

NeighborWorks[®] Rochester

Lending, Servicing, and Collections Policies

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I. Mission

The mission of NeighborWorks® Rochester is to systematically provide housing related financial, educational, and technical services and resources that revitalize and sustain Rochester City Neighborhoods. These services are provided to a wide spectrum of the community in cooperation with residents and other partners.

II. Introduction

These Loan, Servicing and Collections Policies have been reviewed and adopted by the Board of Directors of NeighborWorks® Rochester for use by the Homeownership and Lending Services and for Portfolio Management. These policies provide a framework for NeighborWorks® Rochester in making loans with the Revolving Loan Funds (RLF) in its' service area, as defined by the corporation by-laws.

These policies establish a lending activity to respond to the needs of its service area, its' target neighborhood and the interest of NeighborWorks® Rochester in ensuring consistency throughout the program. These policies establish clear standards by which NeighborWorks® Rochester's operation of the programs can be evaluated, to ensure the salability of loans on the secondary market, and fair methods of originating, servicing and collection of loans.

This policy will attempt to meet the following objectives:

- To target NeighborWorks® Rochester's lending activities , so as to fulfill its mission and achieve its goals,
- To protect the assets and financial viability of NeighborWorks® Rochester by originating loans which have a reasonable certainty of being repaid,
- To ensure compliance with Federal and State Laws,
- To delineate and clarify Board of Director, Loan committee, and staff accountabilities and responsibilities,
- To provide flexibility to staff in various lending situations,
- To identify authorities relative to decision making.

Through periodic review of these policies, recommendations for policy changes may be brought before the Board of Directors, from time to time, to ensure the sustained viability of our programs while maintaining the integrity of the organization's mission.

III. General Provisions

A. Conflict of Interest

Any Committee or Board member seeking services from NeighborWorks® Rochester shall absent him/her self from all discussions and voting on the issue. The Committee/Board member shall not be counted in the quorum. Any loan application submitted by a Board or Committee member shall go to the Board of Directors for final decision.

All NeighborWorks® Rochester staff members and members of their immediate family, as defined in the personnel policies, shall notify the Executive Director of the intent to apply for a loan through NeighborWorks® Rochester. In addition the staff person will absent him/herself from the entire lending process.

B. Equal Opportunity

In accordance with the provisions of the Equal Credit Opportunity Act and Federal, State and Local Fair Housing Laws, NeighborWorks® Rochester has established a policy for making sound loans to all qualified applicants. There will be no discrimination against the applicant on the basis of age, source of income, sex, race, color, marital status, national origin, religion, handicap, familial status, ancestry, sexual preference or the fact that the applicant has in good faith exercised any right under the Consumer Credit Protection Act.

C. Applicability

This loan policy will govern all loan activity conducted by NeighborWorks® Rochester. This manual outlines the policies and procedures established by NeighborWorks® Rochester to be followed by the NeighborWorks® Rochester Loan committees, and NeighborWorks® Rochester staff members in approving loans.

D. Review and Amendments of Policy

These loan policies shall be reviewed at least annually by the Loan Committee and/or Program Committee to ensure their appropriateness. Recommended changes will go to the full Board of Directors for approval. These Policies may be amended at any time by the same method. The Board of Directors may also request additional reviews and/or amendments as required by program needs, funders, or the changing needs of customers, neighborhoods, and the community.

E. Exceptions

NeighborWorks® Rochester may make exceptions to the provisions of this loan policy only with the prior approval, in each instance, of the Loan Committee of NeighborWorks® Rochester and shall require final approval of the Board of Directors. Request for approval of exceptions is submitted in writing to the Loan Committee, which will act on them as quickly as possible.

F. Decision Making

Except for loans approved by staff as authorized in this policy, all loan approval decisions will be made by the appropriate loan committee. Any authorized exception to Policy (as specified herein) made by the Executive Director shall be noted in the loan file and reported to the Loan Committee as soon as practicable.

IV. Loan Committee – Citywide “Unbankable” Loans

A. Structure and Membership

The Loan Committee shall be comprised of at least seven (7) members, two of whom must be lenders. At least one (1) of the Committee members must be a current member of the Board of Directors and the Committee Chair will be selected from Board members serving on the Committee. All members shall be appointed by the Board President, subject to approval by a majority vote of the Board. New members will receive a one hour orientation

to assist them in understanding the mission of NeighborWorks® Rochester, role and expectations of the Loan Committee, and the lending process.

B. Meetings

1. The Loan Committee Chairperson of NeighborWorks® Rochester will call meetings and set the time and place.
2. The Loan Committee shall set up a schedule of regular meetings; the committee is required to meet once a month at a minimum and is encouraged to meet more frequently as the volume of lending increases.
3. A quorum consists of a majority of members, at least one of whom must be a representative of a financial institution and at least one of whom is the Chair or Vice-Chair of the Loan Committee.
4. The Committee Chairperson and the Executive Director determine staff attendance at the Loan Committee meetings. Staff shall have no voting privileges.

C. Roles And Authority of the Citywide Loan Committee

1. The Loan Committee shall have the authority, within these policy guidelines, to decide on applications for loans from funds of the NeighborWorks® Rochester that do not meet the underwriting guidelines for approval by NeighborWorks® Rochester staff.
2. The Loan Committee will review and approve loan applications submitted to it by the program staff, within these policy guidelines.
3. The following documents must be included the loan package:
 - Loan Committee Information/Approval Form
 - Narrative
 - Credit Report
 - Scope of Work

Additional information and documentation if pertinent to the decision making process, will be available at the Loan Committee's request.

4. All loans, other than emergency loans, must be approved by a quorum.
5. A Monthly Loan Delinquency Report will be presented to the full Board of Directors at its regularly scheduled meetings.
6. The Board of Directors may impose or relax any limitation on the Loan Committee at any time the Board feels there is sound reason for doing so.

V. Loan Committee – Neighborhoods of Choice Loans

A. Structure and Membership

The Loan Committee shall be comprised of at least three (3) members. At least one (1) of the Committee members must be a current member of the Board of Directors and the Committee Chair will be selected from Board members serving on the Committee. All members shall be appointed by the Board President, subject to approval by a majority vote of the Board and have understanding and familiarity with the outcomes and strategies relative to the Neighborhoods of Choice approach.

New members will receive a one hour orientation to assist them in understanding the mission of NeighborWorks® Rochester, role and expectations of the Loan Committee, and the lending process.

B. Meetings

1. The Loan Committee shall approve loans on an as needed basis with the goal of a 48 hour approval/denial decision for the customer.
2. A quorum consists of a majority of Committee members.
3. The Committee Chairperson and the Executive Director determine staff participation in this process. Staff shall have no voting privileges.

C. Roles and Authority of the Neighborhoods of Choice Loan Committee

1. The Loan Committee shall have the authority, within these policy guidelines, to decide on applications for loans from funds of NeighborWorks® Rochester designated for lending in feature neighborhoods that do not meet the underwriting guidelines for approval by NeighborWorks® Rochester staff.
2. The Loan Committee will review and approve loan applications submitted to it by the program staff, within these policy guidelines. The approval process will be completed via e-mail and fax of relative information needed to make a decision and discussion will occur via a conference call in order to expedite the decision making process.
3. The following documents must be included the loan package:
 - Loan Committee Information/Approval Form
 - Narrative
 - Credit Report
 - Scope of Work
 - Neighborhood Impact Scoring Recommendations

4. Additional information and documentation will be available at the Loan Committee's request.
5. The Board of Directors may impose or relax any limitation on the Loan Committee at any time the Board feels there is sound reason for doing so.
6. A Monthly Loan Delinquency Report will be presented to the full Board of Directors at its regularly scheduled meetings.

VI. Revolving Loan Fund

A. General Purpose

The Revolving Loan Fund shall be used to a) establish improved physical standards in featured neighborhoods by lending to all property owners, defined by NeighborWorks® Rochester rehab standards and resident definitions of "house proud"; b) reinforce and increase owner-occupancy in designated feature neighborhoods; c) provide opportunity for homeownership and repair city wide for all property owners when circumstances preclude the use of conventional lending sources. Its' primary purpose is to preserve and enhance the structural quality, livability and the value of the service area's housing.

1. This Loan Fund will complement, not compete, with conventional lending by servicing only those residents who cannot qualify for conventional loans. It is also a leveraging tool to be used in combination with conventional funds when private lenders alone cannot fully address a borrower's needs.
2. NeighborWorks® Rochester employs the Full Cycle Lending Approach in its Homebuyer programs. Fully Cycle Lending consists of a Pre-purchase education and counseling, Flexible Lending products with access to secondary market sales, property services and post purchase counseling, including early delinquency intervention, and creating healthy neighborhoods.
3. In the first quarter of each fiscal year, the Finance Committee shall establish an adequate loan loss reserve. A more frequent analysis may be required when deemed necessary by the Board of Directors.

B. Emphasis

It is the intent of this policy to reaffirm the importance of private reinvestment in the target neighborhood by emphasizing the leveraging of conventional loans and the conservation of the Revolving Loan Fund. The Loan Committee and the Staff must make every effort to channel bankable borrowers to conventional sources while utilizing the Revolving Loan Fund when necessary.

C. Eligible Borrowers

1. **Income Eligibility:** Income Eligibility will be determined according to the requirements established by the sources of the specific funds to be used for applicant's loan.

In order to encourage revitalization activity and economic integration within the designated feature neighborhoods, no maximum income limits will be applicable to lending activities within these areas, as long as the source of funds allows for that.

In order to support affordable housing for individuals and families, for Citywide loans, NeighborWorks® Rochester will lend to people at 80% or below AMI and/or to people who are deemed unbankable due to being non-credit worthy and/or due to having a loan-to-value that exceeds 100%.

2. **Ownership:** Loans will be made to both owner-occupants and landlord/investors that meet underwriting and program criteria.
3. **Focus:** Loans are available to service area property owners who are unable to obtain conventional financing from financial institutions or who can use Revolving Loan Funds in tandem with maximum conventional financing for the full amount of necessary rehabilitation. It is not the intention of NeighborWorks® Rochester to compete with banks but to complement and/or provide financing to achieve the revitalization outcomes established for each neighborhood.

D. Eligible Properties

1. **Location:** Properties located within the service area of NeighborWorks® Rochester, with emphasis on targeted areas, as defined by the Corporation's By-Laws.
2. **Size of Properties:** The properties typically will be one to four family residences. Properties with more than four units will be considered on a case-by-case basis subject to availability of funding and visual impact in support of revitalization outcomes within a feature neighborhood. Mixed-use properties, inclusive of commercial space, will be considered on a case by case basis.

E. Eligible Use of Funds

A wide variety of rehabilitation, repair, home improvement and home ownership needs shall be considered eligible uses of the revolving loan fund; the eligible use of funds will be determined by the source of funds. A list of eligible uses for each particular type of fund(s) will be maintained at all times to assure compliance.

F. Types of Loans

The Loan Committee will consider, but is not limited to, the following types of loans:

- Fully amortized loans using varying interest rates and terms.

- Refinancing loans (for interest rate reduction or when rehab work is included).
- Loans for home purchase when the applicant is unable to qualify for the loan with a lender partner.
- Deferred payment loans where no payment is due until a specific date or occurrence
- Tandem loans, where two loans are made, one by a private lender and one by NeighborWorks® Rochester.
- NeighborWorks® Rochester loan coupled with a loan and/or grant from a public agency
- Any combination of the above.

G. Emergency Loans

The Executive Director is authorized to expedite consideration of loans to applicants for emergency situations (after making the necessary verifications of income and credit). Emergency is defined as the failure of plumbing, heating, electrical or structural systems causing immediate threat to the health or safety of the occupants.

Emergency loan may not exceed \$5,000 and must be evidenced by a Promissory Note and Mortgage. Leaking Roofs can be considered as an emergency loan up to \$8,000.

H. Energy Loans

1. NYSERDA Loan

Maximum loan amount will be \$10,000. Minimum loan amount will be \$2,500. There are no income guidelines to qualify.

Interest will be 4 points below current rate. Only loans up to a 5 year term will be considered. NYSERDA will pay NeighborWorks® Rochester the 4 points on each approved loan.

Closing costs can not be included in the loan. All closing costs must be paid by the applicant at closing, per NYSERDA guidelines.

All underwriting will conform to current loan policies with the exception of those items listed in below:

Minimum credit score:	550
Maximum LTV:	129
Approval Process:	In-House approval by Executive & Program Director
Fees:	Application fee only for unsecured. If secured, an application fee and all necessary filing fees will be charged. Construction management fees are waived for all NYSERDA loans.

Lien If credit score is 650 or higher, may be considered for a unsecured loan. If secured, will take up to 3rd position.
Closing: NYSERDA loans can be closed in-house

All approved loans will be conditioned on NYSERDA approval of interest buy down.

An energy audit will need to be conducted to establish the loan amount. Those items that have a 5 year payback or less will be prioritized.

2. NeighborWorks® Rochester Energy Loan

The NeighborWorks® Rochester Energy Loan is available to homeowners in the city of Rochester to make energy efficient improvements to their homes. For these loans, an Energy Audit will be done by NeighborWorks® Rochester in order to determine the Savings to Investment Ratio and to identify the necessary energy improvements. Items that have a 5 year or better payback period will be prioritized.

All underwriting will conform to current loan policies with the exception of those items listed in below:

Loan Term:	Up to 5 years
Loan Amount:	\$1000 to \$4,999
Loan Type:	Unsecured
Interest Rate:	6% interest rate
Minimum Credit Score:	650
Total debt to income ratio:	Not to exceed 42%
Approval Process:	In-House approval by Executive & Chief Operating Officer

I. Loan Terms

1. Mortgage Amount

- Minimum - None
- Maximum - when federal money is used for the loan, the loan cannot exceed \$24,999. If no federal money is used in the project then loans can be made up to \$50,000. Loans of more than \$50,000 shall require action by the Board of Directors.

2. **Mortgage Term:** The term of the loan must be set based on the borrower's ability to pay. The maximum term shall not exceed 30 years.

3. **Mortgage Interest Rate:**
Interest rate is a factor of:

- Purpose of loan
- Security
- Funding Source
- Term
- Market Rates
- Risk

Overriding factor is the desired outcome the loan will produce in terms of neighborhood impact and NeighborWorks® Rochester's missions and goals.

The Finance Committee will review and recommend the portfolio yield on a yearly basis to the Executive Committee. The minimum yield will be prime -1.

The Finance Committee will also review and recommend the interest rate and term for each type of loan product annually. Recommendations will be reviewed by the Neighborhood Loan Committee and Citywide Loan Committee and sent to the Board of Directors for approval. In setting the interest rates and terms, the staff and Loan Committee(s) shall seek a balance between the needs of the revolving fund and those of the borrower.

4. Security

Citywide loan program: all loans over \$10,000 must be collateralized.

Feature Neighborhood(s) loan program: all loans over \$10,000 must be collateralized.

The loan committee reserves the right, at its discretion, to secure loans less than the amounts outlined above with a mortgage or some other form of security. All security documents must be recorded.

5. Evaluations and Insurances

In underwriting a loan the Loan Committee shall consider the following factors: The loan amount; the estimated value after rehabilitation; credit, income, indebtedness of the borrower(s); and whether the scope of the proposed work is important to meet the program objectives. In all cases of "over improvement" the borrower shall be counseled on the implications.

Title Insurance: Title Insurance is not required.

Title Search: A title search shall be required for all loans \$5,000 and greater.

Hazard Insurance: The staff shall require loan recipients to provide, *prior to closing*, evidence of homeowners insurance to cover the amount of all mortgages including the NHS loan or the maximum insurable amount. The Declarations page of the policy must indicate the NHSR's interest as the mortgagee.

If a loan is less than \$1,000 the applicant must show proof of insurance that indicates coverage type, amount, and expiration date. Applicant does not have to add NeighborWorks® Rochester as a mortgagor to the declaration page.

Flood Insurance: If the property is located within the flood plain, flood insurance will be required prior and evidence of insurance must be provided prior to closing.

Property Value: For loans less than \$5,000 the current assessment may be used to determine the value of the property. For all loans \$5,000 and greater an appraisal must be performed consistent with methods outlined in section VI. L.

Lien position: For loans that are secured there is not a lien position requirement. However, consideration will be given to LTV and to any lien requirement necessary to sell a loan to NHSA.

J. Closing Costs and Fee Schedule

Except as restricted by certain pools or investors in the loan fund, closing fees and other loan ancillary costs (title search, appraisal, etc.) may be financed by adding to the loan balance at the time of closing with the exception of the credit report and application fee. Costs incurred in processing loans declined by the committee may be paid by NeighborWorks® Rochester at the discretion of the staff and committee.

In an effort to defray costs involved in processing and closing loans as well as the costs of providing rehab support services, the borrower(s) shall be charged reasonable fees as are customary and appropriate in the industry. These fees include, but are not limited to origination fees, application fees, inspection and construction management fees.

A schedule of fees shall be established by the Program and/or Finance Committee and updated annually. In setting fees for NeighborWorks® Rochester's loans and rehab services, the actual costs for providing a particular service, the availability of other funding sources to subsidize the service, and the prevailing cost of the service in the marketplace will be taken into consideration.

The Annual Percentage Rate shall not exceed 18%.

K. Borrower's Costs

Each borrower will be required to pay the cost of the following items.

- Credit Report
- Application Fee (non-refundable)
- Third Party Appraisals
- Title Review
- Title Insurance
- Recording Fee\Mortgage Tax
- Assignment
- Attorney's Fee

■ Document Preparation

Additional costs may be incurred due to the special requirements of a program or the unique needs of a project. The customer is also responsible for these costs. All costs will be disclosed prior to the loan closing.

Payment of these costs will be made at the time of the closing of the loan. These costs may, at the option of the borrower, be paid from the loan proceeds or paid with the borrower's own funds. If the costs are to be paid from the loan proceeds, an allowance for costs will be included in the amount of the loan.

The borrower will be provided with a good faith estimate of borrower's costs at the time of application, indicating the potential range for each item of borrower's costs. At the time of issuance of a loan commitment, the borrower will be provided with a detailed estimate of borrower's costs; but this estimate is not binding and the borrower must pay the actual costs, even if they are greater or lesser than the estimate.

All fees will be reviewed annually and a list of the fees will be made available on request.

L. Contingencies

NeighborWorks® Rochester will add a percentage of the rehab budget to the loan amount for unexpected contingencies as follows:

- 10% of the rehab budget or \$1,000 whichever is greater

Unused contingency funds will be applied to the principal balance of the loan.

M. Environmental Risks

Lead Paint Regulations: NeighborWorks® Rochester is required to comply with lead paint regulations as outlined in the Federal Register 24 CFR Part 35. NeighborWorks® Rochester will assure that lead paint procedures are performed as mandated by each funding source.

On every project, NeighborWorks® Rochester will perform customer education and awareness on potential lead hazards in their homes and the potential impact of those hazards. NeighborWorks® Rochester will also encourage customers to perform a risk assessment even if it is not required by the funding source.

When the funding source does not require lead testing, NeighborWorks® Rochester will require that the contractor signs an affidavit indicating that they will (1) assume the presence of lead or perform a lead test; (2) if lead is present, use work safe practices; and (3) obtain clearance upon completion of the project.

N. Loan Repayment

1. **Repayment:** Repayment terms will be consistent with those outlined on the individual promissory notes and mortgage.
2. **Loan Servicing and Collection:** Loan payments are due on the first of every month. A late charge as defined in the note and mortgage is assessed for payments received after the 15th of the month. The first payment on a new loan is generally due on the first of the month following the closing. Loans may be prepaid at any time without penalty.

In general, a partial payment on a current loan account is discouraged unless staff feels, in individual cases, that partial payments represent a good faith attempt to repay. A partial payment on an account several months past due may be accepted with the understanding that past due interest will be fully deducted prior to the reduction of principal. (See Section VII, Delinquencies and Collections for more information.)

O. Other Loan Provisions

1. **Tax and Insurance Escrows:** Each loan \$5,000 and greater is required to have a monthly escrow for real estate taxes and property insurance. This escrow requirement will be waived only if such an escrow account exists with another mortgagee or by special approval of the appropriate loan committee. The establishment of escrow reserves may be included in the loan.

Annually, an analysis of the adequacy of the escrow balance is performed and the payment is adjusted as appropriate based on changing costs (real estate taxes, water bills, and/or property owners insurance).

2. **Reporting to Credit Agencies:** NeighborWorks® Rochester will report every loan to a credit-reporting agency, and will also provide the agency with periodic updates of the repayment status of the loans.
3. **Age of Credit Documents:** Credit documents must be no more than 90 days old on the date the loan is approved.
4. **Commitment Process:** A commitment letter will be sent to the loan applicant notifying them of NeighborWorks® Rochester's approval of their loan. This letter will specify that the applicant has 7 business days in which to sign and return the letter and 45 days from the date of the letter to close on the loan or NeighborWorks® Rochester has the right to cancel the commitment. The Executive Director may grant an extension for extenuating circumstances.
5. **Denial of Application:** If a loan is denied, the committee will instruct the staff member overseeing the application, to send notice in compliance with State and

Federal requirements, listing the reason(s) the loan was denied and the legal recourse for the applicant.

6. **Confidentiality:** Information obtained by the staff and used by the loan committee to evaluate a loan application shall be kept confidential. A numbering system shall be used to reference loans in Board meetings and staff reports.

P. Sales of Loans to Secondary Markets

NeighborWorks® Rochester reserves the right to sell any loan from its portfolio for the purpose of re-capitalizing the loan fund.

Staff will be responsible to sell, in a timely fashion, the current revolving loan portfolio to NHSA according to the documented NHSA standards.

VII. Lending Criteria and Procedures

All consumers have the right to file a written loan application with NeighborWorks® Rochester. No consumer/applicant shall be discouraged from completing an application for credit based upon any of the prohibited basis. Any advice, counseling, or other assistance offered to any credit applicant shall be offered to all credit applicants regardless of race, sex, age, marital status or any other prohibited basis.

Repayment ability should remain the primary requirement of each loan.

The Loan Committee shall base its loan decisions primarily on a careful analysis of income, indebtedness and credit history. The level of risk due to loan position will also be taken into consideration. Successful loan applicants must have adequate disposable income to repay the loan and a demonstrated willingness to repay credit obligations. The staff shall require applicants to provide letters of explanation of any poor credit ratings.

A. Credit Reports Criteria

1. A credit report is necessary to make sound lending decisions. The following guidelines present requirements for content and analysis of credit reports.
2. A Credit Report accessed by NeighborWorks® Rochester staff must be utilized for underwriting of the application. Due to inconsistencies in credit reports and potential for manipulation, credit reports provided by the applicant will not be allowed.
3. The credit report should reflect the applicant's overall credit history and a public record search for each locality in which the borrower has lived during the 2 year period that precedes the report's issuance. The legal search must disclose whether any judgements, foreclosures, garnishments or bankruptcies were

discovered in a search of the public record. Any finding that occurred before the 2 year period, as long as it can be considered under the limitations of the Fair Credit Reporting Act, should be reported.

4. The credit report must provide the terms, balances, and rating for all debts listed on the credit application. This report must reflect all adverse credit that is 30 or more days old or older and identify any debts not disclosed on the application. If the credit report does not contain a reference for each significant open debt on the application, the Staff must obtain a separate written verification for each debt that was not reported. All information in the applicant's credit report must be verified by sources other than the applicant.
5. In all cases, the report must list the historical status of each account. This status must be in a "number of time past due" format. The format of "0 x 30, 0 x 60, 0 x 90 days" late is preferred; however, a consecutive numbering sequence for payment history, such as "00000010000" is also acceptable. The term's "current" or "satisfactory" are not sufficient, unless their meaning is clearly defined in the credit report.
6. A credit report must be obtained for each borrower listed on the loan application.

B. Borrower's Credit and Reviewing the Credit Report

In determining an applicant(s) willingness to pay, the program staff will consider all information contained in the credit report. A credit history reflecting poor payment patterns will not automatically disqualify a borrower. The applicant(s) must provide a satisfactory explanation, with supporting documentation as necessary, for all derogatory information. Derogatory information contained in the credit report may represent an acceptable basis for denial.

Staff must pay close attention to the following specific items when reviewing the credit report:

1. **Slow Payments:** The applicant must provide a written explanation of recent slow payments or an excessive number of slow payments.
2. **Undisclosed Debt:** If the credit report reveals significant debt that the applicant did not disclose on the application, the applicant must produce a satisfactory written explanation for the omission.
3. **Judgments, garnishments, or liens:** Any judgments, garnishments or liens must be rectified before closing. The borrower must furnish a satisfactory letter of explanation; proof of payoff; or proof of 1 year of satisfactory payment history on the judgment, garnishment or lien.

4. **Bankruptcy:** A bankruptcy must have been discharged fully and the borrower must have re-established credit and demonstrated the ability to manage financial affairs. An elapsed time of two (2) years between the discharge of the bankruptcy and the mortgage application is generally sufficient time to re-establish credit. A bankruptcy beyond the applicant's control- such as one that resulted from an extended family illness- will receive more favorable consideration than one which occurred because of poor financial management. In all cases, the applicant must furnish a satisfactory written explanation, copies of the bankruptcy petition, schedules of debts and the discharge showing the schedule of debts that were discharged.
5. **Previous Mortgage Foreclosure:** If the foreclosure was the result of extenuating circumstances beyond the control of an owner-occupant borrower- such as long –term illness, death of the principal wage-earner; or long term loss of employment because of factory shutdowns, reductions-in-force, etc., the application will be considered as long as the applicant has since re-established good credit and demonstrated an ability to manage financial affairs.

The applicant generally will not be considered if:

- a. The applicant has been a defendant in mortgage foreclosure proceedings that were completed in the last three years and is unable to document extenuating circumstances.
 - b. The applicant used the property foreclosed upon as a second home or for investment purposes.
6. **Credit History:** Applicant's liabilities should be related to their assets and credit history. The applicant who has a history of making payments on outstanding or previous credit obligations to the contractual terms should be considered favorably. If the credit history reveals a slow payments record, suits or judgments, or that the borrower has had difficulty in making monthly payments, the credit history must provide strong offsetting factors. An applicant who continually increases liabilities and periodically refinances and consolidates debt is a marginal credit risk.
 7. **Alternative Credit History:** An alternative means may be used to develop a credit history for applicants who normally do not use credit; for example, previous rent verifications, verification of utility payments, verification of personal property tax payments, or verification of lay-away plans. When adequate credit histories cannot be established by using these techniques, an application may still be considered, provided there are other compensating factors. In that case, however, only very conservative mortgage terms can be considered.
 8. **Co-signor:** If the applicant's credit history is not adequate, NeighborWorks® Rochester will consider and evaluate a co-signor on the loan. It is at NeighborWorks® Rochester's discretion as to whether or not the co-signor must be named on the deed.

C. Borrower's Debt-Liabilities

The applicant's liabilities include all installment loans, revolving charge accounts, real estate loans, stock pledges, alimony, child support, co-signed notes, and all other debts of a continuing nature. The total monthly obligations are the sum of monthly housing expense, payments on installment and revolving debt that extend beyond 10 months, mortgage payments on non-income producing real estate, alimony and child support payments.

D. Borrower's Income

In reviewing the loan file, the underwriter must be assured that the applicant's income is stable and that the credit report demonstrates the applicant is a reasonable credit risk and that the applicant is motivated to repay the debt in a timely manner. To arrive at a final decision, all questions in the loan file must be adequately answered and supported.

The staff considers all aspects of the applicant's credit package, and carefully reviews and prepares an analysis based on income, indebtedness, and credit history. Applicants must have sufficient disposable income to repay the loan and a willingness to repay credit obligations.

- 1. Disposable Income:** Disposable Income is calculated by subtracting federal, state and social security taxes, utility expenses as well as all liabilities listed above, such as monthly housing expenses, payments on installment and revolving debt that extend beyond 10 months, mortgage payments on non-income real estate, alimony and child support payments.
- 2. Ratios:** The maximum housing expense ratio (including the proposed loan) and the total debt ratio (including liabilities listed in *Section C, page 21.*) that are considered acceptable will be defined for each loan product offered by NeighborWorks[®] Rochester.
- 3. Rental Income from subject property:** If rental income from the subject property is documented by signed lease agreements or from verification of rent paid from current tenants, 75% of the rental income may be used to reduce the total housing expense. If projected rents are being used for vacancies, 50% of the proposed rent can be used to reduce the total housing expense. Housing expense includes all mortgages, taxes, and insurance. Complete signed 1040's for the past two years are required as verification. These tax returns must include all schedules and statements.

If the applicant is the occupant of the residential portion of a mixed-use-property as well as the operator of the business therein, rental income from the residential portion of the subject property will be applied as indicated above.

Guidelines regarding self-employed individuals apply to income generated from the business portion of the mixed-use property. Rental income from the

commercial unit is not considered as income, since it is an expense to the business.

If the applicant is a residential occupant of a mixed-use property, and receives salary and/or wage income, rental income from the residential portion of the property and rental income from the commercial portion of the subject property, rental income from the residential portion will be treated as above indicated. Seventy Five Percent of rental income from the commercial unit will be added to the applicant's income when calculating ratios.

Guidelines regarding Employment and Income will apply to income received from this source.

E. Employment Security

The applicant must establish long-term, stable income from employment or other sources. The Program Staff must verify the applicant's employment for the two full years that preceded the mortgage application. If the applicant has an employment history of less than two years and was previously in school or in the military, the program staff must obtain a copy of his or her diploma or discharge papers. The applicant must explain any employment gaps that extend beyond one month.

The Program Staff must determine the probable stability and continuance of employment. The following applicants may be considered favorably:

1. Applicants who have been working for the same employer for a long period of time will have both stable employment and income.
2. Applicants who have recently entered the job market and whose education and training indicate an adequate future income.
3. Applicants who are in a line of work in which advancement is possible because of a continuing demand for their services, and who have demonstrated an ability to maintain full employment and advance in standing.
4. Applicants who change jobs frequently to advance within the same line of work, and are successful in that work. On the other hand, job-hopping without advancement or from one line of work to another may indicate an instability to master a job and could lead to unstable income. Applicants with questionable employment histories must have offsetting financial strengths to be considered for maximum financing.

F. Salary and Wage Income

The adequacy and continuance of income are as important as stable income. Two full years of consecutive employment must be verified. Normally the Verification of Employment can be used to determine the adequacy and the continuance of income.

Verbal verification of income is satisfactory so long as this is documented in the loan file. Information should include the date income verification was conducted, the

name of the employer, name and phone number of the person, including title, who provided the information received.

If earnings shown on the Verification of Employment form are not stated as a gross monthly income figure, the following methods may be used to translate them into gross monthly income:

- Dividing annual income by 12.
- Multiplying weekly income by 52, then divide by 12.
- Multiply hourly income by the number of hours worked per week, then multiply that result by 52, and finally divide by 12.

The Verification of Employment must indicate the numbers of hours worked per week if the applicant is paid on an hourly basis. If it does not, or if it gives a range of hours, the borrower's actual earnings for the past year and her or his year-to-date earnings should be averaged to determine the gross monthly income.

To verify salary and wage income, *attention must be paid to* the following areas:

1. **Employment Gaps:** An applicant must explain any employment gaps that extend beyond one month.

2. **Employment by a Relative:** When applicants are employed by a relative of a closely held family business, they will be required to submit signed federal income tax returns for the past two years, in addition to the Verification of Employment.

3. **Continuation of Employment:** The probability of the applicant's continued employment must be determined. Negative comments received from an employer could be reason to decline an application. In this event, a detailed investigation of the comments must be performed to arrive at a precise reason to support the underwriting decision.

4. **Past Year and Year-to-Date Earnings:** Earnings for year-to-date and the past year must be completed by the employer. If the information is not completed, a current paystub and a W-2 for the past year must be obtained. When this documentation is obtained, the income reflected should correspond to the income shown on the Verification of Employment. If this is not the case, an explanation must be provided for any discrepancies. A recent promotion, a change in pay structure, etc. may be the reason.

5. **Overtime and Bonus Income:** Overtime and bonus income can be used to qualify the applicant if the employer verifies that this income has been received for the last two years and the overtime or bonus will, in all probability, continue.

An average of the last two years overtime and bonus income must be developed to determine the amount of income that can be considered. If the bonus or overtime income represents more than 25% of the applicant's total income from the employer, signed federal tax returns for the past two years must be obtained.

It is also important to establish an earnings trend for overtime and bonus income. Annual earnings that are level or increasing from one year to the next are acceptable. However, if the earnings show a decline toward the current year, there must be strong offsetting factors for the overtime or bonus income to be acceptable.

6. Future Raises: Future raises, indicated by the employer on the Verification of Employment form, may be acceptable under certain circumstances. The raise must generally be in effect prior to the date of the first payment on the mortgage and must be verified in writing by the employer. The amount of the raise and effective date must be shown on either the Verification of Employment or in a separate letter from the employer. Future raises should be used only on a case-by-case basis. There must be strong offsetting factors in each case.

7. Part-Time/Second Job Income: Part-time or second-job income may be used if it can be verified as having been uninterrupted for the previous two years, and provided it has a strong likelihood of continuation. A verification of income form and W-2's must support this income.

8. Retirement Income: Retirement income may be verified by letters from the organization providing the income, copies of the retirement award letters (with copies of cancelled checks attached), tax returns or W-2 or 1099 forms.

9. Social Security Income: Acceptable verification of this income includes a photocopy of the Social Security Award Letter, or copies of the applicant's last 12 bank statements to confirm the regular deposit of the Social Security payment. Benefits that have defined expiration dates must have a remaining term of at least three years to be considered as income. The following are types of Social Security benefits:

Disability Benefits: These benefits could stop if the beneficiary's condition improves. Continuance must be supported by letter from the Social Security Administration.

Student Benefits: These benefits are usually discontinued when the student reaches the age of 19. Sometimes they are discontinued when the parent remarries. Continuance may be determined by the age of the beneficiary.

Retirement Benefits: These benefits may be received if the beneficiary is age 62 or older. Continuance may be assumed based on age.

Other Benefits: Other types of Social Security benefits require verification of continuance. The applicant must send a written request for this information to the Social Security Administration.

Untaxed benefits that will be included as part of an applicant's income may be grossed up by 25% for purposes of determining qualifying ratios.

10. Alimony or Child Support: In order for alimony or child support to be considered as income, it must continue for at least three (3) years after the date of

the mortgage application. A photocopy of the divorce decree or the Separation Agreement must be provided. The amount of the award and the period of time over which it will be received must be specified. Evidence must be provided that the funds have been received for the past twelve (12) months. Acceptable evidence includes deposit slips, cancelled checks, court records or tax returns.

11. Unemployment Benefits: Unemployment benefits can be considered as acceptable income provided that they are a regular part of the applicant's income. Copies of tax returns for the past two (2) years must be provided to establish a history of receipt.

12. Welfare Benefits: Welfare benefits may be considered as acceptable income provided they are properly documented by letters or exhibits from the paying agency. The amount, frequency and duration of the payment must be stated in the verifying letters or exhibits.

13. Rent from Boarders: This form of income generally may not be considered as an acceptable source of income *but this income may be used as a compensating factor.*

14. Foster Care Income: Income received from a state or county sponsored organization for the temporary care of one or more children may be considered as acceptable income provided the applicant has a two year history of providing foster-care services under a recognized program and is likely, in the foreseeable future, to continue to provide such services at a level that supports the amount of income needed for qualifying for the mortgage. Foster-care income may be verified by letters from the organizations providing the income tax returns or copies of the applicant's deposit slips or bankstatements that confirm the regular deposit of the payments.

15. Military Income: Military personnel may be entitled to different types of pay. In addition to their base, flight or hazard pay, rations, clothing allowance, quarters allowance and pro-pay continuance can be established.

16. VA Benefits: Most VA Benefits are considered acceptable income provided they are documented by a letter from the Veteran's Administration and will continue for at least three (3) years. Education benefits are not acceptable income because they are offset by education expenses.

17. Interest and Dividends: Interest and dividend income may be used if it is properly documented and has been received for the past two (2) years. An average of the income for the last two years should be used. Photocopies of tax returns or bank statements and other forms of verification may be used to verify this income.

18. Notes Receivable: A copy of a note is required to establish the amount and length of payment. Payments must continue for at least three (3) years beyond the date of the mortgage application. Applicants must provide evidence that they have received the funds for the last twelve (12) months. Acceptable evidence includes deposit slips, cancelled checks or tax returns.

19. Other Rental Income: Rental income may be considered as acceptable income if it is property documented and properly calculated. Receipt of rent must be

documented by signed lease agreements or signed tax returns. When income tax returns are used, the actual figures shown as expenses should be used for “taxes”, maintenance and misc.” on the “Schedule of Real Estate Owned” section of the application.

Depreciation and Mortgage Interest are not considered in this figure. The actual “Rents Received” as shown on Schedule E of the income tax return should be used to calculate the monthly rent. This figure is more accurate than the Lease agreements, due to vacancies. If lease agreements are the only source of verification, 75% of the rental income may be used to offset the payment made on the property.

If all properties in the Schedule of Real Estate Owned” section of the application net a positive figure, it may be used as rental income. If the net figure is a negative figure, it should be considered as a recurring debt and considered as a debt in calculating the total obligations-to-income ratio.

G. Self-Employed Applicants

1. Determination of Self-Employment: Self-Employed Applicants are considered any individual who has 25% or greater ownership interest in a business is considered self-employed. The following documentation is required for all self-employed borrowers.

- Complete signed 1040’s for the past two years. These tax returns must include all schedules and statements.
- A year-to-date profit and loss statement, if more than 3 months have passed since the end of the last tax year.
- If the business is a corporation or a partnership, copies of signed federal partnership and corporate tax returns with all schedules for the past two years.

2. Minimum Length of Self-Employment: Income from self-employment is considered stable if the applicant has been self-employed for two or more years.

A person who has been self-employed between one and two years must have had at least two years of previous successful employment in the same occupation, related field, in order to be eligible for financing. In such instance, the applicant must be able to document a reasonable probability of success based on pro forma financial statements for his or her business. The following factors must be carefully analyzed:

- a. The applicant’s training and experience.
- b. The location and nature of the business.
- c. The demand for the business in the area.

Generally, maximum financing terms should not be used if the applicant has been self-employed for less than two years.

A person who has been self-employed for less than one year has not established a history of stable self-employment and is generally not eligible for financing.

3. Determination of Self-Employed Income: An average monthly income must be developed by using at least two years of the applicant's actual tax return. When a year-to-date profit and loss statement is used, the income on that statement may be used in determining the monthly income if it is consistent with the previous years' earnings. Because self-employment may change each year, an average better approximates the applicant's long-term ability to pay. Projected income that cannot be verified is not acceptable for qualifying purposes.

4. Basic Business Structures: Since the self employed borrower is dependent on the health of the business to repay the mortgage loan, the business should be evaluated when considering the loan.

There are four principal business structures—sole proprietorships, partnerships, corporations, and “S” corporations.

1. **Sole proprietorships:** In a sole proprietorship, the individual owner has unlimited personal liability for all debt of the business. Since no distinction is made between the owner's personal assets and the asset used in the business, creditors may take either (or both) to satisfy business obligations. The success of this type of organization depends solely on the individual owner. His or her death would terminate the business and place the assets into probate, delaying the disposition of assets to creditors and heirs. Business income or loss is folded into the individual owner's tax return.
2. **Partnerships:** A partnership is formed when two or more individuals form a business and share profits, losses, and responsibility for running the business. In a general partnership, each partner is personally liable for the debts of the entire business and is responsible for the actions of every other partner. A general partnership is dissolved immediately on the death, withdrawal, insanity, or insolvency of any of the partners—although the personal liability to partnership is dissolved. In a limited partnership, a limited partner has limited decision-making ability and her or his liability is limited to the amount she or he invested in the partnership. A limited partner's death, withdrawal, insanity, or insolvency does not dissolve the partnership. Individual partners pay taxes on their proportionate share of net partnership income at their individual tax rate.
3. **Corporations:** A corporation is a state-chartered business that is owned by stockholders. A stockholder is not personally liable for the debts of the corporation. Although legal control of the corporation rests with its stockholders, they are not responsible for the day-to-day operations of the business. This responsibility is delegated to a board of directors and officers of the company. Corporations must file corporate tax returns to report their income and losses. Income to the officers is folded into each officer's individual tax returns.
4. **“S” Corporations:** An “S” Corporation is generally a small start-up business with a limited number of stockholders. Business gains and losses are passes on to the stockholders. Stockholders are taxed at their individual rate for their

proportionate share of ownership. Income for an owner that comes from wages is folded into the individual's tax return.

H. Borrower's Collateral

In order to ensure a fair and equitable assessment of the value of the borrower's collateral, the NeighborWorks® Rochester will use at least one of the following methods to determine the subject property's "fair market value" as defined herein. The intent of the NeighborWorks® Rochester in evaluating appraisal information will be to specify a value, which reflects, with reasonable accuracy, the current market conditions of comparable real estate in close proximity to the subject property.

In all cases where the CLTV exceeds 100% of the fair market value, the borrowers will be counseled on the implications and will be required to sign a disclosure statement indicating that they understand the meaning of such implications.

1. Definition of Fair Market Value: Fair Market Value is defined as the price at which property is transferred between a willing buyer and a willing seller, each of whom has reasonable knowledge of all pertinent facts and neither being under any compulsion to buy or to sell.

2. Determination of Fair Market Value: One of the following methods may be used at the discretion of the organization:

For loans of \$15,000 or greater:

- Full FNMA/FHLMC Appraisal by Licensed, Certified Appraisers.
- Analysis of three comparable properties obtained from an approved automated valuation provider and performed by qualified staff members, with a narrative that sales are comparable with regards to size, conditions, neighborhood, number of units, etc, making any necessary adjustments.
- A streamlined appraisal (Not on FNMA/FHLMC form.)

For loans less than \$15,000:

- Analysis of three comparable properties obtained from an approved automated valuation provider and performed by qualified staff members, with a narrative that sales are comparable with regards to size, conditions, neighborhood, number of units, etc, making any necessary adjustments.
- Opinion of Value from a Licensed Real Estate Broker
- Assessed value

I. Required Documentation

The application package must contain sufficient information to reach an informed decision about whether to approve the loan. All real estate loan application must be made on the appropriate application form (FNMA 1003). The application package must also include any other information necessary to verify, clarify or substantiate information provided by the applicant.

At a minimum, the following documents are required (additional documents may be required for specific loan products):

- **Original Residential Loan Application.**
- **Verification(s) of Employment. In addition to a completed Verification of Employment form filled out by an applicant's employer, verbal verification of employment is acceptable so long as all required information (including the name and title of the person who provided the information) is documented in the loan file.**
- **Verification(s) of Mortgage.**
- **Verification(s) of Loans.**
- **Credit Report.**
- **Additional documentation as required based on employment, credit and property type.**
- **Complete signed 1040's for the past two years.**
- **Estimate of Fair Market Value (as described in Section L. 2.).**

VIII. Loan Approval Criteria

A. Featured Neighborhood Loans:

1. **Please Refer to the Approval Matrix - Attachment A**
2. **Neighborhood Loan Committee (3 people committee)**

Would approve all other loans within the Healthy Block areas that do not meet the underwriting criteria outlined above. This would be done via fax, e-mail and phone to insure a 48 hour approval guarantee.

3. **Neighborhood Lending HUB Scoring Criteria**

Majority of rehab is exterior

+3

Rehab will bring the house to meet or exceed “house proud” standards	+3
Social Fabric Component to project	+2
Prioritized property addressing priority issue (top 10 list)	+2
Property is next to a top 10 property	+1
Property owner is key individual	+1
Prioritized property other	+1
LTV is less than 100%	+1
Project leverages other investment	+1

B. CITYWIDE LOANS:

1. Please Refer to the Approval Matrix - Attachment A

2. City Wide Loan Committee

Would review all other city wide loans or loan/grants that do not meet the underwriting criteria outlined above.

IX. Loan Servicing and Collection

i. Purpose of Policy

The purpose of NHSR collection policies is to provide for a clearly defined system of loan collections for the following reasons:

- a.) To comply with legal agreements NHSR has with other parties regarding the collection of loans.**
- b.) To provide for payment to parties with interests in loans serviced by NHSR.**
- c.) To maintain credibility with funding sources by maximizing the use of their funds for the mission of NHSR and by demonstrating successful resource management techniques.**
- d.) To ensure the replenishment of NHSR loan funds for the benefit of other borrowers and whose investment will help revitalize the NHSR neighborhoods.**

- e.) To help protect the borrower's investment in his or her property and to help protect the neighborhood by reducing any risk of foreclosure.
- f.) To provide a way of reducing delinquencies thereby minimizing bad debt losses.
- g.) To provide for early intervention in delinquent situations to minimize the costs to NHSR associated with any collection actions.
- h.) To provide fair and consistent treatment of loans serviced by NHSR in compliance with all laws governing collections, including laws that protect the borrower.

Quality control will be performed by the external auditor selected by the Board of Directors.

B. Collections

All collections are done in accordance with the guidelines set forth in the Fair Debt Collections Practices Act. Collection calls will not be made before 8:00am or after 9:00pm, unless prior consent from the borrower is received. No calls will be made on Sundays. In cases where the borrower is represented by an attorney, all communication will be with said attorney. Collection calls will not be made to a borrower's place of employment when the borrower notifies NHSR not to make such calls.

1. Steps to collect a loan begin during the loan origination when NHSR staff impress upon the borrower the importance of payment according to the terms of the loan.
2. Early detection of and intervention in delinquent situations aids in collecting loans. Since an early determination of the reason for the delinquency gives the collector and the borrower time to arrange an acceptable method for curing it. Efforts should be made to prevent loans from becoming thirty (30) days past due.
3. An effort should be made to accommodate the needs of the borrower while maintaining the goal of collecting on the loan.
4. When working with a delinquent borrower, the Portfolio Manager generally should try to determine the following information:
 - Why is the borrower late?
 - When is the borrower going to pay?
 - How will the borrower pay?
 - How does the borrower intend to stay current?
5. Face-to-face interviews with the delinquent borrower, where possible, tend to be the most effective collection tool.
6. When attempting to collect a delinquent loan, the following is not permitted:
 - Using or threatening violence or any other criminal means to harm the borrower, his or her reputation or property.
 - Using any abusive language in communications with the borrower.
 - Publishing the names of borrowers who refuse to pay the debt.
 - Falsely representing the character, amount or legal status of the amount owed.
 - Implying that the borrower has committed a crime.

- Anything in violation of any state and federal laws.**
- 7. **In all communication with the borrower, the Portfolio Manager must fully disclose his or her identity and that the purpose of the communication is to collect a debt.**
- 8. **If it is reasonably necessary to effect a post-judgment remedy for an account, discussion may occur with a third party that is designated as an agent for the customer. Discussing the delinquency with any person associated with the customer is prohibited unless the customer has provided written permission to disclose information to a specific individual or that person has power of attorney for the customer**
- 9. **If the borrower has an attorney, who is handling the delinquency, direct contact with the borrower is prohibited with the exception of re-affirmation inquiry. All other communication regarding the delinquency must be through the attorney.**
- 10. **If the borrower maintains that he or she submitted a payment and NHSR has no record of such payment, then the borrower will be held responsible for providing evidence of the payment.**
- 11. **All communication with the delinquent borrower must be documented in writing or noted in the collection section of the borrower's loan in the current loan servicing software.**

C. Guidelines

The following outline steps are a guideline for collections. Other steps may be appropriate given the individual circumstance of the borrower.

- 1.) **The computerized loan servicing software, which reflect loan payments made by borrowers, will serve as the basis for all collection activity.**
- 2.) **The Portfolio Manager will be responsible for checking computerized loan account records on a monthly basis for any new delinquent loans on the 16th day of the month.**
- 3.) **The Portfolio Manager will be responsible for checking the computerized loan account record for payment status on a delinquent loan prior to making any contact with the borrower at any point in the collection process. This is to ensure that efforts are not made to collect on loans that are no longer delinquent.**
- 4.) **The Portfolio Manager will be responsible for checking each delinquent loan's individual file and/or collection management section on the loan servicing software for any information relating to late payments. This information must be obtained prior to making any contact with the borrower at any point in the collection process. This is to ensure that the Portfolio Manager has all information regarding the delinquent loan for use in determining appropriate collection steps.**
- 5.) **The collection information section in the customer's file on the loan servicing software shall be the basis for all collection activity and will be used to indicate all communication with the borrower regarding the late payment and any follow up action required by the Portfolio Manager.**
- 6.) **It may be appropriate for another NHSR staff member, who has had previous contact with the borrower, to make contact with the borrower about**

the delinquency. This includes members of NHSR staff with lending responsibilities who have worked with the borrower during the establishment of the loan.

- 7.) It may be necessary to bring in another NHSR staff member to accommodate a language barrier.
- 8.) If a field visit is necessary to the borrower's property for inspection, a minimum of two people must accompany each other to the house.

D. Collection Schedule

A loan shall be deemed delinquent and collection efforts initiated by the staff in accordance with the following schedule:

Days Late	Actions to be taken
16	Late Charge Added; Written notification sent regarding delinquency. Reminder sticker is placed on statement and a copy of the statement is placed in the servicing file. Shall receive a phone call immediately after statement is mailed to determine the cause of the delinquency and to arrange payment. A follow-up phone call shall be scheduled to occur the day following any broken promises to pay.
31	Shall receive a forceful reminder sticker attached to their monthly statement if no payment has been received. If a payment has been received, place overdue balance attention sticker on statement. A copy of this statement shall be filed in their servicing folder. If no contact has been made with the borrower or no agreement has been made to pay past due payment, call borrowers at home or work; outline subsequent action. Establish payment plan including clear due dates. A notification of HUD counseling availability shall be sent with statement. A follow-up call shall be scheduled to occur the day following any broken promises to pay.
46	If no contact has been made with the borrower and no agreement to pay, or arrangement has been made with the borrower for payment, send a second warning letter by certified mail stressing potential delinquency and ramifications. If contact is made, schedule a face to face meeting within 15 days to agree on a signed payment plan. A follow-up call shall be scheduled to occur the day following any broken promises to pay.
61	Certified letter is sent indicating that their loan will be turned over to NHSR's attorney for collection efforts and/or legal action. Signed payment plan can still be negotiated if customer contact is made. If partial payment is received place overdue balance sticker on

statement. A copy of this statement shall be filed in their servicing folder. The Portfolio Manager should attempt multiple times to contact the borrower regarding the delinquency to try to determine the cause and to make payment arrangements. A follow-up call shall be scheduled to occur the day following any broken promises to pay.

- 91 Letter to be sent to borrower indicating 72 hours to respond and reach an agreement.
 - 95 File turned over to attorney. Demand letter sent to client by attorney; attempts to reach customer for counseling continues.
 - 121 Review of case regarding foreclosure, restructure, forbearance, or write-off proceedings begin in accordance with NHSR policy.
-

The Executive Director shall be authorized to negotiate payment arrangements with respect to any account delinquency that does not exceed 120 days. Such delinquencies shall continue to be listed on the delinquency report. Any recast or modification of the terms of the loan or the monthly payments requires approval of the Loan Committee.

E. Forbearance and Restructure Policy

Discretion is to be applied to extend relief to customers who encounter hardship, who are cooperative, and who have demonstrated proper regard for their obligations and a willingness to pay. Relief may be granted in situations where there is reasonable expectation of bringing the account current. Financial Counseling will be required as a condition of forbearance or restructure.

Restructure:

1. Applicant would submit a letter/application form to the Executive Director and/or designee outlining the request and reason necessitating the change.
2. The request would then be presented to the RLF Committee at the next meeting.
3. Applicant will be informed in writing of the decision within 5 business days of the RLF committee meeting.

Forbearance and Restructure Alternatives:

1. The portfolio manager with the approval of the Finance Director and review by the Executive Director, shall negotiate a payment

schedule with the customer. If the entire loan is to be re-written, approval by the loan committee must be obtained.

- 2. Additional payments may be added to scheduled payments (for a term of one to sixty months) to pay delinquent principle, interest, and late charges. Payments may consist of delinquent interest and late charges only; adding delinquent principle to the loan and extending the term.**
- 3. All payments may be deferred during a forbearance period. A forbearance period can be from one to eighteen months. A forbearance request must be submitted in writing to the RLF committee for approval. This option is only to be used in exceptional circumstances where the mortgagee has proven that catastrophic circumstances have caused the delinquency and that given the forbearance the account will not become delinquent again.**
- 4. Re-write entire loan; change interest and term.**
- 5. Reinstatement:**
 - a. All reinstatements shall be subject to the provisions of the mortgage and mortgage note.**
 - b. The Loan Committee may also consider a partial reinstatement if it determines that the borrower is acting in good faith and that the loan can be brought current within a reasonable time. A formal repayment plan must be executed, clearly stating that action can be taken to resume the foreclosure if the borrower does not meet the terms of the agreement. Any funds received that are less than the payment stipulated in the repayment plan must be retained as “unapplied funds” until enough additional funds are received to make a full payment.**
- 6. Other eligible activities will be approved by the RLF committee and then presented to the Board on a case by case basis.**

F. Foreclosure

If all attempts to forbear, modify or otherwise resolve a default situation fail, the final recourse may be foreclosure. It is important to remember that NHSR is a community lender and should take all steps possible to avoid foreclosure and its repercussions, not only for the borrower and the neighborhood, but also the organization.

**Foreclosure may be an option when a property has been abandoned or vacated by the borrower and it appears that the borrower does not intend to make payments.
Process:**

- 1. All actions relating to foreclosure may only begin upon recommendation of the Finance Committee and NHSR Board of Directors.**

2. Upon approval by the NHSR Board of Directors, the Portfolio Manager will submit the loan to the attorney for foreclosure.
3. Prior to the initiation of any foreclosure proceedings, the Portfolio Manager will complete a preliminary foreclosure review and submit this review to the NHSR Finance Committee and Board of Directors.
4. Interim or partial payments may not be accepted once the account has been turned over to an attorney for foreclosure. If the payment cannot be returned to the borrower, the payment will be forwarded to the attorney.
5. All foreclosures shall be subject to the provisions of the mortgage and mortgage note.
6. Until the disposition of the property, the Executive Director will be responsible for designating a staff person to manage the property and to oversee efforts to sell the property.

Deed in Lieu of Foreclosure:

NHSR, with approval of the Board of Directors or it's Executive Committee, may accept a deed in lieu of foreclosure along with an estoppel agreement providing the following takes place:

- a.) The borrower acknowledges in writing that the deed is being accepted as an accommodation to him or her.
- b.) The title is acceptable and if the property is not subject to other liens, judgments or attachments.

Foreclosure by Prior Lien holders:

The Finance or Executive Committee will determine the course of action in the event of foreclosure by other lien holders upon recommendations as per previously outlined herein.

G. Charge off of Delinquent Loans

Any loan, which has a remaining balance after foreclosure of collateral must be collected in full or charged off as bad debt if it becomes more than 180 days past due. Loans may also be charged off prior to these guidelines when it is apparent there is little chance of repayment, such as in bankruptcy or death.

Dependent upon source/funder of original capital for funding the loan, additional approval for charge-off or write-off may be needed from the original source/funder.

Attempts should be made to collect/recover charged off loan amounts when at all feasible and cost justified.

Process:

- 1.) The Portfolio Manager will make recommendations to the Finance Director to charge off or write off a delinquent loan.
- 2.) The Finance Director will get approval from the Finance Committee to write off or charge off a delinquent loan.

H. Loans Serviced on Behalf of someone else

Collection Actions Outlined in Any NHSR Agreement:

Any servicing agreement NHSR may enter into with outside parties may supersede the collection policies and procedures outlined here. The Portfolio Manager will follow such agreements in collecting loans unless the agreement is silent on any issues discussed herein. The NHSR collection policies and procedures will prevail in the absence of direction from outside servicing agreements.

NHSA Servicing:

The Portfolio Manager will follow the collection policies and procedures outlined within this document, with the following exceptions:

- a. Loans involving a permanent forbearance agreement, a loan modification or any legal action to collect will require the repurchase or substitution of these loans by NHSR.
- b. Loans over ninety (90) calendar days delinquent will require repurchase or substitution by NHSR.
- c. Collection actions will be reported to the committee as part of regular delinquency reporting procedures.

X. Termination of Loan Fund

NHSR realizes that the term of loans may exceed the life of an NHSR program. It is therefore recommended that one of the following alternatives be selected by the NHSR Board of Directors upon termination of the program.

In the event that the program is expanded into additional service areas, all outstanding loans should be assigned to the appropriate administrative function for service and collection. Payments received should be used towards the capitalization of the new service area's loan fund.

In the event that the program is not expanded into additional service areas, the Board of Directors should make arrangements with a local lending institution to service the loan funds. All payments received, minus administrative costs, will then be distributed on a pro rata basis to the individual loan fund contributors or as otherwise required by law or NHSR Bylaws and Certificate of Incorporation.

XI. Exceptions to Lending Policy

NHSR has established this real estate lending policy and underwriting standards to insure safe and sound lending practices. It is, however, recognized that it may be appropriate to consider and/or approve a loan, which deviates from the standards specified by this policy. All loans which substantially deviate from any standards set by this policy must be approved by the appropriate loan committee and ratified by the board of directors. Detailed information concerning the nature of the exception(s) and the criteria for approval will be maintained in the loan documentation file.

