

SECTION 8

8.1 Overview

The Servicer's responsibility is to collect all payments due under the Mortgage Loan documents until the interest and principal due have been paid in full. All payments on the Mortgage Loans are due and payable on the first (1st) day of each calendar month, with the interest to be paid for the immediately preceding month. All monthly interest calculations shall be made using a thirty (30) day month and three hundred sixty (360) day year. Interest on payoffs is to be calculated based upon the actual number of days elapsed from the last paid installment date through and including to the applicable date the Mortgage Loan pays off, divided by the actual number of days in the year. The Servicer shall (subject to the deduction of fees due and payable to the Servicer) promptly deposit, after collection, the principal and interest portions of each payment received for a Mortgage Loan in separate custodial bank accounts established for CHFA funds (the "Trust Account") and deposit the remainder of such payment applicable to taxes and insurance premiums in escrow bank accounts established by Servicer for such purpose (the "Impound Account"). The records for the Trust Account shall reflect that it is held in trust for CHFA. Any interest payable to the Mortgage Loan borrowers for escrows or any other funds held by the Servicer, shall be paid by the Servicer, at the Servicer's sole expense. The Servicer shall deliver to each Mortgagor a loan payment coupon book or periodic statements in paper or electronic format in substantially the same form as mortgage loans serviced for Fannie Mae (or otherwise as directed by CHFA), which fully comply with all applicable state and federal laws, rules and regulations including, but not limited to, the provisions contained in the federal Real Estate Settlement Procedures Act of 1974 and any and all amendments, modifications, restatements, or replacements and all regulations related thereto (collectively, "RESPA"), and also which, at a minimum, set forth the dollar amount of the payment that is due and the date that such payment is due.

The Servicer shall maintain at all times at its own expense an errors and omissions policy and an adequate blanket fidelity bond on all employees handling CHFA funds, monies, documents and papers, which policy and bond is acceptable to CHFA and shall protect the Servicer and CHFA against losses, negligence, dishonesty, theft, forgery, larceny, fraud and misappropriation.

8.2 CHFA Contacts

lossmitigation@chfa.org

- Loss Mitigation
- Modifications
- Short Sale
- Deferrals
- Deed-In-Lieu
- Subordinations

notifications@chfa.org

- Foreclosure/Legal
- Bankruptcy
- Conveyance Deed Execution
- CHFA Demand/Curtailed Debenture Interest
- Title/REO Notification
- REO And Property & Preservation

forclaims@chfa.org

- Claims/Expense Reimbursement

delqreport@chfa.org

- Default Reporting

investorreporting@chfa.org

- All Investor Reporting Matters

For escalated matters please contact liisa.kooper@chfa.org

8.3 Safekeeping of Authority Documents

The Servicer will act as document custodian for CHFA or designate a document custodian to hold all CHFA mortgage records. The Servicer or its designated document custodian will comply with all State of Connecticut document preservation requirements applicable to CHFA. These requirements can be found at www.cslib.org. Mortgage records remain the property of CHFA, and the Servicer will provide copies or return originals to CHFA promptly upon request at no cost to CHFA. The Servicer will be

responsible for any loss sustained by CHFA resulting from loss or damage to CHFA mortgage records delivered to or retained by Servicer.

8.4 Escrow Responsibilities

In accordance with all applicable federal and State laws and regulations, the Servicer shall escrow for real estate taxes, mortgage insurance premiums and hazard insurance premiums (when hazard insurance premiums are required to be escrowed by the mortgage insurer or guarantor). The Servicer shall pay interest on escrow deposits at a rate not less than the minimum requirement set forth in applicable statutes or regulations of the State of Connecticut. CHFA does not prohibit reasonable and prudent investment of such escrow funds. The Servicer shall manage the escrow account held for each Mortgage Loan in accordance with all applicable state and federal laws, rules and regulations including the provisions contained in the federal Real Estate Settlement Procedures Act of 1974 (“RESPA”). For all Mortgage Loans for which an escrow account was established, the Servicer shall pay all taxes and insurance premiums for the Mortgage Loan real property covered by the mortgage lien when due and prior to any applicable penalty from the custodial bank account in which the previously collected tax and insurance premium were deposited, and at least annually furnish the Mortgagor a statement as to the amount and payment thereof. The term “taxes and insurance premiums” as used herein, means those payments (other than principal, interest, and late charges) to be made by Mortgagor that are required by the terms of the Mortgage Loans, including taxes, special assessments, and fire, hazard and/or flood insurance. If the escrow account balance is not sufficient to pay the taxes or insurance premiums, then the Servicer must advance the necessary funds from its corporate funds and then may recover such advances from the Mortgage Loan borrower in accordance with this Operating Manual.

8.5 Homeowners Insurance

The Servicer shall require Mortgagors to keep hazard insurance in force of a type at least as protective as fire and extended coverage upon the mortgaged properties, assuring that all buildings and improvements covered by each Mortgage Loan in an amount sufficient to cover the outstanding principal balance of the Mortgage Loan or the full insurable value of the improvements on the mortgaged property, whichever is less.

Coverage shall be provided by insurers licensed to do business in the State of Connecticut. In no event shall the amount or type of coverage be less than the amount or type required by the applicable mortgage insurer or guarantor.

- For a home sale price up to and including \$250,000, maximum deductible is \$2,500.
- For a home sale price \$250,001 to \$400,000, maximum deductible is \$3,500.
- For a home sale price \$400,001 to \$550,000, maximum deductible is \$4,000.
- For a home sale price greater than \$550,000, maximum deductible is \$5,000.

All such policies shall contain a standard mortgagee clause in favor of CHFA. In the case of a mortgaged property subject to multi-unit master hazard insurance coverage where it is impossible to obtain a standard mortgagee clause in favor of CHFA, the Servicer shall notify the insurer of each individual Mortgage Loan and obtain a certificate which shows CHFA as a “general loss payee”.

In the event of failure of the Mortgagor to maintain such insurance in full force and effect, such insurance shall be maintained by the Servicer at the expense of the Mortgagor.

The physical possession of such policies is not required so long as the Servicer maintains mortgage loan impairment insurance, naming as an additional named insured: “Connecticut Housing Finance Authority and/or its successors and assigns as their interests may appear”. In such a case, the Servicer shall furnish a certificate to CHFA which verifies such coverage and expressly affirms that ten (10) days' written notice of change or cancellation will be given to CHFA.

During the entire term of the mortgage, the Servicer shall require mortgagors to keep in force all required mortgage insurance or guarantees.

If a policy of insurance requires the original policy to be presented in order to make a claim thereon, then the Servicer shall retain the original as long as such insurance policy is in force and effect. In the event the Servicer is unable to obtain such insurance, the Servicer shall immediately advise and keep CHFA fully informed of any and all steps it is pursuing.

When appropriate, the Servicer shall notify any and all hazard and flood insurance companies which have issued policies for the Mortgage Loan property, and any other parties required by state or federal law, rule or regulation, that a Mortgage Loan is being serviced by Servicer.

The Servicer shall, where and when appropriate, make proper and timely applications, including the filing of all necessary notices, for all fire, casualty, and/or flood insurance payments due to CHFA relating to a Mortgage Loan, and shall submit such reports and apply the said funds in the manner provided in this Operating Manual.

In the event of loss or damage to the Mortgage Loan property in excess of \$25,000, Servicer shall promptly notify CHFA at notifications@chfa.org.

When the Servicer is notified of property damage exceeding \$25,000, the Servicer must make a physical inspection of the mortgaged property. Servicers must monitor the restoration related to the insurance claim to completion in accordance with FNMA

guidelines.

Servicers are responsible for the proper endorsement of insurance loss checks.

8.6 Inspections and Notifications by Servicer

The Servicer shall make an inspection of any Mortgage Loan property in the event of any of the following occurrences:

1. Mortgage Loan delinquency of ninety (90) days and no contact has been made with the mortgagor.
2. Loss claim for damage to the Mortgage Loan property over \$25,000.
3. Receipt of credible notification or credible indication of the vacancy, abandonment or deterioration of the Mortgage Loan property.

The Servicer shall, promptly notify CHFA of any actual knowledge that Servicer may acquire that:

1. Any Mortgage Loan property, or any part thereof, is out of repair or has deteriorated to an extent that is material.
2. Waste is suffered or committed with respect to any Mortgage Loan property to an extent that is material.
3. Any Mortgage Loan property has been materially damaged (i.e., in excess of \$25,000) by fire or other casualty.
4. Vacancy by the mortgagor continuing for more than one month.
5. Abandonment of the Mortgage Loan property.
6. Sale or transfer of the legal or equitable title to the Mortgage Loan property or any part thereof.

8.7 Release of Mortgage

The Servicer of the CHFA first or second Mortgage loan (*including any forgivable loan, if applicable*) will prepare and execute the Release of Mortgage on behalf of CHFA. Servicers must process lien releases for paid-in-full loans according to applicable Connecticut law. CHFA's Mortgage Loan Servicing Agreement gives a Limited Power of Attorney to each Servicer to authorize the Servicer to release CHFA Home Mortgage loans that it services when the loans are paid in full. The Servicer will prepare and execute the applicable release of mortgage on behalf of CHFA.

8.8 Assumption of Loans/Release of Liability

Third Party Sale/Assumption

A. Qualifications Prior to Assumption

No Loan may be assumed without prior written approval of CHFA. CHFA may approve an assumption of a Loan only if the assuming party qualifies as an Eligible Borrower under Sections 2.1 to 2.5 and the property qualifies as an Eligible Dwelling under Section 2.6. In addition, disclosure and acknowledgment requirements of FNMA, FHLMC, VA, FHA, and USDA rules and regulations relating to assumption of mortgages, as applicable, must be met.

1. Must be a first-time homebuyer (have not owned a principal residence over the most recent 3-year period) unless the property was located in a Targeted Area at the time of initial loan closing.
2. Must meet income limit requirements at the time of initial loan closing.
3. Must meet sales price limits at the time of initial loan closing.
4. Must meet all CHFA overlay requirements currently in effect.
5. Must be creditworthy and demonstrate borrower has the financial ability to make the monthly payments on the mortgage.
6. May not own any other residential property at the time of the closing of the assumption.

B. Mortgage Insurance and Guaranty Restrictions

In order to meet the requirements of Federal law relating to non-assumption of Mortgage Loans, CHFA requires provisions to be stated in all Loans which provide for acceleration of the maturity ("Due on Sale" provisions) on the sale or conveyance of the security property to a person ineligible for a CHFA Loan. CHFA may only approve assumptions if the following additional criteria, as applicable, are satisfied:

1. In the case of a VA-guaranteed Loan, a copy of the veteran's consent statement, as required by 36 CFR Section 36.4306(a) and (e), must be on file with CHFA.
2. In the case of a PMI-insured Loan, the assumption must obtain written PMI approval for the transfer of interest or obtain CHFA mortgage insurance.
3. In the case of a USDA guaranteed loan, the assumption must obtain written USDA approval to be provided to CHFA.
4. In case of FHA, follow applicable FHA guidance.

C. Required Documentation

The Servicer shall submit a request for assumption approval together with evidence to establish the eligibility of the borrower and of the dwelling as of the time of the assumption request to CHFA. Such evidence shall include:

1. CHFA loan number, existing borrower name(s), and property address;
2. Copy of the Mortgage Loan Application submitted by purchaser(s)/assumptors;
3. Current income verification for all new mortgagors (2 pay stubs and most recent W2, or, if self-employed, most recent 1-year complete signed Federal Tax Returns including all schedules— personal and business, if applicable);
4. Verification of any other income (Awards letter: social security, pension, etc.);
5. Documentation of any child support or separate maintenance payments received or paid to another party, if applicable;
6. Divorce order, if applicable
7. Recorded quit claim deed, if applicable
8. 3-years Federal Tax Returns or Fraud Guard report to reflect no ownership interest in a primary/principal residence over the most recent 3 years;
9. Tri-merge mortgage credit report, pulled by the servicer
10. 2 months asset statements (checking, savings, stock, retirement, 401(k), etc.) to reflect sufficient assets for the transaction
11. Copy of ratified sales/purchase/assumption contract or agreement;
12. Acquisition cost worksheet signed by new assumptor(s) and assumpee(s);

D. Assumption Closing

1. CHFA will review the eligibility of the proposed assumption and the dwelling. If acceptable, CHFA will issue written approval of assumption. The assumption closing may not take place unless the Servicer has received approval from CHFA.
2. CHFA will require the following documents to be submitted with a Notice of Assumption letter from the Servicer subsequent to the closing:
 - a. Original assumption agreement which shall have been recorded on the land records and shall include language affirming the outstanding mortgage and a promise to pay the remaining principal balance of the debt, with interest.

- b. Evidence of PMI Mortgage Insurance approval, if a PMI Loan.
- c. USDA (*Form 3555-17*) with the completed assumption agreement block in the case of a USDA Loan.

E. Assumption Fees

The Servicer may charge an assumption fee of 1% of the current outstanding balance of principal for a PMI or uninsured loan. In the case of an FNMA, FHLMC, or FHA insured and VA Guaranteed loans, a loan insured by FHA or guaranteed by VA may be assumed pursuant to applicable federal requirements.

F. Release of Liability

CHFA will not release any borrower from liability following an assumption.

Assumption – Release of Liability

Qualifications Prior to Assumption

No liability may be released without prior written approval of CHFA. The remaining borrower must be creditworthy and demonstrate the financial ability to make the monthly payments on the mortgage. The property must remain owner occupied.

CHFA Required Documentation for Release of Liability Review

- 1) Current income verification (2 pay stubs and most recent W2)
- 2) Verification of any other income (Awards letter: social security, pension, etc.)
- 3) Tri-merge mortgage credit report. Pulled by the Servicer
- 4) Transfer of agreement indicating terms of transfer of ownership. (Divorce decree or legally binding contract)
- 5) Recorded Quit Claim Deed

After a review, CHFA will provide the Servicer with a Release of Liability document to be executed by all parties and recorded on the land records. The recorded original should be stored with the collateral package with a copy sent to CHFA for its records.

8.9 Recapture Tax

Congress enacted legislation in 1988, subsequently amended in October of 1990, to recapture a portion of the "subsidized amount" from home buyers who receive qualified mortgage bond assistance after January 1, 1991. This includes all buyers who use CHFA loans and Mortgage Credit Certificates (MCC), dispose of an interest in their residence within nine (9) years of purchase, and whose incomes substantially increase. The amount of Recapture Tax that Borrower(s) might have to pay depends on how much their income has increased, their family size at the time of sale, the original amount of their mortgage, the length of time they owned their home and any gain realized on disposition of the home. The recapture amount is the lesser of:

- (1) 50 percent of the gain realized on disposition, or
- (2) A percentage of the subsidized amount. The percentage is the product of the holding period percentage and the income percentage (both discussed below).

A. The Borrower(s) is responsible for calculating and paying the Recapture Tax, if any, as additional Federal tax liability for the tax year in which the interest in the home is disposed. However, at the time of the loan, Participating Lenders are required to provide homebuyers with the Authority's "Notice of Potential Recapture Tax" (*CHFA Form 051-0597*), and "Understanding Tax (*CHFA Form 050-0597*) at the time of application. The "Method to Compute Recapture Tax" (*CHFA Form 052-1195*) is also provided to homebuyers with closing documentation:

B. **No Recapture Tax is due and the Borrower(s) does not need to do the calculation if any of the following occurs:**

1. The Borrower(s) disposes of his home later than nine (9) years after the mortgage loan is closed.
2. The home is disposed of as a result of the Borrower(s) death.
3. The Borrower(s) transfer the home either to his spouse or former spouse incident to divorce and no gain or loss was incurred on the transfer and included in his Federal taxable income.
4. The home was disposed of at a loss.
5. The Borrower(s) modified adjusted gross income for the year in which the home is sold does not exceed the Threshold Income, adjusted for family size, for such year. Modified Adjusted Gross Income is calculated as follows:

Adjusted Gross Income from IRS 1040	\$ _____
Tax exempt income earned for the year	+ _____

Subtract the gain on sale of the home if
the gain was included in adjusted gross
income
Modified Adjusted Gross Income = \$ _____
- _____

C. Several steps are required to calculate the actual recapture amount owed. Please consult the Internal Revenue Service (“IRS”) Recapture of Federal Mortgage Subsidy Form 8828 and the instructions for completing IRS Form 8828.

D. Limitations and Special Rules on Recapture Tax

1. If you give away your home (other than to your spouse or ex-spouse incident to divorce), you must determine your actual Recapture Tax as if you had sold your home for its fair market value.
2. If your home is destroyed by fire, storm, flood, or other casualty, there generally is no Recapture Tax if, within two (2) years, you purchase additional property for use as your principal residence on the site of the home financed with your original subsidized mortgage loan.
3. In general, except as provided in future regulations, if two or more people own a home and are jointly liable for the subsidized mortgage loan, the actual Recapture Tax is determined separately for each person based on their interests in the home.
4. Refinancing the loan does not result in a Recapture Tax. If the home is disposed of subsequent to the refinancing, but prior to the original nine (9) year holding period, Recapture Tax may be due.
5. **CHFA Reimbursement for Recapture Tax Payment:** Borrower(s) that closed their CHFA first mortgage loan on or after March 18, 2013 and are required to make a Recapture Tax payment, may be eligible to receive reimbursement from CHFA.
6. To request reimbursement from CHFA, borrower(s) must submit a written request to CHFA no later than December 31st of the year that the Federal Recapture Tax is owed and paid. Example: if the subject property is sold in 2013 and the tax return is filed in 2014, the request for reimbursement must be filed no later than December 31, 2014.

E. Filing the CHFA Reimbursement Request

To request Recapture Tax Reimbursement, borrower(s) must submit a written request to CHFA along with the following documentation:

1. A copy of the TRID – Closing Disclosure (*Formerly HUD- 1 Settlement*

Statement) - proof of sale of the property or, in the instance where the home is disposed of by a method other than sale, documentation evidencing the transfer of title and the Recapture Tax assessment; and

2. A copy of the signed and filed Federal Tax Return, along with all schedules including IRS Form 8828, for the year in which the Recapture Tax was assessed and paid; and
3. A completed IRS form 4506-T must be submitted directly to the IRS for each current owner listed on the mortgage loan documents requesting transcripts for the year in which the home was sold. The original transcripts received from the IRS, including Form 8828, must be submitted to CHFA with all other requested documentation; and
4. Evidence of payment of the Recapture Tax; and
5. Recapture Tax Reimbursement Request (*CHFA Form 049-0313*).
6. Mail the complete Recapture Tax Reimbursement request package to:

Connecticut Housing Finance Authority
Finance Dept. - Recapture Tax Reimbursement
999 West Street
Rocky Hill, CT 06067

Note: CHFA may require additional information and/or documentation in order to approve a request for reimbursement and such approval shall be granted at the sole discretion of CHFA, subject to funding constraints and applicable statutory and procedural requirements.

The Connecticut Housing Finance Authority provides applicants receiving a Recapture Tax payment reimbursement, a year-end form 1099 - Miscellaneous for tax purposes, per Internal Revenue Service requirements.

8.10 CHFA Delinquency Intervention Counseling Program

Connecticut Housing Finance Authority (CHFA) offers free delinquency intervention counseling to borrowers who are sixty (60) days delinquent on their mortgage loan. When a borrower is 60 days delinquent, the Servicer must send a letter informing the borrower of this counseling and forward a referral to a CHFA approved counseling agency. The counseling agency will work with the borrower to analyze their financial situation and develop an action plan to bring the loan current or other loss mitigation solutions. The plan must be presented to Servicer for approval. The Servicer must simultaneously perform prudent collection efforts in compliance with State and Federal regulations, as well as follow applicable insurer/guarantor guidelines.

The Servicer follow-up with the borrower is conducted at one, three and six months to discuss and identify any changes that may have occurred that will influence that action plan. Follow-up counseling sessions are conducted, as necessary.

8.11 Default Servicing Standards and Expectations

The Servicer shall take all steps necessary and proper to enforce the rights of CHFA under any Mortgage Loan that is in default. As required in Section 7.8 of this Operating Manual, the Servicer shall keep CHFA fully informed of all steps it is pursuing, which steps may include the designation of counsel for the prosecution of foreclosure or similar legal proceedings on behalf of CHFA. CHFA reserves the right upon written notice to Servicer and in CHFA's sole option and commercially reasonable discretion, to designate foreclosure counsel of its choice. The Servicer shall take all necessary actions to protect and maintain CHFA's first Mortgage Loan lien priority including making protective advances to satisfy priority liens or foreclosure judgements with respect to real estate taxes, water and sewer assessments, condominium association assessments or other priority assessments. The Servicer shall also take all necessary actions to prevent a priority lien foreclosure action to proceed to judgment in order to limit foreclosure costs and expenses. In the event of a foreclosure sale pursuant to an action not brought by CHFA, the Servicer or its agent shall, following guidance provided by CHFA, satisfy the foreclosing lien or attend the sale, bid, if necessary, and take all other steps needed to protect CHFA's Mortgage Loan first lien priority. If a foreclosed Mortgage Loan is an insured or guaranteed mortgage, the Servicer will follow all procedures required by the mortgage insurer or guarantor to ensure a timely recovery of all insurance proceeds due to CHFA as the owner of the Mortgage Loan. The Servicer shall file all FHA/HUD claims on behalf of CHFA utilizing CHFA's number as the holder of the policy. In carrying out its responsibilities regarding delinquencies and defaults under this Agreement, the Servicer will comply with all regulations and requirements of the Consumer Financial Protection Bureau, the Fair Debt Collection Practices Act, the United States Bankruptcy Code and any other applicable rule or regulation of a federal, state or local governing body.

The Servicer shall maintain a sound, effective collection program adequately staffed by qualified personnel to minimize delinquencies, foreclosures and foreclosure expenses. The Servicer shall take prompt action to collect all sums past due utilizing, without limitation, telephone, notices and letters (electronic or otherwise), field visits and personal interviews, and shall also act to cure any other Mortgage Loan defaults which come to the attention of the Servicer. The Servicer shall assess late charges in accordance with the terms of the Mortgage Loans. The Servicer shall apply commercially reasonable efforts to maintain the maximum possible number of Mortgage Loans in a current status, dealing quickly and effectively with Mortgagors who are delinquent or in default. The Servicer shall promptly inform CHFA, pursuant to the reporting format established in this Operating Manual of any

delinquent Mortgage Loan. In the event that the foreclosure action is discontinued, the Servicer shall recommence all regular servicing. Servicer's delinquent Mortgage Loan servicing program shall include: (a) an adequate accounting system which will immediately and positively indicate the existence of delinquent Mortgage Loans; (b) a procedure that provides for sending delinquent notices, assessing late charges and returning inadequate payments; (c) procedures for the individual analysis of distressed or chronically delinquent Mortgage Loans; and, (d) reporting of the status of the Mortgage Loans to credit reporting agencies. The Servicer will also attempt to contact delinquent or in default mortgagors through a routine system of outbound telephone calls or alternative electronic technologies. The Servicer shall provide a toll-free number for use by CHFA and mortgagors.

8.12 Bankruptcy

The Servicer will maintain the expertise required to undertake collection efforts of Mortgage Loans that are in bankruptcy and Servicer shall undertake such efforts, which are not in violation of the United States Bankruptcy Code, to collect such delinquent Mortgage Loans in bankruptcy. The Servicer shall report all bankruptcy, whether delinquent or not, to CHFA in the manner described in Section 7.8 Default Reporting. The Servicer shall hire counsel as appropriate to protect CHFA's interests.

8.13 Loss Mitigation

Servicers must follow the most up-to-date and appropriate insurer or guarantor guidance for available loss mitigation tools.

Loss Mitigation tools for FHA guaranteed loans include (note: some may be used in combination with others):

- Special Forbearance: Provides a written payment plan for the borrower to become current on their mortgage.
- Loan Modification: A permanent extension in the loan term that results in a payment that the borrower can afford.
- Partial Claim: Allows a delinquent mortgage to be reinstated by advancing HUD funds to pay the arrearage. A promissory note or "partial claim note" is issued. Currently the partial claim note carries no interest and is not due and payable until the borrower either pays off the first mortgage or no longer owns the property.
- Pre-foreclosure Sale: Allows a borrower in default to sell the property and use the sale proceeds to satisfy the mortgage debt, even if the proceeds are less than the amount owed.
- Deed in Lieu of Foreclosure: The borrower voluntarily deeds the property to HUD in

exchange for a release from all obligations under the mortgage.

Loan Retention Loss Mitigation tools for non-FHA loans include:

Forbearance, deferral agreements, modifications, pre-foreclosure (short) sales and deed-in-lieu of foreclosures are also loss mitigation options for loans insured by private mortgage insurance (PMI) companies, the Veteran's Administration (VA), United States Department of Agriculture (RD/USDA), CHFA insured loans and uninsured loans. In addition, the private mortgage insurance companies, VA and USDA may offer a product similar to the FHA partial claim.

The home retention waterfall is:

1. **Informal Forbearance** A verbal forbearance that is limited to 3 months. Typically, this is followed by an informal repayment plan or a formal deferral.
2. **Informal repayment plan** A verbal agreement between the servicer and borrower to repay the forborne payments over a period of up-to 24 months.
3. **Formal Deferral ("Deferral")** A deferral is limited to 6 months of delinquent PITIA payments which must cure the delinquency. A maximum of two deferrals per life of the loan with the total deferred installments not exceeding 12 (including COVID deferrals). Deferrals must be at least 24 months apart, meaning the start of the second deferral must be 24 or more months from the end of the first deferral.
4. **Standard Modification** which may include capitalization of corporate advances or other protective advances a Servicer may have made on the borrower's behalf.

CHFA'S HOME RETENTION WATERFALL ELIGIBILITY REQUIREMENTS

- The mortgagor(s) must be an owner occupant, have sufficient resources to make the payment on the mortgage and continue to occupy the home.
- The property securing the CHFA mortgage must be a single family (1-4 unit) property and the mortgagor's primary and only residence.
- The existing CHFA mortgage must be in default. For informal forbearance default is defined as 31 days or more past due. For deferrals and modifications default is defined as 61 days or more past due.

WATERFALL STEP 1 - INFORMAL FORBEARANCE

1. Servicer Delegated, CHFA approval is not required.
2. Loan must be at least 31 days past due and no more than 90 days past due, the informal forbearance plan is limited to 3 months.

WATERFALL STEP 2 - INFORMAL REPAYMENT PLAN

1. An informal forbearance may be followed by an informal repayment plan not to exceed 24 months.

WATERFALL STEP 3 - PAYMENT DEFERRAL

PAYMENT DEFERRAL REQUIREMENTS

- Servicer may offer a deferral of up to 6 months of consecutively missed PITIA payments
- The deferral must cure the delinquency.
- A maximum of two deferrals per life of the loan with the total deferred installments not exceeding 12 (including COVID deferrals).
- Deferrals must be at least 24 months apart.
- CHFA will consider a deferral request upon receipt of a complete package.

PAYMENT DEFERRAL PROCESS

1. Servicer will submit the following documents to *lossmitigation@chfa.org*
 - Servicer Loan Retention Certification for Payment Deferral DTR-PAYDEFF.
 - Completed but not signed CHFA Payment Deferral Agreement PyAgree91520-F.
 - A recent loan transaction history and a copy of the recorded mortgage and recorded assignment of mortgage.
 - Note: Servicer is not required to perform a title search or perfect the lien; deferral agreements do not need to be recorded.
2. CHFA will review and authorize.
3. After CHFA's authorization, Servicer will have the borrowers execute two copies of the Payment Deferral Agreement.
4. Once signed, Servicer will mail one copy to CHFA for counter signature.
5. CHFA will return the fully executed Payment Deferral Agreement to Servicer for record retention.
6. CHFA will wire to Servicer the total deferral amount.
7. Servicer will apply the funds to bring the loan current with the borrower's next scheduled payment.
8. Once a deferral agreement is completed, Servicer must remit an amount equal to the number of P&I payments that were deferred (less applicable Servicer fee) to CHFA in the next regularly scheduled remittance.
9. Deferral pre-payments: CHFA will accept partial or pre-payments on deferred amounts. Servicer must remit any deferral payments to CHFA via a separate wire and send a payment ledger to *lossmitigation@chfa.org*. The ledger must include CHFA loan number and amount to be credited to the deferred amount; the ledger must match the wire amount.
10. CHFA will provide a reconciliation of outstanding deferral funds to Servicer on a periodic basis.

WATERFALL STEP 4 – CHFA STANDARD MODIFICATION

CHFA STANDARD MODIFICATION REQUIREMENTS

- All CHFA'S Home Retention Waterfall Eligibility Requirements are met
- The first payment due date must be at least 12 months in the past, and at least four full mortgage payments must have been made.
- All existing subordinate financing must be subordinated or paid off to maintain the first lien priority of the CHFA mortgage.
- All changes in ownership due to death or divorce of the current owners must be supported by legal documentation.
- A complete financial analysis must be performed by the Servicer. The hardship affidavit and documentation supporting the decision to modify the loan must be maintained in the Servicer's review file.
- The total DTI cannot exceed 55%.
- The modified UPB cannot exceed the original UPB.
- No interest rate change.
- Re-amortization to a new maturity date no more than 10 years past the original maturity date.
- Three-month trial payment plan required.
- Delinquent interest, corporate and escrow advances may be capitalized, up to the original loan amount. If there are corporate and escrow advances that cause the modified amount to exceed the original loan amount, the excess advances can be spread over a period of up to 24 months or the mortgagor may contribute cash to cure outstanding advances in addition to the modification to bring the loan current.
- CHFA will consider a modification request upon receipt of a complete package.

CHFA MODIFICATION PROCESS

1. Servicer will submit the following documents to *lossmitigation@chfa.org*:
 - Loan Modification & Certification CHFA FORM DTR-LMCERT. The certification, on page 2 of CHFA's form, must be signed by an authorized representative of the Servicer.
 - A recent loan transaction history.
 - Either a title search or the recorded Mortgage & Assignment of Mortgage to provide the volume & page recording information necessary to prepare the Modification Agreement.
2. If a signer of the original mortgage is not expected to sign the Modification Agreement, provide the appropriate documentation. If a borrower's name has changed since signing the original mortgage, provide proof of legal name change.
3. Requests submitted in any month will have a modification start date 2 months in advance, for example, a request submitted in January will have a 1st due date in March.
4. A request for modification may be submitted pre-trial or post-trial. If pre-trial, CHFA will authorize a trial payment plan, when the trial plan is completed, Servicer will then submit a request for the permanent modification with an updated Loan Modification Form & Certification and a payment history showing receipt of the trial payments.
5. Upon CHFA approval, the Modification Agreement will be provided to the Servicer

via email, CHFA will not accept substitute Modification Agreements. The email will also include the Loan Modification bill which explains CHFA's expectation for Servicer remittance based on the modification.

6. After CHFA's authorization, the Servicer will have the borrowers execute two copies of the Loan Modification Agreement, once signed, the Servicer will mail one copy to CHFA for counter signature. Servicers are not delegated to sign Modification Agreements on CHFA's behalf. Please note that each borrower's signature must be notarized, and each signature requires two witnesses.
7. The fully executed Agreement will be returned to the Servicer to have it recorded. The Servicer will provide CHFA with a copy of the title endorsement and a copy of the recorded executed Modification Agreement via email within 60 days of receiving the fully executed Agreement from CHFA.

PRE-FORECLOSURE/SHORT SALE

First Mortgage Short Sale (FHA): Servicers are delegated to process FHA short sales without CHFA review/approval. The Servicer must follow applicable FHA guidelines and file claims as necessary.

First Mortgage Short Sale (non-FHA): CHFA will consider a short sale settlement upon receipt of the following items to lossmitigation@chfa.org.

- HUD1 or Closing Disclosure
- Signed Purchase Agreement or Contract of Sale, with addendum if applicable.
- Appraisal
- Borrower Hardship Letter
- Statement of Debt for any junior mortgages or lines, as applicable.
- Evidence the property was listed for at least 15 days on the MLS.
- Insurer approval, if applicable (VA, USDA, MI, unless the Servicer is delegated).
- The following conditions must be met:
 - Real estate commissions cannot exceed 6%, dual agency will be at 5%.
 - Settlement fees will not exceed \$1,250.00 with a \$250.00 allowable title cost.
 - There can be no seller (borrower) incentives.

CHFA SHORT SALE PROCESS

1. Servicer will submit all required documents to lossmitigation@chfa.org.
2. CHFA will review complete requests.
3. If terms of the sale do not meet CHFA's criteria, Servicer will contact the appropriate parties to request the terms acceptable to CHFA.
4. Once approved, CHFA will provide authorization via email.

5. Servicer will provide the net sale proceeds by check or wire to CHFA within 2 business days of the sale.
6. Servicer will provide the final HUD1/Closing Disclosure to lossmitigation@chfa.org and forclaims@chfa.org within 2 business days of the sale.

Down Payment Assistance (DAP) Loans or Emergency Mortgage Assistance Program (EMAP) Loans: CHFA will consider a short sale settlement upon receipt of the following items to lossmitigation@chfa.org.

- HUD1 or Closing Disclosure
- Signed Purchase Agreement or Contract of Sale, with addendum if applicable.
- Appraisal
- Borrower Hardship Letter
- First Mortgage Statement of Debt and insurer/investor information.

The following conditions must be met if the *first lien is a CHFA mortgage*:

- Real estate commissions cannot exceed 6%, dual agency will be at 5%.
- Settlement fees will not exceed \$1,250.00 with a \$250.00 allowable title cost.
- There can be no seller (borrower) incentives.

8.14 Foreclosure

Servicers shall follow state and federal standard servicing guidelines and timelines when initiating a foreclosure. Servicer shall remain in compliance with all requirements of all federal and state laws, rules and regulations applicable to mortgage loan servicing, including specific insurer or guarantor requirements. Servicer will hire a law firm to represent CHFA's interests regarding collection and/or foreclosure of delinquent single-family mortgages.

Please follow the current "Allowable Foreclosure Attorney Fees" exhibit as published and periodically updated by Fannie Mae. Servicers are required to monitor the performance of the engaged law firms and are responsible for all issues regarding representation. Foreclosures are to be filed with Connecticut Housing Finance Authority as the plaintiff. Title must vest in Connecticut Housing Finance Authority's name.

8.15 Super Liens

The State of Connecticut has granted "super" priority status to certain types of municipal liens, including property taxes and water and sewer assessments, and up to nine months of unpaid homeowner association ("HOA") fees. As a result, these liens

will gain priority over the first mortgage. When a Servicer determines that a borrower is unable to pay an outstanding HOA or municipal debt, the Servicer will satisfy the priority debt the sooner of the receipt of any notification of a pending municipal lien, a Demand Letter or when the Servicer becomes aware of six or more delinquent and unpaid monthly HOA fees.

Servicer shall remain in compliance with all requirements of all federal and state laws, rules and regulations applicable to mortgage loan servicing, including specific insurer or guarantor requirements.

8.16 FHA Conveyance, VA Transfer of Custody & CHFA REO

For all CHFA loans, the Servicer shall inform CHFA of all title vest dates within 48 hours. The Servicer will complete the Title Notification Form DTR-TITLE and email it along with the following documents to notifications@chfa.org

- Recorded mortgage deed including legal description
- Instrument placing title with CHFA: certificate of foreclosure, deed-in-lieu, committee deed, etc. including legal description. Recorded if available, if not available at time of initial notification, please send a recorded copy within 30 days
- Latest property inspection report
- First time vacant inspection report, if applicable
- Ejectment/eviction plans, if applicable

FHA guaranteed loans. The Servicer shall follow FHA guidelines for the proper and timely conveyance of the REO to HUD. Debenture interest that is curtailed for any reason will be demanded of the Servicer. Failure to convey in a timely manner may result in a make-whole demand to the Servicer from CHFA. The make-whole demand may include the unpaid principal balance, interest at the note rate thru make-whole demand date plus any corporate, escrow or foreclosure expenses advanced by CHFA. No additional expense claims will be reimbursed to the Servicer by CHFA.

In the event of a reconveyance of a property by HUD, Servicer shall immediately notify CHFA of the reconveyance and pay the reconveyance billing directly to HUD so that future CHFA FHA claims receipts are not offset. Servicer must email to CHFA at notifications@chfa.org copies of the Preliminary Notice of Intent to Reconvey, Reconveyance Billing, Notice of Intent to Offset, and any other communication Servicer received regarding the reconveyance by HUD or its vendor and proof that Servicer the reconveyance billing was paid directly to HUD. The Servicer shall bear the expense of curing the property and all reacquisition costs associated with the reconveyance.

VA guaranteed loans. Servicer shall follow VA guidelines for proper and timely transfer of custody to VA. Failure to do so may result in a make-whole demand to the Servicer from CHFA. The make-whole demand may include the unpaid principal balance, interest at the note rate thru make-whole demand date plus any corporate, escrow or foreclosure expenses advanced by CHFA. No additional expense claims will be reimbursed to the Servicer by CHFA.

CHFA REO. CHFA will assume custody of all non-FHA or non-VA foreclosed properties, regardless of the occupancy status. CHFA will assume REO responsibilities at title date, providing the Servicer has appropriately notified CHFA and the Servicer has coordinated the handoff of the secured property with CHFA. In the event the property is occupied, the Servicer shall complete all ejection and/or evictions necessary to render the property vacant. The Servicer will notify CHFA of vacancy as soon as the vacancy is discovered and of lock out dates before they occur.

8.17 Claim Submission and Expense Reimbursement

CHFA will review corporate and escrow advance reimbursement requests from Servicers when the insurer or guarantor recovery process is complete or, for uninsured loans, as soon as title has vested with CHFA, or for a third party foreclosure sale/purchase when funds have been received from the court, or for a short sale upon completion of the sale. Claims for reimbursements must be sent on Expense Reimbursement Form DTR-FERR with supporting documentation to forclaims@chfa.org.

A Servicer must use CHFA's mortgagee number for the filing of HUD claims, list CHFA as the Payee for all PMI claims, list CHFA as the Holder for all VA claims and provide CHFA copies of all claims including supporting back-up at the point of submission to the insurer. In the event that recovery funds are received by the Servicer, they must be delivered in their entirety, to CHFA within five (5) business days of receipt via a separate wire. Recovery funds must not be co-mingled with monthly principal and interest remittances. Copies of letters, explanations of benefits (EOB), Advice of Payment (AOP) or other relevant documentation should be emailed to forclaims@chfa.org. Failure to use CHFA's mortgagee number for claims filing may result in a penalty of \$250 per claim.

CHFA will no longer accept or reimburse expenses submitted by the Servicer after six months from the date that the original insurer claim was filed for HUD guaranteed and VA insured loans, or after six months from title taken date on all other loans.

If recovery has been curtailed due to a Servicer error, CHFA may reduce the expense

reimbursement by the curtailed amount. CHFA will review supporting documentation from the Servicer evidencing that it, or its attorney, was not responsible for the curtailment and, at its sole discretion, CHFA may refund Servicer the amount curtailed from the Servicer's reimbursement request.

For all expense reimbursements due to the Servicer in excess of what the guarantor/insurer has approved, the Servicer must provide CHFA with all required supporting documentation (invoices, system reports evidencing payment, etc.) for the unreimbursed expenses to be considered by CHFA for reimbursement.

In the event of an insurer audit, the Servicer will be liable for payment of all reimbursements and penalties assessed by the insurer for improper claim filing, including but not limited to lack of appropriate supporting documentation.

The Servicer's wire instructions must be provided to CHFA in accordance with CHFA's most current requirements. Wire instructions shall be on Servicer's letterhead, signed by an authorized officer, and must include the following information:

- Servicer's Bank Name
- Servicer's Bank Address and ABA Number Account Name
- Account Number
- Mailing Address of the account to be credited
- Contact name and number

All wire instructions must be verbally confirmed by CHFA staff and the Servicer. CHFA will not be responsible for any delays in the receipt of funds if the requested information is not provided in this format.

8.18 Servicer Contacts

On a periodic basis CHFA will require Servicer to provide updated contact information.

	NAME	TITLE	EMAIL	PHONE
Investor Reporting				
Payoffs				
General Default Servicing Contact				
Default Reporting				
Loss Mitigation/Loan				

Modifications				
Short sale or Deed-in-lieu				
Subordinations				
Bankruptcy				
Foreclosure/Legal				
Conveyance Deed Execution				
Claims/Expense Reimbursement				
Demands/Curtailed Debenture Interest				
Title/REO Notification				
REO and Property & Preservation				
Escalation Contact				
Document Custodian				

8.19 Forms List

FORM NAME		FORM CODE	LAST REVISED
FNMA Payment Deferral Agreement	079	PyAgree91520-F	7/1/2020
CHFA Loan Modification Agreement (<i>single signer – fillable version</i>)		DTR-LNMOD1	1/3/2025
CHFA Loan Modification Agreement (<i>fillable version</i>)		DTR-LNMOD2	1/3/2025
Loan Modification & Certification (<i>fillable version</i>)		DTR-LMCERT	1/3/2025
Payment Deferral & Certification		DTR-PAYDEFF	1/3/2025
Title Notification Form		DTR-TITLE	1/3/2025
Foreclosure Expense Reimbursement Request		DTR-FERR	TBD