of such expenses, it shall hold VLB and Borrower free from all penalties, loss or damage resulting from its failure to discharge the responsibility, unless, they are directly responsible for the imposition of the penalty or loss.

When a Servicer waives the escrow deposit account for a specific Borrower, the Servicer still remains responsible for the timely payment of all otherwise escrowable items. Therefore, if the Borrower fails to pay the taxes, ground rents, insurance, etc. the Servicer must advance its own funds to pay them, revoke the waiver, and begin escrow deposit collections to pay future bills.

The Servicer of a Second Mortgage does not have to pay the bills for taxes and ground rents, but it must satisfy itself that these items are paid when due -- either by the Borrower or the first mortgage servicer. In the event 1) the Borrower will not cooperate in providing the needed documentation of payment, and 2) the Loan Documents permit, the Servicer may establish an escrow deposit account to assure that these expenses are paid promptly.

The Servicer must comply with all applicable state laws related to the paying of interest to Borrowers on their escrow accounts. Likewise, the Servicer shall comply with all IRS regulatory reporting requirements related to interest and other escrow items.

### **2.14 FIDELITY BOND & ERRORS AND OMISSIONS COVERAGE**

The Servicer shall maintain, at its own expense, a blanket Fidelity Bond and an Errors and Omissions Insurance Policy issued by responsible companies with broad coverage on all Officers, employees or other persons acting in any capacity with regard to the Mortgage Loans or who handle funds, money, documents and papers relating to the Mortgage Loans.

The Fidelity Bond and Errors and Omissions Insurance Policy shall be in the form of the Mortgage Banker's Blanket Bond and shall protect and insure the Servicer against losses, including forgery, theft, embezzlement, fraud, errors and omissions and negligent acts of such persons.

The minimum coverage under any such Fidelity Bond and Errors and Omissions Insurance Policy shall be at least equal to the corresponding amounts required by Fannie Mae in the Fannie Mae Guide.

The Servicer shall deliver to the Administrator upon request and at least annually a certificate from the surety and the insurer as to the existence of the Fidelity Bond and Errors and Omissions Insurance Policy.

The Servicer shall notify the Administrator within five (5) Business Days of receipt of notice that such Fidelity Bond or Errors and Omissions Insurance Policy will be, or has been, materially modified or terminated.

### **2.15 ANNUAL CERTIFICATION**

On or before March 15<sup>th</sup> of each year the Servicer will deliver to the Administrator an executed Annual Officer Certification (see Form SG-3) stating the servicing has been performed in accordance with the Guide. One Officer Certification form covers all series within the Program. This form can be found

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on the following website: <https://masterservicing.nationstarmtg.com/Home/TexasVeteranLB>

### **2.16 ANNUAL INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT REPORT**

On or before March 15<sup>th</sup> of each year, the Servicer, at its own expense, shall cause a firm of independent public accountants that is a member of the American Institute of Certified Public Accountants (AICPA) to furnish a statement to the Administrator to the effect that such firm has examined certain documents and records relating to the servicing of the Mortgage Loans, and that, on the basis of such an examination conducted substantially in accordance with the Uniform Single Attestation Program for Mortgage Bankers (USAP), or other generally accepted servicing standards as accepted by the Administrator, such firm is of the opinion that the servicing has been conducted in compliance with the Guide.

### **2.17 ANNUAL FINANCIAL REPORTS**

On or before March 15<sup>th</sup> of each year the Servicer is to provide financial information to the Administrator for review. At the Servicer's expense, the following items are to be forwarded to the Administrator.

- An opinion by a firm of independent certified public accountants on the financial position of Servicer at the end of its fiscal year and the results of operations and changes in financial position of Servicer for such year then ended on the basis of an examination conducted in accordance with generally accepted auditing standards.
- A statement from the independent certified public accountants concerning compliance with servicing standards as documented by either a Uniform Single Attestation Program report or a report issued in compliance with SEC Regulation AB or other generally accepted servicing standards as accepted by the Administrator.

### **2.18 SERVICING OF MERS REGISTERED LOANS**

Only Servicers specifically approved by the Administrator may deliver Mortgage Loans into the VLB Program with title held in the name of MERS. Servicers will be considered for MERS delivery if they are in good standing as a member of MERS at the time they request authorization from the Administrator. If at any time a Servicer ceases to be a member in good standing with MERS they will be required to immediately prepare and record assignments, as directed by the Administrator, transferring title out of MERS' name. The preparation and recording of such releases will be at the expense of the Servicer. Further, if at any time, by act of law, statute or other means it is determined that it is illegal for lien to be held in a nominee capacity by MERS, the Servicer will, at its own expense, prepare and record assignments as instructed by the Administrator.

The Servicer agrees to indemnify and hold VLB and the Administrator harmless for any loss, charge, liability or expense, arising from or relating to any lawsuits, disputes or other problems associated with or arising from:

- its participation in MERS,
- the use of MERS as lien holder of record for any loan it produces or services on behalf of VLB,
- the performance of its duties (or failure to perform its duties) in accordance with the rules, regulations and recommended operating procedures as established by MERS.

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The Servicer agrees to accept responsibility to properly execute all documents as Officers of MERS in order to convey the lien within the requirements of all applicable laws, statutes, regulations or other requirements applicable to the proper servicing of loans under the VLB Program.

In all instances, it is the Servicer's responsibility to service loans in accordance with these guidelines. In the event of conflict between guidelines as published by MERS and these guidelines, these guidelines will be the controlling document. So long as they are not in conflict with these guidelines, the Servicer will fully comply with the rules, regulations and recommended operating procedures as established by MERS.

Under no circumstances may loans originated under the Two Note Program be registered with MERS.

Loans delivered to VLB under MERS registration must show VLB as the owner of beneficial rights. The Org ID to be used for this purpose is 1014191. It is the Servicer's responsibility to promptly record this information upon sale of the loan into the VLB Program. Further, if errors in the beneficiary information, or other MERS data, are identified by any of VLB, the Administrator, or the Servicer, it is the Servicer's responsibility to promptly cure the error.

### **Changes in Investor**

Generally, once the loan is recorded with VLB as the beneficiary, the Servicer will not be required to record further changes in beneficial rights. However, subsequent re-sales of the ownership rights to the Mortgage Loans are possible. In this event, the Servicer must follow the instructions of the Administrator to assure the loan is properly separated on the records of the Servicer to reflect those ownership interests. This includes the proper segregation of Custodial Accounts and, if applicable, the updating of the loan record, Transfer of Beneficial Rights (TOB) in the MERS systems.

In the event of sale of a Mortgage Loan to a party who does not accept MERS registration, the Servicer shall, at their own expense, follow the instructions of the Administrator to assure the preparation of an assignment out of MERS and to the new investor. Any costs associated with the recording of such assignment will be borne by either VLB or the purchaser of the loan.

### **Reporting Requirements**

In addition to other reporting requirements established under these guidelines –

- The Administrator may produce its own exception reports by comparing the beneficial rights data in MERS' system related to VLB to its records. From this comparison, the Administrator would provide a listing of aged exceptions to the Servicer for loans it services. The Servicer must promptly (within thirty (30) Calendar Days) review the exceptions and provide loan level detail documenting actions being taken by the Servicer to cure the exceptions in a timely manner.
- In addition to other requirements under these guidelines, as part of its Annual Officer Certification, the Servicer will certify that it is a member in good standing with MERS and has complied with all the rules, regulations and recommended operating procedures as established by MERS except as they might otherwise be in conflict with the provisions of these guidelines.

### **Foreclosure**

For loans where title is held in the name of MERS, title must be assigned to VLB in accordance with MERS



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guidelines, but in all cases prior to foreclosure start. Mortgage loans are no longer allowed to be foreclosed in the name of MERS. In the State of Texas, the foreclosure should be brought in the name of The Veterans Land Board of the State of Texas. Title should be vested in the name of The Veterans Land Board of the State of Texas if the property becomes REO.

Select employees of the Servicer will need to be certifying Officers of MERS. This means they are authorized to sign any necessary documents as an Officer of MERS in order to complete the assignment process.

### **Subordinations, Partial Releases, Easements and Other Modifications**

All matters relating to changes affecting the Mortgage Loan or the security for the Mortgage Loan continue to require the prior approval of the Administrator even if title is held in the name of MERS. Any request for changes of this type should be accompanied by the subordination/release/easement document prepared for execution by an Officer of MERS (in the Servicer's shop) following receipt of approval from the Administrator.

### **Transfers of Servicing**

In addition to all other requirements contained within these guidelines related to transferring the servicing of VLB owned loans, if the transfer includes MERS registered loans and the transferee is not an approved MERS member in good standing, the transferor and transferee will be jointly and severally liable for all costs associated with preparing and recording assignments out of MERS as directed by the Administrator.

### **Paid in Full Loans Registered with MERS**

See Chapter 2, Section 2.04 for additional information related to paid in full loans registered with MERS.

### **Repurchase of Loans Registered with MERS**

To obtain original documents for a loan being repurchased, the Servicer shall provide to the Administrator an Officer's Certification Statement (see Form SG-39) within five (5) Calendar Days of the repurchase date. Please note that the MERS information must be reflected on the form to facilitate this process. VLB, or its designee, will return the original documents to the Servicer for final disposition. The Servicer must assure the MERS database is properly updated, per the guidelines and recommended operating procedures established by MERS, to reflect the change in beneficial interest holder.

### **Penalties Specific to MERS**

In addition to all other remedies available to VLB or the Administrator under these guidelines, failure to submit timely and/or accurate reports as required under this section will result in the assessment of a penalty of \$100.00 per report.

Further failure, to cure issues related to the proper reflection of VLB's interest in the Note in the MERS system within sixty (60) Calendar Days of notice of such issue by the Administrator will result in an ongoing monthly penalty of \$100.00 per occurrence until such time as the issue is resolved.

## **2.19 CONFIDENTIAL BORROWER INFORMATION**

The Administrator requires that each Servicer take action to protect Borrower's confidential information in

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compliance with both law and industry standard. All documents containing confidential borrower information should be provided to the Administrator using secure methods.

**Compliance with this policy will be monitored and any exceptions may result in termination of user rights within the system.**

### CHAPTER 3 - DELINQUENCY / DEFAULT MANAGEMENT

#### 3.00 GENERAL

This chapter details VLB's loan servicing guidelines related to delinquency management, loss mitigation, foreclosure, bankruptcy, and REO administration.

The Servicer should be familiar with and comply with the requirements of any of the following (as applicable):

- Private Mortgage Insurers
- Federal Housing Administration
- Department of Veterans Affairs
- Mortgage Pool Insurers

#### 3.01 DELINQUENCY CONTROL

Servicers are expected to protect the interest of VLB by establishing a system for identifying defaulted loans prior to thirtieth (30<sup>th</sup>) day of delinquency in order to begin loss mitigation efforts for such loans. Servicers are expected to employ all collection methods in accordance with standard industry practices, and to comply with all applicable laws.

Servicers should treat each delinquency individually. Collection efforts should be based on the Servicer's knowledge of the Borrower's credit history, employment status, unique personal circumstances, property location and condition, and the extent of delinquency.

Each delinquent account should be analyzed to determine:

- the cause of delinquency;
- the nature of the cause (i.e., temporary or permanent);
- the attitude of the Borrower toward the debt; and
- the Borrower's ability to bring loan current

Since it becomes increasingly difficult to bring a loan current as the number of delinquent payments increase, particular attention should be paid to reducing the number of Borrowers whose delinquency would otherwise exceed one installment.

Servicer collection efforts must comply with applicable laws and regulations. Servicers are expected to

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attempt to contact the Borrower by telephone before the loan becomes thirty (30) Calendar Days past due. In addition, Servicers are expected to use notices, letters, and face to face contact to enhance their collection efforts.

Servicer collection techniques should be tailored to each Borrower. A variety of methods should be used, especially with Borrowers who are repeatedly delinquent. Form letters are a common and useful collection method, but are generally not as effective as personal contact or customized letters. Servicers are encouraged to rely heavily on telephone contact and on face-to-face interviews whenever possible.

### Charge Offs

Servicers are required to obtain approval from the Administrator on all charge off requests. These requests must be submitted to the Administrator to be reviewed on a case by case basis as last resort once all other efforts have been exhausted.

To request approval, the Servicer must submit a package to the Administrator for review that includes the following:

- Details on why a charge off is being requested
- Copy of the insurer / guarantor approval (if applicable)
- Current BPO
- Loss analysis
- Date of last contact with the borrower
- Summary of all collection efforts and loss mitigation options offered
- If 2<sup>nd</sup> lien, balance of 1<sup>st</sup> lien; and if 1<sup>st</sup> lien, balance of 2<sup>nd</sup> lien
- Other data as may be required to support the request

The Servicer will be required to repurchase the loan or make the investor whole should they approve a charge off without the prior written approval of the Administrator.

### 3.02 MONTHLY DEFAULT REPORTING

Servicers shall provide the Administrator Monthly Default Reports. The monthly reporting cycle begins on the first Business Day of the month and ends on the Reporting Cutoff Date. Reports shall be delivered in accordance with the timeframes below.

Days Delinquent	Status As Of	Report Due
60+ Days	Month End	5 <sup>th</sup> Business Day
Bankruptcy	Month End	5 <sup>th</sup> Business Day
Foreclosure	Month End	5 <sup>th</sup> Business Day
REO	Month End	5 <sup>th</sup> Calendar Day
FHA/VA Conveyances/Claims	Month End	5 <sup>th</sup> Business Day

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In addition to the above, Servicers must provide other documentation as reasonably requested by the Administrator on any defaulted loan.

Reports must be submitted under separate cover and may not be attached to or submitted as part of the Monthly Accounting Reports. If during a reporting period the Servicer has no delinquencies, notification must be provided to the Administrator reflecting such.

VLB's name, loan number and Program bond series must be included on all reports and correspondence delivered to the Administrator.

Servicers will receive a written notice via email for each loan where an incomplete or inaccurate delinquency status report was received. A corrected report must be submitted within five (5) Calendar Days of notice.

Reports must be completed in their entirety and contain accurate and current information. Reports submitted with comments such as "no change", "same as last month" will be considered incomplete.

A penalty of \$100.00 will be assessed if a Servicer fails to provide a correct report within five (5) Calendar Days after notice has been issued. The penalty will be assessed for every loan where the Servicer fails to provide a corrected report as required by the Administrator.

### **3.03 NOTICES OF DEFAULT**

Servicers are responsible for filing Notices of Default (NOD) with insuring agencies. Failure to file the NOD may negate insurance proceeds and constitutes non-compliance on the part of the Servicer. As a result of non-compliance, the Servicer will be required to repurchase the loan.

#### **Notice of Default Filing**

The Notice of Default should be filed as follows:

- Within forty-five (45) Calendar Days of the default, should the Borrower default on the first payment due under the terms of the Mortgage Note; or
- Within ten (10) Calendar Days of:
  - a) The date the loan becomes four months delinquent and defaults; or
  - b) The initiation of any proceeding which affects the property, the insured or the borrower's interest in the property.

### **3.04 PROPERTY INSPECTIONS**

The Servicer is not required to inspect the property for delinquent mortgages where the borrower has been contacted and made arrangements to resolve their default. However, should the Servicer be unable to contact a borrower, or no satisfactory arrangements have been made to resolve the default, a property inspection must be completed no later than the one hundred thirty fifth (135<sup>th</sup>) day of delinquency.

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Servicers must carefully review all inspection reports for any indications of damage or vandalism to the property, abandonment, or any other circumstances that may result in the deterioration of the condition or value of the property.

Once contact has been established with a borrower, monthly inspections are not required if the borrower is on a repayment agreement and is in compliance with their plan. However, inspections must resume as soon as a borrower fails their agreement.

Once a loan is approved for foreclosure, property inspections must be made every thirty (30) Calendar Days until foreclosure sale is held. More frequent inspections may be necessary for abandoned properties, damaged properties, or those in high-risk areas. Prompt action must be taken to correct any problems discovered during the course of these inspections to prevent the deterioration of the property.

Additional inspections should be completed whenever a Servicer learns of circumstances that indicate the property may be at risk for abandonment, vandalism, or other damage.

### **3.05 GENERAL LOSS MITIGATION**

VLB is willing to extend every consideration to delinquent Borrowers provided they are cooperative, acting in good faith and are able to make arrangements to resolve the default. Servicers must identify the nature of the hardship and determine whether it is temporary or permanent in nature in order to offer a loss mitigation option that will yield the most positive results.

Once contact is established with a defaulted borrower, the Servicer must provide the borrower with a full range of loss mitigation options in accordance with accepted industry servicing practices. Servicers are allowed to deny loss mitigation options once they have fully reviewed the individual borrower's circumstances and determined there are no viable loss mitigation alternatives to resolve the default.

The Servicer must be mindful to take no action that will negatively impact mortgage insurance coverage. The approval of the insurer must be obtained if required by the insurer's guidelines. Foreclosure must be initiated in accordance with applicable insurer guidelines while loss mitigation options are reviewed. Any interest curtailments due to late start or completion of foreclosure will be the responsibility of the Servicer.

If the hardship is determined to be temporary in nature, six (6) months or less (i.e., short term illness, temporary loss of income, etc.) a repayment plan is usually the best option. In cases where the hardship is permanent in nature, six (6) months or more (i.e., death, long term disability, etc.) or the debtor is unlikely to be able to resolve the default or to continue making payments, a special forbearance, pre-foreclosure sale, deed-in-lieu of foreclosure, or assignment to the insurer may be more appropriate. The Servicer must carefully evaluate each situation using standard industry practices to mitigate the loss to the investor. Loss mitigation efforts can continue even after the loan has been referred for foreclosure if there is reason to believe the default can be successfully resolved prior to the foreclosure sale being held.

Chapter 3, Section 3.06 provides several standard loss mitigation options. However, Servicers are reminded this does not cover all possible loss mitigation options and scenarios. Servicers are encouraged to consider other options that are accepted practice in the industry, and to contact the Administrator to discuss possible loss mitigation alternatives that are not specifically addressed herein if circumstances warrant. The Servicer must, at all times, obtain approvals of insurers and the Administrator as required.

### **3.06 RELIEF AND FORBEARANCE PLANS**

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The following guidelines should be used in determining whether a borrower's circumstance meets the criteria for the following relief and forbearance plans.

### Temporary Indulgence

Temporary indulgence may be granted only under circumstances where the Servicer determines that the Borrower will be financially able to bring the account current by paying delinquent installments within thirty (30) Calendar Days. Temporary indulgence may be appropriate under the following circumstances:

- A sale or rental of the property is pending;
- An insurance settlement is being negotiated;
- Assistance from a social agency has been arranged, but funds have not been received;
- Additional time is needed to formalize a repayment plan under other relief provisions;
- The mortgage payments were lost in transit and need to be traced; or
- Time is needed to correctly reapply previous payments that were erroneously applied as principal Prepayments (when that is permitted).

A Servicer does not need to obtain approval from the Administrator before granting temporary indulgence, nor do they need to notify the Administrator that it has been done.

### Repayment Plan

Under a repayment plan, the Borrower must make payments in addition to their regular monthly installments to cure the delinquency. A Servicer could consider a repayment plan when the delinquency resulted from a temporary hardship that no longer appears to be a problem.

When the delinquency involves three (3) months or less, repayment plans may be oral agreements; however, the Servicer should document the agreement. Formal written agreements are required if the delinquency is greater than three (3) months. A repayment plan for a Second Mortgage must include a provision for automatic termination of the repayment plan if the first mortgage goes into foreclosure.

Servicers are not required to obtain approval from the Administrator for repayment plans. The Servicer must obtain written documentation of the cause of the default and complete current financial data to verify the borrower's ability to meet payments under the proposed repayment plan.

The Servicer should review the required information and may deny a repayment plan if the borrower fails to document their hardship or their ability to make proposed plan payments.

After approval of a repayment plan where the delinquency is greater than three (3) months, the Servicer must obtain a signed agreement from the borrower. This agreement must clearly list the date and amount of all payments to be made under the plan and the date by which the total delinquency must be cured. All payments under a formal repayment agreement must be made in *certified funds*. The Servicer must verify the loan will be fully reinstated once all payments required by the plan have been made. The plan should contain language that the plan is void if any of the required payments are not made as specified. If foreclosure was in process at the time the plan was approved, language must also be incorporated to allow foreclosure to restart without a new breach notice to the borrower if the plan fails.

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If the Borrower fails a written repayment plan, the Administrator must be notified the plan was failed and foreclosure has been restarted if it was in process at the time the plan was approved.

Repayment plans may require:

- Monthly payments that are multiples of the regular installment;
- Regular payments one month and multiple payments the next;
- Payments to be made more often than monthly; or
- Any other variation in the timing or amount of the payment that will cure the delinquency in the shortest possible time.

The Servicer should report its approval of a repayment plan in the first delinquency status report (see Servicing Exhibit SE-2 and Form SG-9) it provides to the Administrator after the plan is approved.

### **Special Forbearance**

Under special forbearance, the Servicer can agree to reduce or suspend the Borrower's monthly payments for a specified period. After that, the Borrower must agree to resume his or her regular monthly payments and to pay additional money toward the delinquency at scheduled intervals. Special forbearance should be considered when the default is a result of:

- The Borrower's death or the death of a family member who made significant contribution toward the monthly payment;
- Illness or some natural disaster that the Borrower was not insured against;
- A substantial reduction in income that the Borrower could not prevent; or
- Some other unusual circumstance that warrants the use of a relief provision and is well documented. For example, individuals who are not eligible for relief under the Servicemembers Civil Relief Act (F/K/A Soldiers' and Sailors' Civil Relief Act), but who are nonetheless affected by a call-up of reservists - such as individuals who rent their properties to reservists; reservists who are on part-time active duty; individuals who receive a substantial portion of their monthly payment from a reservist who has been called-up, but is not party to the mortgage, etc. - should be considered favorably.

Borrowers who have substantial equity in their property may list it for sale as a means of avoiding foreclosure and the resultant loss of their equity in the property. In such cases, the Servicer may grant special forbearance during the listing period. The Servicer should base the length of the forbearance period on the value of the property, the amount of the Borrower's equity, the time that will be needed to complete the sale of the property considering current market conditions, the amount of any payments the Borrower can make during the forbearance period, and the effect the granting the special forbearance may have on the likelihood of VLB incurring a loss if the property is not sold and foreclosure proceedings have to be initiated.

Special forbearance agreements must always be in writing. They should clearly set out the period of reduced or suspended payments, the schedule for making additional payments, when the Borrower resumes regularly scheduled monthly payments, the date on which the forbearance will end, whether the

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forbearance was granted to enable the Borrower to sell the property, and the terms and requirements for paying off the mortgage.

When forbearance has been granted to provide the Borrower with an opportunity to sell his or her property as a means of avoiding foreclosure, the special forbearance agreement must include a provision that permits the Servicer to initiate foreclosure proceedings at the end of the forbearance period if the property is not sold. The special forbearance agreement for a Second Mortgage must also contain a provision for automatic termination of the relief plan if the first mortgage goes into foreclosure.

Typically, the term of special forbearance should end no later than four (4) months from the date of the first reduced or suspended payment. In any instance in which the forbearance period will extend beyond four (4) months, the Servicer should send its recommendation, along with a copy of the special forbearance plan, a letter from the Borrower documenting his or her financial hardship and requesting assistance, and evidence of the mortgage insurer's or guarantor's approval of the proposed forbearance to the Administrator, if applicable.

### **Military Indulgence**

The Servicemembers Civil Relief Act (F/K/A Soldiers' and Sailors' Civil Relief Act) provides protection and relief to civilians who are mobilized into the military. Mortgage debts are covered under the Act to the extent that the Borrower was a civilian when he or she became obligated under the mortgage and subsequently entered the military service, either voluntarily or involuntarily. The relief begins when the individual receives his or her orders to report to active duty and ends a short period of time after he or she is separated from active duty.

One of the provisions of the Act requires the mortgage interest rate to be reduced to six percent (6%) during the servicemember's active duty period, unless the creditor applies to the court for permission not to reduce the interest rate because it can demonstrate that the servicemember's ability to repay the mortgage obligation has not been materially affected by his or her military service. As an added benefit VLB further reduces the interest rate to zero percent (0%) on loans where 1) it is the investor, 2) the borrower is otherwise entitled to the 6% rate under SCRA, and 3) the loan meets the provisions established in the Guide. see Chapter 4, Section 4.16 for more information.

Another provision allows for a complete stay in the enforcement of the mortgage terms if the servicemember obtains a court order finding that his or her ability to maintain the obligation has been materially affected by entry into the military service. Rather than granting a complete stay, the court could require the servicemember to make regular partial payments during his or her period of military service.

VLB's military indulgence relief provision follows the intent of the Servicemembers Civil Relief Act (F/K/A Soldiers' and Sailors' Civil Relief Act), except that VLB will apply most forbearance terms without the servicemember having to petition the court. See Chapter 4, Section 4.16 for further enhanced benefits related to a reduced interest rate offered on VLB loans. VLB encourages servicemembers to pay as much as possible toward their mortgage obligation during their active duty tour to keep the accumulated arrearages manageable. If a servicemember is unable to repay accumulated arrearages within ninety (90) Calendar Days after his or her separation from active duty, VLB will consider entering into an appropriate repayment plan or modifying the mortgage, if that is necessary.

### **3.07 VA REFUNDS / HUD ASSIGNMENTS**

Both VA and FHA have the option of taking ownership of defaulted mortgage loans where the Servicer is unable to cure the default through loss mitigation. VA calls this process "refunding". FHA calls it "assignment".



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This FHA program is currently inactive but could be reinitiated in the future. It is the responsibility of the Servicer to be familiar with the requirements of both VA and FHA in completing the claim and transferring ownership of the defaulted loan to the respective insurer.

The approval of the Administrator is not required when a Servicer receives notice from VA that it has agreed to accept refunding of a loan. A copy of the VA approval letter from the insurer along with a request to release the original Loan Documents must be immediately emailed to the Administrator upon receipt.

The Servicer must submit monthly reports of their activities by the fifth (5<sup>th</sup>) Business Day of each month using the Conveyance/Refund Status Report (see Servicing Exhibit SE-20 and Form SG-14).

The Servicer is required to follow all of VA's written instructions and procedures in filing the refunding claim. The Servicer will be responsible for any loss resulting from 1) a failure to assign a loan to VA where VA instructed it to do so, or 2) errors in the claim process itself.

Similarly, the Administrator's approval is not required if FHA agrees to accept assignment on a loan. Again, the Servicer is responsible for meeting all requirements in the filing of the assignment claim and shall be responsible for any loss caused by errors in completing the assignment process.

The Servicer must submit any documents requiring signature by VLB to the Administrator. Typically, this will include an assignment of the mortgage from VLB to the insurer and the endorsement of the Note from VLB to the insurer.

### **3.08 LOAN MODIFICATIONS**

A Servicer may not modify the terms of any mortgage loan without the written approval of the Administrator. Changes to a loan's interest rate or maturity date are not allowed. Prior principal curtailments cannot be reversed and used to make delinquent mortgage payments without the approval of the Administrator.

The Servicer may consider modifications as part of the loss mitigation process if the hardship is long term and beyond the control of the borrower. Before submitting any request for modification to the Administrator, the Servicer must obtain the approval of the loan insurer or guarantor, if applicable. Once the approval of the insurer/guarantor has been obtained, the Servicer will submit a copy of the approval letter along with a complete modification package to the Administrator.

The Servicer must provide the Administrator with a package that includes the following:

- Written documentation of hardship from the borrower(s)
- Current BPO or appraisal
- Complete current financial information (including but not limited to current pay stubs, employment/income verification, and bank statements)
- Summary of all loss mitigation options offered and collections efforts
- The terms of the proposed modification
- Other data as may be required to support the request.

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The following further clarifies the conditions under which the Administrator will consider a loan modification for approval:

- No change in Note rate or maturity date
- Only P&I may be capitalized
- Borrower must pay all corporate / escrow advances up front prior to modification approval
- Hardship must be resolved and borrower must show income to support monthly payment going forward (nature of the hardship may determine whether VLB will require it to be resolved prior to modification)
- The Administrator reserves the right to require additional support/data at any time

The Administrator will issue a written decision with specific instructions on how to process the modification after receiving a complete package, along with any additional documentation requested.

The Administrator specifically reserves the right to request any additional documentation it deems reasonable and necessary as part of the review process. If a modification is approved, the borrower must execute a formal modification document.

The Servicer will be required to repurchase the loan should they process or change any previously approved terms of a modification without the prior written approval of the Administrator.

The Servicer must deliver the original executed modification agreement, or recorded modification agreement if recording is required, to VLB at the address below:

Texas Veterans Land Board  
Attn: Tess Baker  
1700 Congress Ave.  
Austin, TX 78701

DO NOT include the original documents with either Monthly Accounting Reports or Monthly Default Reports. Please deliver the originals to the following address:

Mr. Cooper Master Servicing  
9135 S. Ridgeline Blvd., Suite 200  
Highlands Ranch, CO 80129

See Chapter 2, Section 2.18 for additional information related to modification of MERS registered loans.

### **3.09 PREFORECLOSURE SALES / SHORT PAYOFFS / DEED-IN-LIEUS**

#### **VA/FHA Loans**

If a pre-foreclosure sale or deed-in-lieu of foreclosure is approved by VA/FHA, the Servicer is not required to obtain the approval of the Administrator. The Servicer must follow all VA/FHA requirements and there must be no resulting loss to the program. The approval by VA/FHA must be reported with the next month-end Foreclosure Status Report submitted by the Servicer. The Servicer must continue with foreclosure in accordance with VA/FHA guidelines until instructed otherwise by VA/FHA.

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The Servicer must provide written notice to the Administrator via email within twenty-four (24) hours after the pre-foreclosure sale is closed or a deed-in-lieu is recorded.

For pre-foreclosure sales, a copy of the Final HUD settlement statement must be included with this notice. Failure to provide notice to the Administrator within twenty-four (24) hours as required will result in a \$100.00 penalty being assessed.

Conveyance packages and/or claims for loss must be filed with VA/FHA in accordance with their respective guidelines. Failure to submit conveyance packages and/or claims for loss within the time frames required by VA/FHA guidelines will result in a \$100.00 penalty being assessed.

### **Conventional Loans**

Both pre-foreclosure sales and deeds-in-lieu of foreclosure should be considered once all other loss mitigation efforts have failed. The Servicer should review each defaulted borrower's circumstances and manage the pre-foreclosure sale and deed-in-lieu process in accordance with Accepted Servicing Practices.

For Conventional Loans, the approval of the Administrator is required for all pre-foreclosure sales or deeds-in-lieu of foreclosure. If the loan is covered by PMI, the Servicer must submit to the Administrator a copy of the package submitted to the insurer along with a copy of the PMI insurer's written approval. The PMI insurer must have agreed to pay the full claim due under the policy or the amount required to make VLB whole, whichever is lesser.

The Servicer will be required to make the investor whole should they approve a pre-foreclosure sale or deed-in-lieu of foreclosure on a Conventional Loan without the prior written approval of the Administrator.

### **Pre-Foreclosure Sales (Conventional Loans)**

Foreclosure activity must continue while a loan is being reviewed for a pre-foreclosure sale, unless permission to delay the process is received from the PMI insurer or the Administrator. To request approval for the pre-foreclosure sale from the Administrator, the Servicer must submit a package for review that includes the following:

- Copy insurer / guarantor approval (if applicable)
- Written documentation of hardship from the borrower(s)
- Current BPO from listing broker
- 2<sup>nd</sup> BPO from non-listing broker
- Complete current financial information (including but not limited to current pay stubs and employment/income verification)
- Summary of all collection efforts and loss mitigation options offered
- Copy of executed sales contract
- Detailed itemization of Servicer expenses and costs to date

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- Listing agreement

Borrowers will not be permitted to receive any proceeds from the sale. Borrowers may be required to make a contribution towards the loss. The Administrator will issue a written decision upon the receipt of a complete package. The Administrator reserves the right to request additional documentation as they deem necessary.

### **Deed-In-Lieu of Foreclosure (Conventional Loans)**

Servicers must submit all the required documentation for a pre-foreclosure sale as outlined above (excluding the executed sales contract). Prior to considering the deed-in-lieu, the property must have been listed for sale at fair market value for three (3) months with no reasonable offer being received. The borrower must be able to convey clear title (with a Title Insurance Policy), the property must be free of all other liens, and the property must be vacant. The acceptance of a deed-in-lieu of foreclosure will allow the Servicer to acquire title quicker than a foreclosure action. Servicers are instructed to contact the Administrator regarding any circumstances that make a deed-in-lieu the most beneficial option to the Investor.

### **Short Payoff**

Servicers are required to obtain the approval of the Administrator on all short payoff requests. To request approval, the Servicer must submit a package to the Administrator for review that includes the following:

- Details on why the short payoff is being requested
- Copy of insurer / guarantor approval (if applicable)
- Current BPO
- Loss Analysis
- Copy of settlement agreement (if applicable)
- Other data as may be required to support the request.

The Servicer will be required to make the investor whole should they approve a short payoff without the prior written approval of the Administrator.

### **3.10 VETERANS HOME IMPROVEMENT LOANS**

This chapter applies only to Servicers with VHIP loans in their servicing portfolio.

VHIP loans are typically originated as true second liens. However, in some cases VLB may be in first lien position (where there is no existing first lien).

VHIP loans are generally covered by insurance under the HUD Title-1 program. The VHIP loans covered by insurance under the HUD Title-1 program are not foreclosed. If they become delinquent, an FHA Insurance claim is to be filed. If HUD rejects the claim, the Servicer is allowed six (6) months to re-file the claim. If the re-filed claim is also rejected, foreclosure may be an option if the first lien has not been foreclosed. Please refer to the Claim Denied by HUD (Final) section below.

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If a VHIP loan becomes delinquent, the Servicer will use standard collection efforts as required under Title-1 servicing guidelines, including phone calls and written correspondence to the borrowers. No later than the ninetieth (90<sup>th</sup>) day of delinquency, the Servicer is required to file a loss claim with HUD in accordance with HUD guidelines. The Servicer must submit a written request for the original Loan Documents needed to complete the claim package to the Administrator.

### **Claim Approved by HUD**

If HUD approves the claim, the Servicer will receive a claim payment from FHA. The claim payment funds must be remitted directly to VLB via ACH (Type 3) within fifteen (15) Calendar Days of receipt. A late remittance penalty of \$100 per day will be assessed for late remittance of these proceeds. A Foreclosure Remittance Summary (FRS) must be emailed to the Administrator when these funds are remitted. A copy of the HUD claim payment advice must be included with the FRS.

### **Claim Denied by HUD (Initial)**

If HUD is unable to approve a claim, they will return the claim to the Servicer with a denial letter listing any items needed to correct the claim. HUD's denial letter provides the Servicer a six (6) month period from the date of the denial letter to submit the required corrections to HUD.

The Servicer must provide a copy of the denial letter to the Administrator within fifteen (15) Calendar Days of receipt. If the Servicer is unable to address any of the corrections required, the Servicer must include a written explanation along with a request for any documentation or information needed to re-file the claim. The Servicer must notify the Administrator when the claim has been re-filed. HUD will re-review the claim once a completed correction package has been provided.

### **Claim Denied by HUD (Final)**

If HUD issues a final denial of the Title-1 claim, the Servicer is required to notify the Administrator within fifteen (15) Calendar Days of the final denial. If the HUD denial is due to errors or omissions by the Servicer, the Administrator will issue a repurchase demand to the Servicer.

If the denial relates to origination/underwriting issues, the Servicer will be required to provide documentation to the Administrator for review to determine if foreclosure of the lien may be appropriate. The Servicer will provide the following within thirty (30) Calendar Days of the final denial letter:

- Current title search to determine status of the first lien
- Current BPO
- Status of first lien, including estimated sale date if in foreclosure

The Servicer will be reimbursed for the cost of the title search and BPO at the final reconciliation of the loan. Upon receipt of this package, the Administrator will provide instructions to the Servicer within fifteen (15) Calendar Days. The options at this point will be to continue loss mitigation efforts, start foreclosure proceedings, or charge off the unpaid loan balance. The Administrator will provide specific written instructions to the Servicer on a case by case basis.

### **Subordination of Second Mortgages**

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Subordinations of the lien agreement in order to permit refinancing of a superior lien are permitted by VLB as long as a) all applicable insurance on the property remains enforce, b) the subordination is processed within the guidelines as published by HUD under the Title-1 program, and c) VLB's lien position is no less after the refinancing than it was prior thereto.

The Servicer will forward a copy of the borrower's request for subordination along with a completed Subordination Agreement to the Administrator. The borrower's letter must indicate that they are only refinancing for the balance on the loan and nothing greater. The Administrator will forward the Subordination Agreement to VLB for execution.

Exceptions to the above require the approval of the Administrator and VLB. VLB reserves the right to amend their qualifying requirements outside of HUD's published guidelines at VLB's discretion.

### **3.11 BANKRUPTCY REPORTING**

Servicers are required to submit a Bankruptcy Status Report (see Servicing Exhibit SE-3 and Form SG-10) for all loans in bankruptcy by the fifth (5<sup>th</sup>) Calendar Day of each month. All applicable information must be completed. VLB loan number must be on all reports.

The contractual due date and post-petition due date for Chapter 13 cases are particularly important. If any loan is reported to be ninety (90) or more days delinquent post-petition, the Servicer must include a comment regarding any relief efforts. The date relief was requested, relief hearings scheduled, and the results of relief hearings must be reported. Other information and/or documentation as reasonably requested must be provided to the Administrator.

Servicers will receive a written notice via email for each loan where an incomplete or inaccurate bankruptcy report was received. A corrected report must be submitted within five (5) Calendar Days of this notice.

A penalty of \$100.00 will be assessed if a Servicer fails to provide a corrected report within five (5) Calendar Days after notice has been issued. This penalty will be assessed for every loan where the Servicer fails to provide a corrected report if required by the Administrator.

### **3.12 BANKRUPTCY SERVICING REQUIREMENTS**

Bankruptcy servicing must be performed in accordance with Accepted Servicing Practices and must meet any additional requirements imposed by these guidelines.

Servicers must have written procedures to control and monitor bankruptcy proceedings effectively. The Servicer (or their attorney) must maintain copies of all bankruptcy documents and provide them to the Administrator on request. These documents include but are not limited to:

- Borrower's Petition for Bankruptcy
- Notice of the First Meeting of Creditors
- Proof of Claim
- Debtor's Plan
- Motions for Relief

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- Agreed orders, dismissals, or discharges
- Asset and liability schedules on multiple filers

Servicers must notify the Administrator immediately upon receiving notice that a Borrower has filed a bankruptcy petition. Subsequently, Servicers must submit a Bankruptcy Status Report every month (per Section 3.11 of this Guide) until the loan comes out of bankruptcy.

VLB does not require Servicers to use Fannie Mae approved bankruptcy attorneys but strongly suggests they do. The Servicer is responsible for monitoring the performance of their attorney, and they will be required to reimburse VLB for any losses that result from deficiencies in the attorney's performance, up to and including repurchasing loans if the attorney is deemed negligent.

The Servicer and/or their bankruptcy attorneys are required to complete the following key steps in the bankruptcy management process:

- Suspending Debt Collection Efforts
- Filing a Notice of Appearance
- Obtaining and Reviewing Statements and Schedules
- Reviewing Bankruptcy Reorganization Plans
- Preparing and Filing a Proof of Claim
- Attending Initial Meeting of Creditors
- Monitoring Payments and requesting relief as needed if default occurs
- Ensuring the debt owed to VLB is included on the proof of claim.

For Chapter 7 bankruptcies, the Servicer should monitor the loan for discharge within one hundred eighty (180) days of the filing date, and should contact the court for a status if no discharge has been entered.

For Chapter 13 bankruptcies, the post-petition performance of the borrower must be closely monitored. If a loan becomes ninety (90) days delinquent, the Servicer's attorney should be instructed to file a motion for relief. If the borrower is placed under an agreed order, the performance of the borrower under the terms of the order must be verified. Should the borrower fail to comply with the terms of the order, relief must be requested as soon as permitted by the order.

Special care must be taken by the Servicer to monitor loans for multiple bankruptcy filings. Servicers must instruct their attorney to file for relief with a one hundred eighty (180) day bar against future filings as soon as possible once it is apparent the borrower is delaying foreclosure by misusing the bankruptcy courts. Every effort should be made to obtain relief and complete foreclosure on these properties as soon as possible.

Servicers must immediately notify the Administrator when it becomes aware of a borrower filing a petition for a Bankruptcy Cramdown ("Cramdown") or any other petition that may affect the terms of the Note or mortgage. They should immediately contact their bankruptcy attorney to verify they are experienced in

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handling Cramdown petitions, and should contact the Administrator for a recommendation regarding counsel if necessary.

The Cramdown petition must be monitored until the court either approves or rejects the proposed Cramdown and, again, the Servicer must immediately notify the Administrator. An approved Cramdown must be closely monitored for performance, and the Administrator must be notified promptly of any default of thirty (30) or more days in payments.

If the Borrower is delinquent in their payments upon discharge or dismissal by the bankruptcy court, the Servicer should confirm with their attorney the property has been abandoned or otherwise released from the jurisdiction of the bankruptcy court. Upon confirmation that the property is released, the Servicer should immediately initiate loss mitigation and/or foreclosure proceedings as appropriate.

### **3.13 FORECLOSURE REPORTING**

Servicers are required to submit a Foreclosure Status Report (see Servicing Exhibit SE-5 and Form SG-12) for all loans that have been approved for foreclosure by the Administrator. The report is due by the fifth (5<sup>th</sup>) Calendar Day of each month. All applicable information must be completed. The VLB loan number must be on all reports.

Foreclosure in the State of Texas should take no more than three (3) months from the date the foreclosure is approved. If a loan was approved for foreclosure two (2) months ago and foreclosure sale is not scheduled to occur in the third (3<sup>rd</sup>) month following approval, the Servicer must provide a detailed explanation for the delay.

Servicers will receive a written notice via e-mail for each loan where an incomplete or inaccurate foreclosure report was received. A corrected report must be submitted within five (5) Calendar Days of this notice.

A penalty of \$100.00 will be assessed if a Servicer fails to provide a corrected report within five (5) Calendar Days after notice has been issued. This penalty will be assessed for every loan where the Servicer fails to provide a corrected report if required by the Administrator.

### **3.14 FORECLOSURE SERVICING REQUIREMENTS**

Servicers are not required to obtain approval from the Administrator prior to referring a loan to foreclosure. Before the Servicer refers a loan to foreclosure, they are required to exhaust all loss mitigation efforts in accordance with Accepted Servicing Practices and the terms of these guidelines. If no arrangements have been made to cure the default, Servicers may refer the defaulted loan to foreclosure in accordance with the timelines established by Accepted Servicing Practices, but not prior to expiration of the demand letter, unless otherwise approved by the Administrator. If the loan is registered with MERS, title must be re-assigned in the name of The Veterans Land Board of the State of Texas prior to foreclosure start.

The Servicer is responsible for all actions taken by the attorney they select, including any costs or interest curtailments incurred due to the non-timely completion of foreclosure.

A non-contested foreclosure in the State of Texas should be completed within ninety (90) days after foreclosure referral. A Servicer must present justification if any loan does not proceed to foreclosure within this time period. If the Administrator determines that the delay was avoidable, the Servicer may be required to repurchase the loan. The Servicer is responsible for filing all documents required to complete



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foreclosure within this period. This responsibility extends to those documents filed by their foreclosure attorney. These documents may include, but are not limited to:

- Breach or demand letters to all parties responsible for payment of the Note
- All required notices to insurers (NOD / NOI)
- All required notices to Valerie (Electronic Default Notification) VA loans only
- Substitutions of Trustee (must be executed by VLB)
- Posting notices
- Foreclosure and/or conveyance deeds

See Chapter 2, Section 2.18 of this Guide for more information related to the foreclosure of MERS registered loans.

### **3.15 LOAN DOCUMENTS ON FORECLOSURE PROPERTIES**

No original collateral documents need to be produced in the State of Texas in order to complete the typical non-judicial foreclosure. The Administrator will not request and VLB will not release original Loan Documents for the purpose of completing a foreclosure sale.

The Administrator will instruct VLB to ship original Loan Documents to the Servicer upon receipt of a fully completed VLB Notice of Acquisition (NOA) and shipping label. The Servicer is required to submit the NOA and shipping label to the Administrator within twenty-four (24) hours after foreclosure sale is held.

### **3.16 LOSS MITIGATION ACTIONS DURING FORECLOSURE**

Servicers are encouraged to continue loss mitigation efforts once foreclosure has been approved. However, the Servicer must continue the foreclosure process unless instructed to stop by the insurer or the Administrator, or until the borrower fully reinstates the loan. Servicers are not to place an approved foreclosure on hold or agree to any loss mitigation proposal short of full reinstatement or payoff. Any loss mitigation must meet the terms outlined in Sections 3.05 through 3.09 of this Guide. The approval of the insurer or Administrator to any loss mitigation must be obtained just as it would have been required prior to the approval of foreclosure.

Servicers must fully comply with all statutory requirements. They must also take all required actions to complete foreclosure in a timely manner so as to mitigate the loss to the Program.

VLB will not backdate any legal document. Documents requiring signature by VLB must be delivered to the Administrator at least three (3) Business Days prior to the date the signature is required. This most commonly affects the Substitution of Trustee (see Form SG-17). The Servicer is strongly encouraged to notify their attorney of the three (3) business day requirement. The Servicer does not have delegated authority to sign Substitutions of Trustee documents on the behalf of VLB.

If a Servicer receives notice of a bankruptcy filing at any time during the foreclosure process, they must immediately cease foreclosure actions and notify the Administrator of the filing. The chapter filed, filing date and case number must be provided.

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Servicers are required to complete monthly inspections of the property as required under Section 3.04 of this Guide, and are reminded to promptly notify the Administrator of any factor, which may affect the value, or security of the Mortgaged Property.

### **3.17 BIDDING INSTRUCTIONS / VA “NO-BID” WRITE-OFF / NEGATIVE LOSS / GUARANTY LOSS**

Bid instructions for VA and FHA insured loans must be obtained from the insurer in accordance with their guidelines.

If the VA refuses to issue a specified bid amount (i.e., they are going to “no-bid” the loan), the VA “No-Bid” Write-Off is an option offered to Servicers which allows them to convey the property back to the VA. Servicers must protect the interest of VLB by considering a VA “No-Bid” Write-Off option if a “no-bid” is going to be issued. Servicers must obtain VLB approval through the Administrator prior to notifying the VA that a write-off has been finalized. In order to request VA “No-Bid” Write-Off approval, the Servicer must submit the following documentation to the Administrator for review:

- The VA Liquidation Appraisal
- A copy of the VA’s no-bid letter
- Servicer’s calculations for the total VA “No-Bid” Write-Off
- Servicer’s calculations for the total VA “No-Bid” Write-Off / guaranty loss.

Upon receipt of these items, the Administrator will review the request and will provide a written response. This written approval means VLB has agreed to accept their pro-rata share of the loss/write-off.

If the Servicer processes a VA “No-Bid” Write-Off without the prior written approval of the Administrator, the Servicer will be required to make VLB whole for all resulting losses to the Program.

Bid instructions for *conventional, insured loans* should be obtained from the Private Mortgage insurer. Should the Private Mortgage insurer fail to provide bidding instructions, Servicers must provide information as required for conventional, uninsured loans below.

For *conventional, uninsured loans*, bid instructions will be issued by the Administrator. Servicers are hereby required to provide a BPO and total debt due to the Administrator prior to the date foreclosure sale is scheduled. If the property is vacant, the property must be secured and repair bids provided as well. The Administrator will review the information provided and provide bidding instructions to the Servicer prior to the scheduled sale. Failure to obtain bidding instructions from Administrator prior to foreclosure sale will result in repurchase.

For Two Note situations, the approval of both the Program and Participant Noteholders must be obtained. Should the Participant Noteholder decline the proposed specified bid, the Servicer should notify the Administrator prior to foreclosure sale with the Participant Noteholder’s bid recommendation. Should the two Note holders not agree on a specified bid prior to foreclosure sale, the Servicer is instructed to bid total debt.

Should a Servicer bid in excess of the specified bid amount, the Servicer shall be required to purchase the resulting REO from VLB. The purchase price will be equal to the specified bid amount less otherwise reimbursable foreclosure expenses incurred. Purchase proceeds must be remitted to VLB via ACH (Type

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3) within thirty (30) Calendar Days after foreclosure sale. A late remittance penalty of \$100.00 per day will be assessed for late remittance of these proceeds.

### 3.18 NOTICE OF FORECLOSURE SALE HELD

The Servicer must provide the Administrator with written notification within twenty-four (24) hours after foreclosure sale is held or a deed-in-lieu is recorded. Notice is to be provided to the Administrator by emailing the following to [MSTVLBLLRequests@mrcooper.com](mailto:MSTVLBLLRequests@mrcooper.com):

- NOA (see Servicing Exhibit SE-6 and Form SG-13)
- Shipping Label for return of the original Loan Documents

The NOA is required for all conventional, VA and FHA mortgages regardless of whether the property is sold to a 3rd party, becomes REO, or will be conveyed to FHA or VA. If any foreclosure sale is held or deed-in-lieu of foreclosure is recorded, and an NOA is not received within twenty-four (24) hours as required, a \$100.00 per day penalty will be assessed against the Servicer until the NOA is received.

If a scheduled foreclosure sale is not held for any reason, the Servicer must still provide the Administrator a completed NOA or other written notice with a complete explanation why the foreclosure sale was not held as scheduled. If sale was rescheduled, the new sale date should be provided if available.

When a property is purchased at foreclosure sale by another party, it is considered a Third Party Sale. Funds are collected and the Trustee's Deed upon sale is recorded in the new owner's name. The results should indicate property sold to Third Party and the sale amount. The Servicer is to collect the proceeds in full, within fifteen (15) Business Days from the date the sale was held and remit to VLB within fifteen (15) Calendar Days of receipt. A late remittance penalty of \$100 per day will be assessed for late remittance of these proceeds. Expenses are to be withheld at the time of remittance to VLB. On FHA/VA insured loans, only expenses allowed by insurer may be withheld for reimbursement. A Foreclosure Remittance Summary is to be submitted to the Administrator within five (5) Business Days of remittance of proceeds to VLB.

Servicer should file claims within thirty (30) Calendar Days of sale date.

The penalty fee must be remitted by ACH (Type 4) within thirty (30) Calendar Days of the penalty billing date. See Exhibits SE-16 through SE-18 for Instructions on submitting an ACH payment.

### 3.19 REPORTING OF CONVEYED PROPERTIES

After foreclosure sale is held, if the property is to be conveyed to VA, FHA, or a Third Party, Servicers must immediately begin the conveyance and claim process and complete all required filings within the time frames specified by the insurer. In Two Note situations, the Servicers must immediately contact the Participate Noteholder and obtain all information needed to file the claim.

For any foreclosed loan that is conveyed to HUD/VA or sold Third Party, the Servicers must submit a Conveyance/Refund Status Report (see Servicing Exhibit SE-7 and Form SG-14) by the tenth (10<sup>th</sup>) day of each month until the final claim proceeds due are received and the Servicer has received permission from the Administrator to remove the loan from their system. A penalty of \$100.00 per loan will be assessed for incomplete or inaccurate reports.

The Servicer must provide the Administrator with the date the transfer of custody (TOC) was filed in Valerie

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(VA loans only) and /or claim upon filing. Documents that require execution by VLB must be submitted to the Administrator.

The Servicer must maintain regular contact with the respective insurers and follow up no later than thirty (30) Calendar Days after a conveyance is made or claim filed for payment. The Servicer will be held liable for any losses incurred as a result of an insurer / guarantor showing a filing to have not been received timely.

### **3.20 REO MANAGEMENT**

Generally, the Servicer is responsible for the management and marketing of REO properties as outlined in Section 3.24 of this Guide.

The Servicer is to follow generally Accepted Servicing Practices as amended by these guidelines in fulfillment of those duties.

Failure to comply with these guidelines as specifically outlined may result in the Servicer being required to repurchase the loan.

#### **Two Note Situations**

See Section 3.31 of this chapter for guidance of managing a REO Property in a Two Note situation.

### **3.21 REO REPORTING**

Servicers are required to submit an REO Status Report for all active REO properties by the fifth (5<sup>th</sup>) Calendar Day of each month (see Servicing Exhibit SE-9 and Form SG-15). The reporting cut-off for REO properties is the last day of the prior month. All applicable information must be completed. VLB loan number must be on all reports.

Servicers will receive a written notice via email for each loan where an incomplete or inaccurate REO report was received. A corrected report must be submitted within five (5) Calendar Days of this notice.

A penalty of \$100.00 per day will be assessed if a Servicer fails to provide a corrected report within five (5) Calendar Days after notice has been issued. This penalty will be assessed for every loan where the Servicer fails to provide a corrected report if required by the Administrator.

### **3.22 REO SERVICING REQUIREMENTS**

If the property becomes REO as a result of foreclosure sale and is occupied, VLB will require the property be vacated as soon as possible. Servicers are instructed to offer “cash for keys” to occupants in order to avoid the delay and expense of eviction.

#### **Cash for Keys Prior to Start of Eviction**

If a property is not vacant at foreclosure sale, the Servicer must send written notice to the occupant via regular and certified mail within seven (7) Calendar Days after foreclosure sale offering the occupant up to \$500.00 to vacate the property. The Servicer has delegated authority to negotiate an offer up to \$500.00 without prior approval prior to the start of eviction. Any payment in excess of \$500.00 without the prior approval of the Administrator will not be reimbursed.

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If the occupant refuses the offer or fails to respond within the ten (10) Calendar Days of the “cash for keys” notice, the file must be referred to the eviction attorney within the next five (5) Calendar Days.

If the occupant agrees to accept the offer, they must submit the executed agreement to the Servicer within the ten (10) day period specified above. The written agreement must state that the occupant agrees to vacate the property on a specific date not later than forty-five (45) Calendar Days from signing date. They must also agree to leave the property in broom clean condition. Eviction must be started within five (5) Calendar Days if the occupant violates any of these terms.

### **Cash for Keys after Eviction is Started**

If the occupant contests eviction, the Servicer must submit a summary of issues to the Administrator with the attorney’s estimate of fees and costs to complete eviction. The Servicer should instruct the eviction attorney to contact the occupant or their counsel to inquire if they would consider “cash for keys”. If they are interested, the Servicer must provide a recommendation to the Administrator of a reasonable amount based on the circumstances and costs to complete the eviction. No specific amount should be offered to the occupant without the prior approval of the Administrator. The Administrator will notify the Servicer of any approved offer amount. If the occupant agrees to accept, they must submit the executed agreement to the Servicer within ten (10) Calendar Days.

The agreement must state the occupant agrees to vacate the property by a specific date not later than forty-five (45) Calendar Days from their signing date. They must agree to leave the property in broom clean condition. Eviction must be resumed within five (5) Calendar Days if the occupant violates any of these terms.

### **Requirements for Completing Cash for Keys**

Prior to releasing the “cash for keys” payment to the occupant, the Servicer must obtain written confirmation from their property preservation company that the property is vacant, secure, in broom clean condition, and re-keyed.

### **Extensions to Specified Time Frames**

The Servicer may submit a request to the Administrator to extend any specified time frames. Requests must include a specific extension date with a detailed explanation why the extension is needed. Failure to meet required time frames will result in penalties being assessed.

### **Required Documentation**

The Servicer will forward the Administrator copies of the following executed documents:

- Agreement for Surrender of Possession of Property
- Release (acknowledgment of receipt of funds)

### **Penalties**

Penalties of \$100.00 per day will be assessed for missing specified time frames unless the Administrator approved an extension in writing. Penalties will be assessed for (but not limited to) the following violations:

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- Failure to offer “cash for keys” to the occupant within seven (7) Calendar Days after foreclosure sale.
- Failure to start eviction within five (5) Calendar Days as required, if the occupant refuses the “cash for keys” offer or fails to respond within the ten (10) Calendar Days allowed.
- Failure to start eviction within five (5) Calendar Days if the occupant fails to vacate when required.
- The Servicer reimbursement for “cash for keys” payments will be limited to \$500.00 unless a higher amount was pre-approved.
- No reimbursement will be made for any “cash for keys” payment made if eviction was started unless prior approval was obtained from the Administrator.

### 3.23 REO MARKETING PACKAGE

A complete REO Marketing Package is due within fifteen (15) Calendar Days after the later of foreclosure sale or date of first vacancy. If you are unable to meet this deadline, please email a written extension request to the Administrator. This request must include an explanation of the delay and the estimated date the package will be submitted. A penalty of \$100.00 per day will be assessed for any REO Marketing Package received more than fifteen (15) Calendar Days after foreclosure sale, first vacancy, or extension date, whichever is later.

The complete REO Marketing package must include the following information:

- A Current Appraisal
- Two (2) BPOs with interior and exterior photos. One BPO must be from the listing broker and a second from an independent broker.
- If the value per the appraisal and the non-listing broker’s BPO are within ten percent (10%) of each other, but the listing broker’s value varies by more than the lesser of \$6,000.00 or (10%) from the appraisal, please review the variances to determine causes that should be considered in setting the list price. Include this explanation as a part of your recommendation of the list price.
- Copy of the mortgage insurance claim (if applicable)
- Copy of Hazard Insurance claim (if applicable), along with an evaluation of whether any noted damage is eligible for claim under the hazard policy.
- Copy of the origination appraisal
- Copy of the Substitute Trustee’s Deed
- Two repair bids for any repairs indicated in the appraisals/BPOs along with a recommendation of what repairs should be completed. This recommendation must include a cost/benefit analysis of the repair costs against the anticipated increase in sale value if the

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repairs are completed. If the recommendation is to sell the property “as is”, please include an explanation why repairs are not warranted or cost effective.

- Provide a summary of both the real estate firm and the listing broker’s experience with disposing of REO properties.

### 3.24 REO MARKETING REQUIREMENTS

The Administrator will provide the Servicer with written listing instructions within fifteen (15) Calendar Days after a complete REO Marketing Package has been received. Listings are to be for a period of ninety (90) Calendar Days with a six- percent (6%) commission unless specified otherwise.

If the Servicer is unable to locate a broker at the standard six percent (6%) commission, please contact the Administrator with an explanation of the circumstances and to discuss possible alternative commission structures.

The Servicer must provide a copy of the listing agreement to the Administrator within five (5) Calendar Days after listing instructions are issued.

The Servicer is required to provide a monthly status report to the Administrator by the fifth (5<sup>th</sup>) Calendar Day of each month. The report must include the number of showings, the amount and number of offers, any comments from potential buyers, and the broker’s recommendation regarding future marketing efforts.

The Servicer must submit *all* offers received to the Administrator for review. The Administrator will accept, deny, or counter the offer. If the offer is accepted, the Servicer should notify the buyer and provide a copy of the signed contract to the Administrator within five (5) Calendar Days of contract execution.

The Servicer will execute all closing documents in their capacity as Servicer except for the Special Warranty Deed, which must be executed by VLB. The deed must be delivered to the Administrator at least seven (7) Calendar Days prior to the scheduled closing date.

### 3.25 REMITTANCE REQUIREMENTS

Servicers are required to remit the following types of proceeds directly to VLB within fifteen (15) Calendar Days of receipt via ACH (Type 3)\*.

- VA conveyance or refund proceeds
- VA claim proceeds
- FHA partial proceeds
- FHA final proceeds
- Private Mortgage Insurance (PMI) proceeds
- Preforeclosure Sale proceeds
- Third Party Sale Proceeds

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- Any supplemental claim proceeds

Exception: Servicers are required to remit REO sale proceeds to VLB within thirty (30) Calendar Days of closing via ACH (Type 3)\*.

\* Servicers will be assessed a \$100.00 penalty for any remittance made by check. A late remittance penalty of \$100 per day will be assessed for late remittance of these proceeds.

Please refer to Chapter 3, Section 3.26 for the expense reimbursement procedures and Chapter 3, Section 3.27 for preparation of the Foreclosure Remittance Summary (FRS).

### **3.26 EXPENSE REIMBURSEMENT**

Servicers receive reimbursement for their foreclosure and/or REO expenses by retaining permitted expenses from insurance or sale proceeds they receive as outlined below.

#### **For VA loans**

Servicers should deduct the expenses approved by VA from the VA final claim payment proceeds received. Servicers may not deduct any expense that did not appear on the VA final claim or was denied by VA.

#### **For FHA loans**

Servicers may deduct their expenses from the FHA partial payment as the final payment will not be sufficient to cover all expenses due to the 1/3 FHA curtailment of certain expense types. Servicers may not deduct any expense that did not appear or was denied on the FHA claim.

#### **For Conventional, Insured loans**

Servicers may deduct foreclosure expenses approved by the PMI insurer from the mortgage insurance proceeds they receive. Servicers may not retain any expense denied by the insurer. Future expenses associated with the marketing of the property may be retained from REO sale proceeds.

#### **For Conventional, Uninsured loans**

Servicers may deduct their foreclosure/REO expenses from REO or compromise sale proceeds they receive.

Please refer to Chapter 3, Section 3.27 for instructions on preparing the Foreclosure Remittance Summary (FRS) and the documentation required for expenses retained by the Servicer.

### **3.27 FORECLOSURE REMITTANCE SUMMARY**

Servicers must submit a FRS to the Administrator to document any VA, FHA, PMI, REO, Third Party Sale, or compromise sale funds remitted to VLB (see Servicing Exhibit SE-8 and Form SG-16).

#### **To Prepare the FRS**

The top section provides general loan information. All blocks must be fully completed. The Program and Participant Note due dates and default principal balances are critical.



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SECTION A - Liquidation Proceeds: Fully complete ALL blocks.

This identifies the amount and type of funds received. Documentation required:

- FHA proceeds – copy of the FHA Advice of Payment
- PMI proceeds – copy of the PMI Payment Advice
- VA proceeds – copy of the VA claim analysis
- Third Party Sale proceeds – copy of title company check evidencing funds were obtained within 15 Calendar Days of the sale date
- REO/Comp Sale proceeds -copy of HUD Settlement Statement

SECTION B – Expenses: Fully complete blocks for any applicable category & total.

This identifies expenses being retained by the Servicer. Please refer to Chapter 3, Section 3.26 for allowable expenses and when to claim expenses. Documentation required:

- VA loans – copy of the VA final claim
- FHA loans – copy of the FHA final claim
- PMI proceeds – copy of the PMI claim
- REO/Comp Sale proceeds – Copies of all invoices paid. For taxes and insurance payments, copies of the Servicer's history with tax/insurance payments noted.

SECTION C – Credits: Fully complete applicable blocks and total.

This identifies the escrow balance at default and subsequent funds received.

SECTION D – Net Advances: Total of Line B less Total of Line C.

This represents the net amount of expenses advanced by the Servicer.

SECTION E – Remittance to the Veterans Land Board

This section calculates the actual remittance due to VLB.

For One Note situations, subtract Line D from Line A and enter this as the Amount of Liquidation Proceeds Remitted

For Two Note situations, the share of proceeds due to VLB will vary from loan to loan. The VLB Program Note percentage is calculated as follows:

- Add the Program and Participant Note default principal balances (from top of FRS)

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- Divide the Program Note principal balance by the total Default principal balances.
- The resulting fraction is the VLB share. This should be carried out to 4 decimals.

### EXAMPLE:

Program Note Default Principal Balance	\$47,125.75
Participant Note Default Principal Balance	<u>\$37,915.89</u>
Total both Default Principal Balances	\$85,041.64

Divide VLB unpaid principal balance (UPB) by the total (\$47,125.75 / \$85,041.64). The result is 55.42%. This is the pro-rata share due VLB on remittances

Enter the resulting fraction to the FRS on the VLB PROGRAM PERCENTAGE line. To calculate the remittance due VLB, subtract Line D from Line A and multiply by the VLB program percentage calculated.

To continue the above example, if Line A was \$10,000.00 and Line D was \$500.00, VLB would be due \$5,264.90. ( $10,000.00 - 500.00 = 9,500.00 \times 55.42\% = 5,264.90$ )

Funds must be remitted to VLB via ACH (Type 3) and the Foreclosure Remittance Summary with required documentation submitted to the Administrator.

### 3.28 FINAL RECONCILIATION AND REMOVAL

Once the Administrator has received all expected proceeds for a loan, they will complete a final reconciliation of funds received from and expenses retained by the Servicer.

If this reconciliation is satisfactory, the Administrator will send a letter to the Servicer requesting written confirmation of the following:

- the Servicer has received and remitted all funds due to VLB
- the Servicer has requested all expenses they are due and agrees to release the Administrator and VLB from any future expense obligations, and
- the Servicer is instructed to remove the loan balance from their system.

If the reconciliation reveals any additional funds are due to VLB, the Administrator will invoice the Servicer. The Servicer will be invoiced for (but not limited to) the following items:

- Any expense claimed by the Servicer that was denied by FHA/VA/PMI
- Any expense claimed by the Servicer that was not claimed with FHA/VA/PMI (if applicable)
- Any interest curtailed by FHA/VA/PMI
- Remittance errors

Payment of this final reconciliation billing is due to VLB via ACH (Type 3) within fifteen (15) Calendar Days of the date of the invoice. The Servicer will be assessed a \$100.00 daily penalty for late remittance of invoiced amounts.

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For FHA loans, if the Servicer determines a supplemental claim to FHA is required for reimbursement of additional attorney fees and costs where FHA pays 2/3 or 75%, the Servicer should respond back to the final reconciliation billing within fifteen (15) Calendar Days notifying the Administrator. If a supplemental claim is necessary to FHA for non-attorney fees and costs, the Servicer should remit the final reconciliation amount due to VLB via ACH (Type3) within fifteen (15) Calendar Days of the date of the invoice.

Upon receipt of payment of this final reconciliation, the Servicer will be sent a removal letter as outline above. For FHA loans where the Servicer has notified the Administrator that a supplemental claim will be filed to FHA for attorney fees and costs where HUD pays 2/3 or 75%, the Administrator will delay issuing the removal letter to the Servicer until seven (7) months from the Settlement Date of the Full or Final Advice of Payment (AOP) issued by FHA.

Removal letters must be signed by the Servicer and returned to the Administrator within thirty (30) Calendar Days. If the Servicer objects to any of the stated conditions, they must notify the Administrator within thirty (30) Calendar Days. After thirty (30) Calendar Days the Administrator will consider the file closed.

### 3.29 STANDARD OF CARE

Each Servicer shall perform its duties for VLB with due care, diligence, reasonable promptness, and shall use at least the same degree of care in servicing Program Mortgage Loans as it would employ in servicing loans on behalf of Fannie Mae, Freddie Mac or itself. They must also meet all terms and conditions as detailed in these guidelines. Failure to meet this standard of care will be remedied based on the recommendation of the Administrator and final decision by VLB or its representatives applying one of the following:

- Penalties
- Repurchase Demands
- Loss indemnification
- Termination of the Servicer from the Program

Please refer to the Chapter 3, Sections 3.30 for specific details on each remedy.

### 3.30 REPURCHASES / INDEMNIFICATION

If at any time the Administrator, VLB or its representatives determines a Servicer violated the provisions of these guidelines, and the violation resulted (or in the judgment of VLB will result) in additional loss to VLB, the Servicer will be required to repurchase the loan, or indemnify VLB at the boards discretion.

If a violation is detected, Administrator will issue a repurchase or indemnification letter requiring funds be remitted within forty-five (45) Calendar Days.

The repurchase amount due will include the unpaid principal balance plus interest at the Note rate from the last paid installment (LPI) date through the date of repurchase, plus any expenses previously paid by VLB less any proceeds previously remitted by the Servicer. If repurchase funds are not received by the required date, interest will continue to accrue at the Note rate and a \$100.00 per day penalty will be assessed. All repurchase funds must be remitted directly to VLB via ACH (Type 3). A FRS must be emailed to Administrator at [MSTVLBLLRequests@mrcooper.com](mailto:MSTVLBLLRequests@mrcooper.com) the day funds are remitted to VLB.

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Once repurchase funds have been remitted to VLB, the Servicer must prepare an Assignment of Lien (see Form SG-24) (or Special Warranty Deed Form SG-18 for an REO repurchase) from VLB to the Servicer. This document must be forwarded to the Administrator for execution. The cost to prepare and record this document is the responsibility of the Servicer. See Chapter 2, Section 2.18 for modifications to this process for MERS registered loans.

Repurchase is not an option for a servicing breach which occurs after foreclosure sale has been held if the property was sold to a 3<sup>rd</sup> party at foreclosure sale, or conveyed to FHA/VA, or if the REO has been subsequently liquidated. In these instances, the Servicer will be required to indemnify and make VLB whole for any loss incurred due to the breach.

### **3.31 SERVICING OF TWO NOTE VHAP LOANS**

The VHAP program is unique in that it contains some loans where the borrower(s) executed two Notes that are secured by a single Deed of Trust. The holders of the two Notes are co-first lien holders. Each has equal legal rights under the Deed of Trust securing their respective Notes regardless of the relative size of the two Notes. These are typically referred to as “Two Note” loans.

The Two Note program was closed on July 27, 2006, other than for commitments that were outstanding at that time.

In order to properly service VHAP loans, the Servicer must recognize if the loan they are servicing is a single Note VHAP loan or is one side of a Two Note VHAP loan. If it is a Two Note situation, the Deed of Trust and VHAP Rider will clearly identify the amount of the Program Note and Participant Note. If a Participant Note is not referenced in the Deed of Trust or Rider, the loan is a One Note VHAP loan.

The two Notes may be held by a single investor or may be split between two investors (Program Noteholder and the Participant Noteholder). Any breach of the terms of the Deed of Trust or default on the payment of either Note impacts both Note holders. All servicing actions needed once any breach or default occurs must take into account the status of both Notes and the terms of the Deed of Trust and Rider(s).

In instances where there are Two Notes with two investors, one Note is typically set up with escrow accounts like a standard One Note mortgage. The second Note is not escrowed. There is no program requirement that specifies which of the Notes is escrowed. On non-escrowed Two Note loans, the Servicer should never advance funds for payment of taxes, insurance, or other reason without consulting with the Participant Noteholder to avoid the duplicate payment of any item payable under the terms of the Deed of Trust and Rider(s).

The VHAP Deed of Trust Rider for Notes held by two different investors require all funds received by either Note holder be split on a pro-rata basis between the two Note holders. This has the net effect of preventing a borrower from paying on one Note but not the other. If it is discovered the due dates on the Program Note and Participant Note do not match, payments must be reversed off the Note that is paid further ahead and the funds applied as payments on the Note that was further behind until the due dates on both Notes match.

Below are additional guidelines to be followed for Two Note situations.

#### **Loss Mitigation**

The Servicer of a Program Note in a Two Note situation must determine the status of the Participant Note

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before agreeing to any type of loss mitigation. In two investor situations, both must agree on type of loss mitigation to be offered. The Servicer of the Program Note must ensure all loss mitigation proposals comply with the provisions of these guidelines and the requirements of the loan insurer or guarantor. The Servicer of the Program Note must also obtain the approval of the Administrator when required.

### **Bankruptcy**

If the Servicer of a Program Note in a Two Note loan situation receives notice of a bankruptcy filing, they must determine the status of the Participate Note. In a two-investor situation, the Servicer of the Program Note must assure that efforts are coordinated with the Participate Noteholder in hiring of joint bankruptcy counsel in the administration of the bankruptcy proceedings. If the due dates on the two Notes do not match, funds must be exchanged to bring both Notes due dates even in accordance with the VHAP Rider before a proof of claim is filed. If a Proof of Claim was filed with mismatched due dates, an amended POC should be filed after any needed corrections are made. If the borrower defaults on bankruptcy payments, the servicer of the Program Note must assure compliance with requirements of these guidelines while coordinating with actions as required by the Participant Noteholder.

### **Foreclosure**

Before requesting foreclosure approval from the Administrator, the Servicer of the Program Note in a Two Note situation must determine the status of the Participant Note. If the due dates on the two Notes do not match, funds must be exchanged to bring both Notes due dates even in accordance with the VHAP Rider. Updated breach letters may be needed if the due dates changed in this process. As there is only one Deed of Trust to be foreclosed, only one attorney should be engaged to complete the foreclosure on both Notes. Insurers will only reimburse one set of attorney fees for the foreclosure. Any debt information provided to the foreclosure attorney must incorporate both Notes and both Noteholders will need to execute all documents needed to complete foreclosure and/ or the liquidation of the property.

### **Claims**

Any claim filed with VA, FHA, or a private insurer must include all amounts due under both the Program Note and Participant Note. These total debt figures are combined and only one claim is filed.

### **REO**

The Program Note and Participant Note holders may be operating under different servicing guidelines. It is important to note the investors are co- owners of the property. Neither party has any legal rights above the other, both have an equal right in the decision making process. VLB is aware that a circumstance may arise where the servicing requirements of each of the investors may conflict. Servicing agreements do not entitle either of the Investors to sell a co-owned property without the permission of the other. Should conflict arise, the Servicer of the Program Note should contact the Administrator.

### **Split Servicing Requirements**

VLB strongly recommends that the servicing of the two Notes not be split between different servicers. However, in those circumstances where servicing has been split, the Servicer of the Program Note is still responsible for coordinating with the Participant Noteholder to assure compliance with these guidelines and all applicable regulatory and insuring agencies. The following additional guidance is provided to assist in these situations.

Typically, whichever investor is handling the escrow payments will contact the foreclosure attorney.

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Immediately after a property becomes REO, the Servicer of the Program Note should contact the Participant Note holder to request permission to market the REO. The marketing process in Two Note situation will require a significant degree of cooperation between both Noteholders, and this should be established immediately after a property becomes REO.

If the Participant Noteholder holds the larger share of the loan balances, the Servicer of the Program Note may permit the marketing of the property by the entity established in their guidelines. However, the Servicer of the Program Note remains responsible for providing the Administrator with all information required in Chapter 3 of this Guide. This includes (but is not limited to) submitting a complete REO marketing package, monthly status reports, etc. The Servicer of the Program Note must send a letter to the Participant Noteholder notifying them of the documentation requirements of VLB. This letter must also inform the Participant Noteholder that the signature of VLB will be required on the closing Deed when the property is sold. VLB will not sign any Deed unless they have received the required documentation package and pre-approved the offer for the sale of the property. The Participant Noteholder must be further instructed that on a property sold without the prior approval of VLB, they must indemnify VLB against any resulting loss.

If the Program Noteholder has the larger share and the Servicer of the Program Note is marketing the property, the Servicer of the Program Note must extend the Participant Noteholder similar cooperation and documentation if requested. The Servicer of the Program Note should not accept any offer without prior approval of the Participant Noteholder.

If the Participant Noteholder is Fannie Mae or Freddie Mac, and they wish to market the property even though they have the smaller share of the loan balances, the Servicer of the Program Note should request approval from the Administrator before releasing the marketing. This request should be accompanied by a written commitment from the Servicer of the Program Note to provide all the required information and a commitment from Fannie Mae/Freddie Mac that they will not accept any offer without the approval of the Administrator.

With regard to filing of claims in a split-servicing situation, the Servicer of the Program Note must communicate with the Participant Noteholder. Per the terms of the Deed of Trust Rider, any funds received are split between the two Noteholders on a pro-rata basis.

Failure to comply with these guidelines as specifically outlined may result in the Servicer being required to repurchase the loan or otherwise indemnify VLB.

### **3.32 HOMESTEAD EXEMPTION FOR DISABLED VETERANS**

Military veterans who are totally disabled or cannot work because of service-related injuries will pay no property taxes on their homes under the tax exemption approved by the legislature under House Bill 3613 Section 11.131 to the Texas Tax Code. The tax law is effective with the 2009 tax year. Eligible disabled veterans must apply for the tax exemption through their county appraisal district. An application form for veterans to use can be found on the Comptroller's Website at:

<http://www.window.state.tx.us/taxinfo/taxforms/50-114.pdf>

To get the exemption, the veteran must fill out and return (to their County appraisal district office) Form 50-114 Application for Residence Homestead Exemption along with the required documentation.

Documentation required is:

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- A copy of the VA award letter

Qualifications for the new exemption are:

- A veteran owns a home and occupies it as their residence;
- A veteran has a disability rating from VA of 100% disabled or of individual unemployability; and
- A veteran is receiving 100% disability compensation from the US Department of Veterans Affairs for a service-connected disability.

If a veteran qualifies, his or her home will be totally exempt from property taxes in all jurisdictions, regardless of the home's value. If the home is co-owned with someone other than their spouse, the veteran's share of the home's value will be exempted.

Servicers are required to 1) inform appropriate personnel in their tax and/or escrow analysis departments of this change, 2) ensure eligible veterans who properly apply for the benefit receive proper adjustment of their escrow accounts and 3) distribute information to call centers regarding House Bill 3613 so that veterans' inquiries are promptly and accurately addressed.

### **3.33 EXECUTION OF AFFIDAVITS, VERIFICATIONS AND OTHER LEGAL DOCUMENTS**

It is the Servicer's responsibility to ensure compliance with all local, state and federal laws and regulations on the mortgage loans being serviced under the Veterans Land Board Housing Assistance Program.

As Administrator of VLB, we are aware of the publicity that has surfaced regarding the processing and notarization of foreclosure affidavits and other documents in connection with the foreclosure process. Particularly, the Servicers should be aware of Fannie Mae Lender Letter LL-2010-11. As VLB guidelines incorporate by reference the servicing requirements as published by Fannie Mae, this letter is specifically applicable to your VLB servicing.

### **3.34 AD VALOREM PROPERTY TAX EXEMPTION**

The Attorney General of Texas, Greg Abbott, issued an opinion dated March 4, 2003, stating that homes owned and held by VLB pending resale are tax-exempt because they are used for public purposes (Opinion #GA-0026).

As a result of the opinion Servicers are required to take any needed action to assure VLB does not incur charges for property taxes for the period that they are the owners of real estate as a result of default liquidation processes. This includes assuring appropriate modification of the Servicer's and any applicable vendor's policies and procedures, communications as needed with foreclosure attorneys and taxing authorities, and the provision of proper instructions for any closing of a REO sale.

Particularly, please assure:

- Taxes are paid only up to the point of foreclosure sale at which time VLB acquires ownership
- No further taxes are paid during the period VLB holds title to the property including assuring there is no proration of taxes charged to VLB at the closing of the REO sale

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Buyers of VLB REO properties must be informed in writing at closing that they should not be liable for taxes associated with the period of VLB's ownership. They should be directed to contact their local taxing authority for direction. The Servicer is to assist the purchaser as needed to assure they are not asked to bear the burden for the taxes related to the period of VLB's ownership.

Servicers are required to inform appropriate individuals of this requirement including tax processors, foreclosure attorneys, REO management personnel and any associated vendors.

### **CHAPTER 4 - ACCOUNTING, REPORTING AND REMITTING**

#### **4.00 GENERAL**

The accounting requirements for reporting and remitting on loans serviced on behalf of VLB are outlined in this chapter. The Servicer must comply with these guidelines as written.

In cases where a matter is not addressed in sufficient detail in the Guide or guidelines, the Servicer should consult with the Administrator in order to develop appropriate guidelines to follow until the guidelines are updated or amended.

#### **4.01 ACCOUNTING METHOD**

Servicers shall report actual principal and actual interest collected from the borrower in their Monthly Accounting Reports.

#### **4.02 REPORTING REQUIREMENTS**

Servicers shall generate Monthly Accounting Reports as outlined in Section 4.05 of this chapter for each Program bond series.

#### **4.03 REPORTING PERIOD**

The reporting period for the Servicers Monthly Accounting Reports must cover collection activity from the first Business Day of the month through the Reporting Cutoff Date (which is the last Business Day of the month).

#### **4.04 REPORT DELIVERY**

The Administrator must receive all accounting reports in hardcopy form or in a mutually agreed upon electronic format deposited to the Administrator's secure Website:

<https://servicerupload.nationstarmtg.com>

User registration is required by the fifth (5<sup>th</sup>) Calendar Day of the month. If such fifth (5<sup>th</sup>) day is not a Business Day, the reports should be delivered the first Business Day immediately following such fifth (5<sup>th</sup>) Calendar Day.

Hardcopy reports must be delivered to:



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Mr. Cooper Master Servicing  
VLB Investor Reporting  
9135 S. Ridgeline Blvd., Suite 200  
Highlands Ranch, CO 80129

VLB's name and bond program bond series must be reflected on all reports and correspondence delivered to the Administrator.

### 4.05 MONTHLY ACCOUNTING REPORTS

The format for submission of the Monthly Accounting Reports shall be as follows:

Servicers with twenty five (25) or more Mortgage Loans must report payment activity in electronic format, using the exact specifications provided by the Administrator. Files can be submitted to the Administrator's secure portal at <https://servicerupload.nationstarmtg.com>. User registration required for secure file transfer.

The specifications for reporting payment activity in an electronic format are provided in the Servicing Exhibits (see Exhibits SE-13 and SE-14) of these guidelines.

Servicers servicing less than twenty five (25) Mortgage Loans under VLB guidelines have the option to report with hard copy reports only.

All Monthly Accounting Reports with the exception of the Analysis of Custodial Accounts Report are due on the fifth (5<sup>th</sup>) Calendar Day of the month or the following Business Day if the fifth (5<sup>th</sup>) Calendar Day falls on a weekend or holiday. The Analysis of Custodial Accounts Report should be prepared each month and made available upon request by the Administrator. The Monthly Accounting Reports shall include the following reports for each bond program serviced:

- Participant Collection Report (SE-22 and Form SG-29)
- Prepaid Installment Report (SE-23 and Form SG-30)
- Curtailment Report (SE-24 and Form SG-31)
- Delinquency Report (SE-25 and Form SG-32)
- New Loan and Loan Removal Report (SE-26 and Form SG-33)
- Trial Balance Report (SE-27 and Form SG-34)
- Consolidated Remittance Reconciliation (SE-28 and Form SG-35)
- Monthly Remittance Summary (SE-29 and Form SG-36)
- Statement of Paid In Full (SE-30 and Form SG-37)
- Analysis of Custodial Accounts Report (SE-31 and Form SG-38) ***(This report should be prepared each month and made available upon request by the Administrator).***

All Monthly Accounting Reports shall contain totals for all dollar amounts reported.

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Interim Monthly Accounting Reports reflecting Borrower collection activity from the first (1<sup>st</sup>) through the tenth (10<sup>th</sup>) Calendar Day of each month should be included with the delivery of the Monthly Accounting Reports.

*Servicer computer generated reports are acceptable in lieu of using the above referenced Administrator forms, provided the Servicer's reports capture all information required by the Administrator and are presented in the order outlined above.*

If during a reporting period the Servicer did not experience payment activity pertinent to one of the above forms, notification must be provided to the Administrator reflecting such. For example, if there are no delinquent loans, the Servicer must report "no delinquent loans during this reporting period".

### 4.06 REPORTING PENALTIES

The Administrator shall assess penalty fees **by bond program** for late, incomplete, or inaccurate Monthly Accounting Reports as follows:

The lesser of \$150 for each bond program, or one times the Service Fee collected by the Servicer on all VLB loans for the related Reporting Cutoff Date, with a minimum aggregate penalty per instance in accordance to Fannie Mae Single Family Servicing guidelines for late submission of investor reports.

Penalties will be assessed for violations including, but not limited to, the following circumstances:

<b>Offense</b>	<b>Occurrence</b>	<b>Fee</b>
Late submission of required Delinquency Reports	1 <sup>st</sup>	\$500
	2 <sup>nd</sup>	\$750
	3 <sup>rd</sup> and Subsequent	\$1,000
Missing VLB Loan Numbers on Delinquency Reports	N/A	\$100 per report
Incomplete and/or inaccurate Delinquency Reports	N/A	\$100 per report

### 4.07 ACCOUNTING PROCEDURES

All monthly installments applied to Mortgage Loan balances must equal or exceed the full monthly principal and interest payment. The payment should be applied in strict accordance to an amortization method based upon monthly interest calculations using a thirty (30) day month, three hundred sixty (360) day year.

### 4.08 PARTIAL PAYMENTS

Monthly principal and interest installments of an insufficient amount may not be applied until such time as a full payment is received. The incomplete payment should be held in a suspense account, temporarily applied to escrow, returned to the Borrower for a complete payment, or applied as a curtailment if instructed by the Borrower.

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### 4.09 RE-AMORTIZATION OF PROGRAM LOANS

Re-amortization of VLB-owned mortgage loans are allowable following substantial curtailments if the remaining payments can be recast without affecting any applicable VA Guaranty or insurance coverage (FHA or Private Mortgage Insurance guidelines). The Servicer is responsible for obtaining all required prior approvals of those agencies and for the full and accurate submission of all documentation required to insure continued coverage under their programs.

When a Borrower makes a substantial principal curtailment, he or she may request that the mortgage balance be re-amortized to reduce the monthly payment. If this happens, the Servicer should treat the request as a request for a formal mortgage modification, requiring the Borrower to submit their request in writing. The new payment must fully amortize the remaining principal balance (after the application of the curtailment) within the remaining contract term per the original Note as calculated using the current interest rate.

The following criteria must be met:

- The Servicer must put the modification agreement in writing and provide a copy to the Administrator prior to the effective date. This notification must include the written approval of the applicable insurer or guarantor;
- The terms cannot be extended beyond the original term of the mortgage;
- Curtailment must be applied in compliance with terms of the Note and these guidelines. Generally, the Servicer must first apply any payments which are due at or prior to the date of receipt before the application of the curtailment;
- Curtailments that were received and processed in prior accounting cycles may not be reversed and reapplied as scheduled monthly payments (in order to bring the loan contractually current and eligible to be recast) without the explicit written approval of the Administrator.

In addition, to the above requirements, the prior written approval of the Administrator will be required if the loan being modified has been thirty (30) Calendar Days delinquent more than once within the prior 12 month period.

It is the Servicer's responsibility to assure that any modification it processes (including amortization under this section) does not result in any loss of insurance or guaranty coverage. To the extent a Servicer's action results in such loss, at the option of the Administrator, the Servicer must repurchase the loan or reimburse VLB for any loss it incurs.

### 4.10 REPAYMENTS AND CURTAILMENTS

In a situation where the Borrower has executed two separate Mortgage Notes (A Program Note and a Participant Note) and one Deed of Trust, both Notes constitute co-first liens. Neither Note has priority over the other.

As long as both Mortgage Notes are current, all curtailments shall be applied in accordance with the Deed of Trust and Riders. Generally, they require a pro rata application of any such funds based upon the outstanding principal balance.

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When a Mortgage Loan is paid in full, whether such payment is a Principal Prepayment in full or a scheduled final installment payment, the Servicer shall submit to the Administrator a Statement of Paid in Full (see Form SG-37) within five (5) Calendar Days following liquidation. The Servicer shall provide to the Administrator a completed release instrument in accordance with Chapter 2, Section 2.04. The Administrator, or its designee, will execute such original Loan Documents and return them to the Servicer for final disposition.

### Payment in Full Interest Calculation

The type of Mortgage Loan and the payoff date determines the amount of interest required to be collected when a Borrower liquidates a loan. The Program Servicer must follow the Loan Documents. However, generally:

- A full month of interest is based on a three hundred sixty (360) day year while a partial month is based on a three hundred sixty-five (365) day year.
- For VA, Conventional, and FHA Title I loans, the interest should be computed from the last paid installment date up to, but not including, the date the payoff funds are received using this calculation:
  - $(\text{Prior Month's UPB} \times \text{Pass-through Rate}) / 12 = \text{One Month's Interest}$
  - $(\text{Prior Month's UPB} \times \text{Pass-through Rate}) / 365 = \text{One Day's Interest}$
  - $\text{One Month's Interest} \times \text{Number of Full Months of Interest Due (if mortgage loan is delinquent)} = \text{Accrued Interest Due}$
  - $\text{One Day's Interest} \times \text{Number of Days of Partial Month of Interest Due} = \text{Accrued Daily Interest Due}$
  - $\text{Accrued Monthly Interest Due} + \text{Accrued Daily Interest Due} = \text{Total Payoff Interest}$
- For FHA loans, the interest should be computed from the last paid installment due date up to the date of the payoff (if the funds are received on an installment due date) or through the end of the month due date\* (if the funds are received after an installment due date) using this calculation:
  - $(\text{Prior Month's UPB} \times \text{Pass-through Rate}) / 12 = \text{One Month's Interest}$
  - $\text{One Month's Interest} \times \text{Number of Full Months of Interest Due (if mortgage loan is delinquent)} = \text{Total Payoff Interest}$

If a Servicer pays off a loan in error, the payoff reversal must be completed within two reporting periods from the month in which the loan was liquidated. Failure to meet this timeframe will result in the Administrator considering the loan a repurchase. The Administrator will assist the Servicer in obtaining and executed assignment of lien to the Servicer. The Servicer will be responsible for curing any issues associated with any releases of lien which were recorded in error.

### 4.11 REPURCHASES

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The Administrator will require the repurchase of a Mortgage Loan (or of acquired property) as the result of the Servicer's breach of any contractual representations and/or warranty under the terms of the Guide, contract provision, or because of servicing deficiencies that have a materially adverse effect on the value of the mortgage Note, the security property, or VLB's interest therein.

When the Administrator requests a Servicer to repurchase a Mortgage Loan, the Repurchase Price will be at Par.

### **Repurchase Calculation**

Generally, the proceeds for a repurchase are determined by adding the unpaid principal balance outstanding at the time of repurchase the appropriate adjustments for interest, attorney fees, legal expenses, court costs and other expenses that may have been incurred. Interest shall be calculated through the effective repurchase date for VA and Conventional Loans, and through the end of the month for FHA loans.

However, if a repurchase occurs as a result of a loan having been modified without the Administrator's approval, the repurchase principal is the loan balance prior to the loan modification. Interest due is to be computed using the pre-modification principal and interest payment and interest rate. The total repurchase amount must include all outstanding servicing expenses which were funded to the Servicer as a result of the modification.

The Servicer shall report and remit repurchases to the Administrator under the same general procedures as paid-in-fulls. However, if the repurchase relates to an acquired property, the Administrator will instruct the Participant on how to report and remit proceeds.

The Servicer shall provide to the Administrator a Request for Release of Documents in accordance with Chapter 2, Section 2.04.

### **4.12 REMITTANCE METHOD**

Servicers shall remit actual principal and actual interest collected from the Borrower since the prior months Reporting Cutoff Date.

The Servicer, via the Automated Clearing House (ACH), shall remit all funds due to VLB. VLB will draft the Servicer's Custodial Account.

ACH set-up Servicers will need to complete ACH Authorization Forms (see Servicing Exhibits SE-19 through SE-21 & Forms SG-26 through SG-28), and forward them to VLB or Administrator for processing. Once access has been granted Servicers can call-in their remittances using either the PC/Modem or touch-tone phone method. The PC/Modem method is preferable. Instructions for utilizing either method can be found in Servicing Exhibits SE-16 through SE-18.

### **4.13 REMITTANCE REQUIREMENTS**

All funds due to VLB must be made available for their use by the Remittance Date. If the Remittance Date is on a non-business day, the funds must be available on the preceding Business Day. Servicers shall follow the guidelines outlined below to determine the Remittance Date.

- On or before the fifteenth (15<sup>th</sup>) Calendar Day of each month for funds deposited to the Custodial Account from the first (1<sup>st</sup>) through the tenth (10<sup>th</sup>) Calendar Day of the month.

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- On or before the fifth (5<sup>th</sup>) Business Day of each month, remit to VLB all remaining collections deposited to the Custodial Account during the preceding month.
- Regardless of the above, payments received, as a result of a payment in full shall be remitted to VLB within five (5) Business Days of receipt.

Each Servicers shall remit funds received using the guidelines established for ACH remittances in Chapter 4, Section 4.12.

### **4.14 REMITTANCE PENALTIES**

A penalty fee shall be assessed on the amount of the late remittance if funds are not remitted in accordance with the requirements outlined in Section 4.13. The penalty will be calculated for each bond series by multiplying the amount of the remittance shortage by the prime interest rate plus 3 percent, for each day that the remittance is late. For purposes of calculating the penalty, the rate used will be the rate published in the Wall Street Journal's prime rate index on the first (1<sup>st</sup>) Business Day of each month following the month in which the late remittance occurred. There is a minimum penalty of \$250 per bond series per month for the first instance of late remitting. For the second instance of late remitting, if it occurs within one year of the first instance, there is a minimum penalty of \$500 per bond series per month. For all subsequent instances of late remitting, if they occur within one year of the most recent instance, there is a minimum penalty of \$1000 per bond series per month. All penalties must be remitted via ACH to VLB on or before the last Business Day of the month in which the penalty notice is received. Penalties are to be remitted to VLB by bond series, with a type code 4.

### **4.15 SERVICER DISCREPANCIES**

The Administrator shall deliver to the Servicer by the tenth (10th) Business Day of each month a Servicer Discrepancy Report (SDR) in the form of Servicing Exhibit SE-32.

The SDR report lists all loans where a variance exists between the Servicer's reported principal and interest and the principal and interest due according to the Administrator's calculations.

For corrections required by the Administrator, the Servicer shall explain each difference, providing enough information (and supporting documentation) so the correction can be processed with the Servicer's cutoff report immediately following the delivery of the SDR report.

If the Servicer's records are in error, they should simply process the necessary correction before the investor cutoff immediately following the delivery of the SDR report.

The Servicer's failure to correct loan variances reported on the SDR within sixty (60) days of notification (two reporting periods) may result in the assessment of a penalty of \$50 per loan per month until the loan is corrected.

### **4.16 MILITARY INDULGENCE**

#### **Servicemembers Civil Relief Act**

VLB has deemed any borrower who 1) is a member of a recognized reserve of the U.S. Armed Forces or a member of the National Guard ,2) Active Reserves called back to active duty military, 3) is eligible for interest Rate Reduction to 6% under the Servicemember Civil Relief Act (F/K/A Soldiers and Sailors Civil

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Relief Act of 1940), and 4) whose loan is owned by VLB, is entitled to receive the enhanced benefit of an interest Rate Reduction to zero percent (0%) while the eligible veteran is on active duty. This enhanced benefit will be allowed based on the date the borrower enters active duty (not based on the date of the notice calling the borrower to active duty). The reduction of the SCRA allowed 6% interest rate to 0% interest for veterans who otherwise qualify will be available even if the eligible veteran's credit review at origination was based on full or partial military pay. As an added benefit to the veteran who qualifies, VLB has also granted a three month grace period after the servicemember is deactivated before regular interest payments resume. **In the case of Two Note situations, the Rate Reduction applies to only the VLB Note.**

Another provision allows for a complete stay in the enforcement of the mortgage loan terms if the servicemember obtains a court order finding that his or her ability to maintain the obligation has been materially affected by entry into the military service. Rather than granting a complete stay, the court could require the servicemember to make regular partial payments during his or her period of military service.

Indulgence relief provisions follow the intent of the Servicemembers Civil Relief Act, except that VLB will apply most forbearance terms without the servicemember having to petition the court. VLB encourages the servicemember to pay as much as possible toward the mortgage obligation during his or her active duty tour to keep the accumulated arrearages manageable. If a servicemember is unable to repay accumulated arrearages within ninety (90) Calendar Days after his or her separation from active duty, VLB will consider entering an appropriate repayment plan. Arrearages do not include any amounts attributable to the excess of the Note rate over 0% during the time of active duty.

Members of the National Guard are covered by the Act and by VLB's military indulgence policies if they are called up by the President or Secretary of Defense in connection with a national emergency, the deployment is supported by federal funds, and they serve for at least thirty (30) consecutive days. If a state governor calls members of the National Guard or other state-supported military unit to active duty—and those individuals are eligible for state-mandated relief provisions—the Servicer should follow VLB's guidelines for military indulgence. When adapting these guidelines to accommodate the provisions of the state-mandated relief, the Servicer must comply with all of the provisions of the applicable state law—such as those related to eligibility criteria, specific forms of relief, the extent of the relief, etc.—even if the provisions differ from VLB's usual requirements.

If a Servicer places a mortgage under military indulgence, it agrees to accept payments of less than the usual monthly installment. Pursuant to the Servicemembers Civil Relief Act, if the fixed mortgage interest rate exceeds the applicable new rate (6% or 0%), the monthly installment of P&I owed must be reduced to reflect interest at that rate while the borrower is in active U.S. military service (provided that the loan obligation was incurred prior to such service), regardless of whether military service is voluntary or involuntary. *Once the borrower's active duty status is terminated, the applicable rate cap will be extended three months after the termination of active duty.*

### Initiating Relief

Before granting military indulgence, the Servicer should ask the Borrower to provide a copy of his or her orders to military duty. If the borrower is being deployed immediately, the Servicer should prepare and sign the form with as much of the information as the servicemember can provide over the telephone, requesting that additional information be provided as soon as possible.

The reduction in the interest rate to the applicable level should be automatic. It must be granted to any eligible servicemember whose first- lien or second-lien mortgage is secured by a one- to four-unit property, regardless of his or her occupancy status or percentage of ownership interest in the property. The Servicer does not need to determine whether the servicemember's entry into active duty materially affected

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his or her ability to pay interest at the Note rate. VLB does not anticipate going to court to seek a change in interest rates, however, any such decision can only be made by VLB.

Civil Relief Act does not specify the actions that a servicemember must take to notify a mortgage holder that he or she qualifies for the reduced interest rate. Most mobilization instructions advise the servicemember to notify his or her mortgage holder before beginning to make payments at a reduced rate. Most individuals will probably do that to make sure that they can determine the exact payment they should make. However, some may reduce their payments without notifying the Servicer in advance. To confirm a borrower's eligibility under the Act, the Servicer should consider including with any partial payments that are returned to borrowers a form letter explaining the provisions of the Act and providing instructions on how eligible persons can obtain benefits. The Servicer also may be able to obtain information from its origination files that will help it determine a borrower's military status.

### **Reduction of Interest Rate**

The reduction in the mortgage interest rate to the appropriate rate is required regardless of whether the mortgage status is prepaid, current, delinquent, or in foreclosure. Any prepaid installments with due dates during the period of active duty must be reapplied at the appropriate rate. Installments that are delinquent when the servicemember enters active duty status must be paid with interest at the rate that was in effect when the payments came due. If the servicemember fails to notify the Servicer when he or she initially enters active duty status, but subsequently provides evidence of the active duty status, the Servicer must reapply, using the reduced applicable interest rate, any payments made after military service began. The servicemember should be given an option regarding the treatment of any remaining funds after the reapplication—application as a monthly payment (if sufficient), application as a principal curtailment, or a refund to the borrower.

The reduced interest rate becomes effective when the servicemember reports for active duty. Rather than change the mortgage interest rate during the month, the Servicer should make the new interest rate effective with the first payment due after the servicemember enters active duty. Since interest is paid in arrears, a servicemember will receive the benefit of the lower interest rate for the entire month, including any part of the month that precedes the date he or she entered active duty.

Under the terms of the Servicemembers Civil Relief Act, the difference between the full mortgage interest rate and the new applicable rate is not deferred; rather, it is forgiven. VLB, as the mortgage holder, will absorb the cost of this interest Rate Reduction.

The Servicer must retain in its records copies of any written correspondence with the servicemember that indicates the new payment amount, the date it becomes effective, and the date it will be discontinued. VLB does not specify a particular form or document for this notification. If the servicemember also is being granted additional military indulgence, the Servicer should have a copy of the repayment plan in its records.

Although the reduction in the interest rate to changes the terms of the mortgage, VLB does not require the servicemember to execute an addendum to the Note and a rider to the mortgage, or a formal mortgage loan modification agreement, to reflect the reduced interest rate. Of course, if the mortgage is modified once the servicemember is no longer on active duty, a mortgage loan modification agreement will be required at that time.

VLB expects the Servicer to follow up with the servicemember periodically to determine when his or her active duty status will end, or whether there has been a change in his or her financial situation (if additional military indulgence was granted). At a minimum, the Servicer should contact the servicemember or his or her family every three months to obtain a status report.



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### Determining Monthly Payment Amounts

Active Duty Payment - The standard amortization method for determining monthly payment amounts owed for loans for which the interest rate is reduced is based upon a recalculated amortization schedule with the interest at the applicable rate and the actual remaining term of the loan. The Servicer must change the installment to reflect the full interest rate as of the fourth payment due after the borrower is no longer on active duty. This will ensure that the borrower is charged interest at the reduced rate during whatever portion of the month he or she was on active duty.

Post Active Duty - The borrowers post active duty loan payment is to return to the payment amount prior to the servicemember's call to active duty, and is to begin ninety (90) Calendar Days after the borrower is released from active duty.

### Service Fee

If the interest rate has been reduced to 0%, the Servicer should calculate its Service Fee on the principal balance of the mortgage at the beginning of each month (and not use a percentage-of-interest factor to determine the fee). This will ensure that the Servicer will continue to receive the same, or nearly the same, Service Fee that it would have received had the interest rate not been reduced to 0%.

If the Servicer's loan servicing system does not support the computing Service Fee using the principal balance, they must manually calculate the fee and retain it from their monthly remittance. The total Service Fee retained must be reported on the Monthly Remittance Summary and appropriate documentation provided. If a Servicer elects not to retain Service Fee for SCRA loans, please complete the Waiver to Retain Service Fee Notice (Form SG-41).

### Reporting to Administrator

The Servicer must provide the following information to the Administrator via email as evidence of the borrower's eligibility to receive the SCRA benefit:

- Copy of the servicemember's orders to report to full-time active duty.
- An executed Statement of Mortgagor Acknowledgement (Form SG-40) of the reduced interest rate terms, or a comparable document.

If additional Military Indulgence has been granted to the servicemember, under the terms of the Servicemember Civil Relief Act, copies of any agreed upon repayment plan should be submitted to the Administrator via email.

## CHAPTER 5 - ADMINISTRATOR CONTACTS

Name	Title	Phone	E-mail Address
Michele Olds	Division Manager	303-515-8152	Michele.Olds@mrcooper.com
Deb Karr	Default Servicing Manager	303-515-8133	Deb.Karr@mrcooper.com
Joseph King	Operations Manager	303-515-8134	Joseph.King@mrcooper.com
Nikki Scott	Operations	303-515-8165	Nikki.Scott@mrcooper.com

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Chris Baker	Servicer Oversight Manager	303-515-8102	Chris.Baker@mrcooper.com
Ellen Jones	Relationship Manager	303-515-8131	Ellen.Jones@mrcooper.com
Layla Hanjani	Relationship Manager	720-387-2984	Layla.Hanjani@mrcooper.com

Group Mailboxes	E-mail Address
Default Loan Level Requests / Notification / Document Execution & Ordering / MERS	MSTVLBLLRequests@mrcooper.com
Loan Level Requests (not collateral related) on Current Loans	MSServicer.HelpDesk@mrcooper.com
Annual Compliance Documentation	MasterServicingCompliance@mrcooper.com

These contacts may be updated from time to time by notice from the Administrator.

### CHAPTER 6 - GLOSSARY OF TERMS

The following terms when capitalized in the Guide, possess the following meanings unless context otherwise indicates.

**Accepted Servicing Practices** With respect to any Mortgage Loan, those mortgage-servicing practices (including collection procedures) that are in accordance with the requirements of FHA, VA, any applicable Private Mortgage Insurance Policy and the Fannie Mae Guide.

**Administrator** Mr. Cooper Master Servicing or its successors in interest or assigns, or any successor under the Servicer Program Guide appointed as herein provided.

The Administrator shall have all rights as designee of VLB to enforce the representations and warranties, and all other covenants and conditions set forth by the governing documents, and the Servicer shall follow and shall be entitled to rely on the instructions of the Administrator under this Agreement as if such instructions were the instructions of VLB.

Mr. Cooper Master Servicing, in its role as Administrator, is empowered to enter into and execute and deliver any amendments or modifications to these guidelines as VLB's designee hereunder, and such amendments or modifications shall be binding upon VLB as if VLB had executed and delivered the same. The Servicer shall treat the Administrator as "Owner" hereunder until the Servicer receives written notice from the Owner that the Owner has terminated or replaced the Administrator.

**Amortization** Gradual reduction of the mortgage debt through periodic payments scheduled over the mortgage term.

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Appraisal Report	A report setting forth the fair market value of a Mortgaged Property as determined by an appraiser who, at the time the appraisal was conducted, met the minimum qualifications of Fannie Mae or Freddie Mac for appraisers.
Appraised Value	As to any mortgage property, the appraised fair market value of such Mortgaged Property based upon the appraisal made at the time of the origination of the related Mortgage Loan, except in the case of a Mortgaged Property securing a refinanced or modified mortgage Loan, as to which it is either the appraised fair market value determined as in clause (I) above or the appraised fair market value determined in an appraisal at the time of refinancing or modification, as the case may be.
Assignment or Assignment of Mortgage	An assignment of the Mortgage Loan, notice of transfer or equivalent instrument, in recordable form, sufficient under the laws of the jurisdiction where the related mortgage property is located to reflect of record the sale and assignment of the Mortgage Loan.
Assumption	A method of selling real estate wherein the property purchaser agrees to take over the primary liability for payment of an existing mortgage.
Authorized Officer	An Officer of the Servicer named in the Board Resolution as authorized to execute documents on behalf of the Servicer and to enter in to purchase Commitments.
Automated Clearing House	An electronic drafting system that debits a Servicer's authorized bank account and electronically transfers funds to a designated payee account.
Bankruptcy	A proceeding in a federal court in which a debtor who owes more than his or her assets can relieve the debts by transferring his or her assets to a trustee. This affects the borrower's personal liability for mortgage debt, but not the lien of the mortgage.
Bankruptcy Cramdown	A process by which a bankruptcy court divides a Borrower's debts into secured and unsecured portions. For a mortgage debt, the secured portion is equal to the current Appraised Value of the property and the unsecured portion is equal to the difference between the unpaid principal balance of the mortgage and the Appraised Value of the property. The borrower is placed under a payment plan that will result in some of the unsecured debt being paid off in three (3) to five (5) years. If the borrower successfully completes the repayment plan, the remainder of the unsecured debt is discharged.
Best Efforts Commitment	The obligation on the part of the Servicer to deliver an eligible Mortgage Loan to VLB via Gateway Mortgage Group LLC.
Board Resolutions	Resolutions of the Servicer's Board of Directors authorize the

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	Servicers to execute and deliver Mortgage Loans to VLB.
Bondholder	Holders or registered owners of the Bonds.
Bonds	Program funding source, tax free, or taxable bonds issued by VLB to support the Program.
Borrower	The individual or individuals obligated to repay a Mortgage Loan.
Business Day	Any day other than 1) a Saturday or Sunday, or 2) a legal holiday or a day on which banks in the states in which the offices of the Servicer or Administrator are located are authorized or obligated by law or executive order to be closed.
Calendar Day	The actual calendar day of the month.
Co-Borrower	Any individual who shares the legal obligation to repay a Mortgage Loan. Non- Occupying Co-Borrower(s) are not allowed.
Code	Internal Revenue Code of 1954, as amended.
Commitment	The Administrator's issuance of a rate lock confirmation is called a Commitment A Commitment binds VLB and the Primary Lender to the terms of the applicable VLB Application to Participate, VLB VHAP Program Guides, and the Commitment issued pursuant thereto.
Commitment Date	The date on which the Primary Lender agrees to deliver an eligible Mortgage Loan to The Administrator for purchase on behalf of VLB at an agreed upon rate and price at some point in the future.
Commitment Expiration Date	The date as established in the commitment, by which the Administrator must have, received a complete, purchasable loan file on an eligible Mortgage Loan in an amount sufficient to fill the terms of the Commitment.
Commitment Period	The duration of the Commitment, stated in Calendar Days.
Condemnation Proceeds	All awards or settlements in respect of a Mortgaged Property, whether permanent or temporary, partial or entire, by exercise of the power of eminent domain or condemnation, to the extent not required to be released to a Borrower in accordance with the terms of the related Loan Documents.
Conventional Mortgage	A mortgage that is not insured or guaranteed by the federal government. Generally, this is any loan that is not FHA insured or VA guaranteed.
Critical Information	Veteran's Name, Social Security Number, Property Address, Loan Term And Eligibility Status*
	*The Administrator will verify that the Veteran's eligibility as to restricted/unrestricted funds usage has not changed at the time the

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	commitment is issued. It is the Primary Lender's responsibility to verify that the Veteran's Texas residency status has not changed since the Notice of Eligibility was issued.
Curtailment	Any principal payment in excess of the principal portion of a scheduled Mortgage payment.
Custodial Account	The separate demand account or accounts created and maintained pursuant to Chapter 4, Section 4.13 at a Qualified Depository.
Debtor Relief Laws	Any applicable liquidation, conservatorship, bankruptcy, insolvency, rearrangement, moratorium, reorganization, or similar debtor relief laws affecting the rights of creditors generally from time to time in effect in the State or under the Laws of the United States of America.
Deed-in-lieu	A deed given by a Borrower to the mortgagee to satisfy a debt and avoid foreclosure; also called a voluntary conveyance.
Deed of Trust	A type of Security Instrument conveying title in trust to a Third Party related to a particular piece of property. It is used to secure the payment of a Note.
Due Date	The day of the month on which the Monthly Payment is due on a Mortgage Loan, which is the first day of each month exclusive of any days of grace.
Due-On-Sale Clause	The clause in a Security Instrument requiring the payment of the entire loan balance upon sale or transfer of an interest in the mortgaged premises.
Eligible Mortgage	A Mortgage Loan, which conforms to the product and loan characteristics set forth in the Commitment Confirmation, and guidelines for that product as set forth in the guide.
Errors and Omissions Coverage	A type of indirect loss insurance used to cover losses that occur because of an error or neglect on the part of an employee to whom a specific responsibility was assigned
Escrow Account	A trust account that is established to hold funds allocated for payment of real estate taxes, hazard or mortgage insurance premiums, etc, as they are received each month until such time as they are disbursed to pay the related bills.
Fannie Mae	Formerly known as the Federal National Mortgage Association, or any successor thereto.
Fannie Mae Guide	The Selling and Servicing Guides and all related announcements, letters, guidelines, amendments or additions thereto.

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FDIC	The Federal Deposit Insurance Corporation, or any successor thereto.
FHA	The Federal Housing Administration of HUD, or any successor thereto.
FHA Insurance	FHA mortgage insurance on residential properties issued under the National Housing Act of 1934, as amended.
FHA Mortgage	A mortgage that is insured by the Federal Housing Administration.
Freddie Mac	Federal Home Loan Mortgage Corporation (also called Freddie Mac), or any successor thereto.
Freddie Mac Guide	The Selling and the Servicing Guide and all related announcements, letters, guidelines, amendments or additions thereto.
Fidelity Bond	A fidelity bond to be maintained by the Administrator pursuant to Chapter 2 of this Guide.
First Mortgage	A mortgage that is a primary lien against a property.
Fixed Rate Mortgage	A mortgage that provides for only one interest rate for the entire term of the mortgage. If the interest rate changes because of enforcement of a due on sale provision, the mortgage is still considered a fixed rate mortgage.
Flood Insurance	Insurance that compensates for physical property damages resulting from flooding. It is required in federally designated Special Flood Hazard Areas.
Foreclosure	The legal process by which a borrower in default under a mortgage is deprived of his or her interest in the mortgaged property. This usually involves the forced sale of a property at public auction with the proceeds of the sale being applied to the mortgage debt.
GAAP	Generally accepted accounting principles, consistently applied.
Ground Rent	The amount of money that is paid for the use of land when title to property is held as a leasehold estate, rather than as fee simple.
Hazard Insurance	Insurance coverage that compensates for physical damage – by fire, wind, or other natural disasters.
HUD	Department of Housing and Urban Development, or any successor thereto.
Insurance Proceeds	With respect to each Mortgage Loan, proceeds of insurance policies insuring the Mortgage Loan or the related Mortgaged Property.

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Lender	An entity which has executed an Application to Participate in the VLB Housing Program and been approved by VLB.
Liquidation Proceeds	Cash received in connection with the liquidation of a defaulted Mortgage Loan, whether through the sale or assignment of such Mortgage Loan, trustee's sale, foreclosure sale or otherwise, other than amounts received following the acquisition of an REO Property.
Loan Documents	The documents and instruments prepared, held or maintained by VLB as custodian, with respect to the origination, processing and/or servicing of the Mortgage Loans as of and including the date such Mortgage Loans are funded by VLB.
Loan-to-Value Ratio	With respect to each Mortgage Loan, the original principal balance of such Mortgage Loan divided by the Appraised Value of the related Mortgaged Property.
Loss Payee	Party entitled to participate in Insurance Proceeds in the event of a loss.
MERS	Mortgage Electronic Registrations Systems, Inc. is an electronic registry designed to track servicing rights and ownership of mortgage loans in the United States.
Monthly Accounting Reports	Those reports required to be submitted by the Servicer on a monthly basis as set forth in Chapter 4 of this Guide.
Monthly Default Reports	Those reports required to be submitted by the Servicer on a monthly basis as set forth in Chapter 4 of this Guide.
Monthly Payment	With respect to each Mortgage Loan, all moneys received by the Servicer representing principal and interest payments by a Borrower under the related Mortgage Note, including Principal Prepayments, Insurance Proceeds, condemnation proceeds or proceeds received in connection with a taking under power of eminent domain or a conveyance in lieu of condemnation and Liquidation Proceeds.
Mortgage	The Mortgage, Deed of Trust or other instrument securing a Mortgage Note which creates a first lien on an unsubordinated estate in fee simple in real property securing the Mortgage Note.
Mortgage Loan	An individual mortgage loan and all rights with respect thereto, evidenced by a Mortgage and a Mortgage Note, and which is the subject of this Agreement. The Mortgage Loans subject to the Guide.
Mortgage Note	The Note or other evidence of the indebtedness of a Borrower secured by a Mortgage.

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Mortgaged Property	The property securing a Mortgage Note.
Net Worth	The value of all of a company's (or individual's) assets – including cash – net of its total liabilities.
Note Rate	The rate disclosed to the Veteran and reflected on the Note.
Participant Note	Exists when a veteran borrows more than the maximum loan amount under VLB Program through a Two Note Option. The portion “not” financed and owned by VLB is considered the Participant Note. This indebtedness is evidenced by the Participant Note. (Note: the Two Note Option has been discontinued for new originations.)
Participant Noteholder	The owner and/or servicer of the Participant Note.
Note	The document(s) executed by the Borrower which legally establishes their indebtedness.
Notice of Default	A certified written notice which advises the mortgagor (or all persons obligated for the debt) of the right to cure the default by paying the amount due. Prior to the acceleration of a delinquent loan and commencement of foreclosure, the Servicer must give a certified written notice as required by the terms of the mortgage instrument, law or any applicable party who is either insuring or guaranteeing the loan.
Officer	Duly authorized officer of the Servicer involved in, or responsible for, the origination, sale, or servicing of the Mortgage Loans, whose name appears on a list furnished to the Administrator, by the Servicer, as such list may from time to time be amended.
One Note	The typical loan in a VLB Program where there is a single Note secured by the Deed of Trust. Please see the definition of “Two Note” for comparison.
Owner Occupied	The status of a Mortgaged Property that is the Principal Residence of the owner of record.
Owner-Occupied Property	A property which is the Primary Residence of the owner of record.
Par	The price paid for a mortgage when its face value (unpaid principal balance) equals its selling price (100%) – there are no discounts or premiums.
Participant Loan	A loan made concurrently and secured on a parity with a Program Loan which is not a VHIP loan.
Participant Servicer	A servicer approved by the Administrator to service Program Loans on



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	behalf of VLB.
Planned Unit Development (PUD)	A parcel of real estate that contains property and improvements owned and maintained by a homeowner's association, corporation or trust for the enjoyment and use of individual PUD Unit owners within that parcel of land. This parcel of land is known as common property.
Principal Prepayment	The payment in full of a Mortgage Loan, either by an unscheduled payment of the entire remaining principal balance or by a scheduled final installment payment.
Principal Residence	The principal and permanent residence of the Borrower and of which the Borrower is the predominant occupant.
Private Mortgage Insurance Policy (PMI)	Any policy of private mortgage insurance pertaining to a Mortgage Loan insuring the holder of the Mortgage Note against certain losses upon a payment default by the Borrower.
Program	Veterans Housing Assistance Program.
Program Loan	The Mortgage Note financed and owned by VLB.
Program Note	The promissory Note evidencing the obligation to repay the Program loan, payable to the order of the Servicer, and, prior to purchase, assigned to VLB, executed by a Mortgagor to evidence such Mortgagor's obligation to repay the Program Loan.
Program Noteholder	The Texas Veterans Land Board.
Published Weekly Rate	The weekly mortgage rates published by VLB.
Qualified Depository	Any depository that is an eligible custodial depository meeting all of the eligibility criteria set forth in the Fannie Mae Guide for Custodial Accounts established with respect to Mortgage Loans sold to Fannie Mae.
Rate Reduction	The total percentage amount deducted from the Published Weekly Rate as a result of eligibility in one or more of the following Programs: Greenbuilding, Teacher, and/or Veterans with Disabilities.
Remittance Date	Remittances required to be made by the Participant Servicer on a monthly basis as set forth in Chapter 4, Section 4.13.
Real Estate Owned (REO)	A term frequently used by lending institutions to describe ownership of real property acquired as a result of foreclosure or a deed-in-lieu.

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REO Disposition	The final sale of any REO Property.
REO Disposition Proceeds	Amounts received in connection with a related REO.
REO Property	A Mortgaged Property acquired on behalf of VLB.
Reporting Cutoff Date	The last Business Day of the month.
Second Mortgage	A Mortgage that has subordinate rights to collateral which also secures a First Mortgage.
Servicer Application to Participate	The agreement executed by the Servicer and approved by VLB in connection with the Guide.
Servicing Advances	All customary, reasonable and necessary out-of-pocket costs and expenses incurred in the performance by the Servicer of its servicing obligations including, but not limited to, the cost of 1) the preservation, restoration and protection of the Mortgaged Property, 2) any enforcement or judicial proceedings, including foreclosures, 3) the management and liquidation of REO Property, 4) taxes and assessments on the Mortgaged Properties subject to the Mortgage Loans, and 5) compliance with the obligations stated in the Guide.
Service Fee	The income the Servicer receives for the collection of payments and management of operational procedures related to a mortgage. It includes a base fee, plus late charges, and fees charged for special services.
Servicing Fee Rate	As to each Mortgage Loan, that annual percentage rate approved in writing by VLB to be retained by the Participant Servicer of such Mortgage Loan as servicing compensation.
Servicer Program Guide	The guidelines as outlined herein and attached to the Servicer Application to Participate, as amended, modified, or updated from time to time by the Administrator.
Special Flood Hazard Area	An area identified by the Secretary of HUD or the Director of the Federal Emergency Management Agency as a flood zone.
Sub-Servicer	A servicer that has sub-contracted with the contractually responsible Program Servicer of a mortgage to perform the on-going servicing activities for the mortgage. A Sub-Servicer must also be approved as a Servicer to qualify for this role.
Supplemental Information	VLB offers Veterans several enhancements to the Program. Supplemental Information is defined as the documentation required per the guide, for the Primary Lender and the Administrator to verify that the Veteran is eligible to participate in the

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	Veterans with Disabilities Program.
Third Party	A purchaser of a loan at foreclosure sale who is anyone other than the mortgagee or the Borrower.
Third Party Sale	A foreclosure sale at which the successful purchaser of the property is someone other than the mortgagee or Borrower or their representative.
Title Insurance	A type of insurance that insures against defects in title that were not listed in the title report or abstract.
Two Note	Loans generated under a historical VLB loan Program where two Notes were secured by a single Deed of Trust. One of the Notes was generally sold to VLB and is referred to as the "Program Note". The other loan was either held by the Servicer or sold to a third party investor (in either case referred to as the "Participant Note". VLB announced they were concluding new issuances under the Two Note program on July 27, 2006 but agreed to honor any outstanding commitments.
VA	The Department of Veterans Affairs of the United States of America, and any successor thereto.
VA Guaranty	A guaranty of a Mortgage Loan by the VA under the Servicemen's Readjustment Act of 1944, as amended.
VA Mortgage	A mortgage guaranteed by the Department of Veteran affairs.
VA "No-Bid" Write-Off	Formerly known as either a "VA buy down". The mortgage holder's agreement to waive or satisfy a portion of the mortgage indebtedness on a VA guaranteed mortgage thereby reducing it to an amount that would result in the net value of the property exceeding the unguaranteed portion of the indebtedness (which would result in VA establishing a bid price for foreclosure sale when it otherwise would not). The waiver may take the form of a reduction in the unpaid principal balance; a credit to borrower's escrow or unapplied funds account; a forgiveness of unpaid, principal balance; a credit to the borrower's escrow or unapplied funds account; a forgiveness of unpaid, accrued interest; or any combination of these credits.

### CHAPTER 7 - FORMS

Forms related to the Program can be found on our website: <https://masterservicing.nationstarmtg.com/>

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### **CHAPTER 8 - EXHIBITS**

Exhibits related to the Program can be found on our website: <https://masterservicing.nationstartmtg.com/>