

STATE OF WISCONSIN

DEPARTMENT OF

VETERANS AFFAIRS



Servicer's Guide

Primary Loan Program

March 2008

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I **GENERAL REQUIREMENTS**

A. **Contractual Relationships**

This Servicer's Guide, the servicing portion of the Lender's Manual, is a supplement to the SERVICING AGREEMENT, WDVA 2329, executed by the Servicer and the Wisconsin Department of Veterans Affairs (WDVA), is incorporated into such agreement by reference, and is a part thereof as fully as if set forth in such agreement.

The VETERANS HOUSING LOAN PROCESSING AND CLOSING CONTRACT, WDVA 2328, the SERVICING AGREEMENT, WDVA 2329, and this Servicer's Guide establish the legal relationship between the WDVA and the Servicer with respect to servicing home mortgages. The Servicer acts as an agent of the WDVA in processing and closing loans, but acts as an independent contractor when servicing such loans.

The WDVA reserves the right to rescind or amend any or all material in this Servicer's Guide.

The Servicer is responsible for protecting WDVA's interests in the mortgages it has contracted to service. This includes full accountability for the actions of entities used by, or acting for, the Servicer. The WDVA will consider actions of such entities on behalf of the Servicer as actions taken by the Servicer, itself.

1. **Application**

Authorization to originate and service WDVA loans is acquired through application to the WDVA. The following documents are required prior to authorization:

- a. A copy of the applicant's most recent financial statement;
- b. Evidence that the applicant can legally do business in the State of Wisconsin;
- c. A statement indicating where the WDVA loan files will be located.
- d. A completed, signed, and dated Certificate of Origination Fees.

After authorization is established, the Originator/Servicer must execute both the VETERANS HOUSING LOAN PROCESSING AND CLOSING CONTRACT, WDVA 2328, and the SERVICING AGREEMENT, WDVA 2329. At that time the Originator/Servicer is assigned a three-digit number which must be shown on all correspondence with the WDVA. This number serves as the key identifier on all mortgage loan accounting and remittance transactions.

The Servicing Agreement requires a Fidelity Bond and an Errors and Omissions insurance policy (see Chapter I,D,4). The Servicer must be able to produce evidence of this coverage when requested by the WDVA.

2. Maintaining Servicer Authorization

The Servicer must maintain sufficient facilities and adequately trained personnel to effectively service the mortgages and protect WDVA's interest in the mortgaged properties, regardless of the location of these properties.

The Servicer is responsible for the continuous maintenance and custody of all permanent mortgage account papers, documents, and records. The WDVA must be informed of all changes of location before the WDVA mortgage loan files are moved.

The Servicer shall promptly notify the WDVA in writing of major changes in its organization. This includes, but is not limited to, substantial changes in ownership, consolidations, mergers, rechartering, and relocations. A change of business name or address, as well as changes in significant personnel, may be considered a major change. Such changes may require re-establishment of servicing authorization. A change in ownership or reorganization which results in a de facto transfer of servicing may result in termination of the Servicing Agreement.

Failure to notify the WDVA in a timely manner of major changes in organization may be considered grounds for termination of the Servicing Agreement and the Veterans Housing Loan Processing and Closing Contract.

3. Termination

The Servicing Agreement and the Veterans Housing Loan Processing and Closing Contract are subject to termination upon violation of any term or condition of the Servicing Agreement or this Servicer's Guide.

In the event of termination, the Servicer agrees to comply with the transfer of servicing requirements defined in Chapter I,C.

B. Servicer's Compensation

As compensation for prudent servicing, the Servicer is allowed to retain fees and charges as follows:

1. Servicing Fees

The servicing fee is the product of the gross interest collected and the servicing fee factor for the loan. The servicing fee factors are listed by Loan Pool in APPENDIX B.

The Servicer shall deduct authorized servicing fees from monthly interest remittances to the WDVA.

2. Fees for Special Services

- a. The Servicer may charge the mortgagor a fee for partial releases. The fee shall not exceed \$50.00. In cases of unusual complexity, the WDVA may authorize a higher fee.

When proceeds of the partial release are used to improve the property mortgaged to the WDVA, the Servicer is responsible for supervising completion of the improvements to the satisfaction of the WDVA. A reasonable fee may be charged, not to exceed 2% of the total cost of the improvements.

- b. When a WDVA loan is assumed, the Servicer may collect from the buyer all "out of pocket" expenses and an assumption fee not to exceed 1% of the mortgage balance assumed.
- c. The Servicer may charge the mortgagor a fee for NSF (non-sufficient funds) checks not to exceed the amount usually charged its other mortgagors. Such charges shall be collected and retained by the Servicer only if the mortgagor's payment includes the NSF charge.

3. Late Charges

The Servicer may assess late charges to the extent allowed in the mortgage instruments. No late charge shall be imposed on any payment received within fifteen (15) days after the payment is due. The late charge amount may not exceed 4% of the monthly installment of principal and interest only. Late charges shall not be collected and retained by the Servicer unless the payment made by the mortgagor includes the late charges (see Chapter II,D,1,e). Late charges must be recorded on the individual mortgagor's permanent payment records.

Late charges on mobile home loans must comply with the provisions of the Wisconsin Consumer Act.

C. Transfer of Servicing

An Originator or Servicer may transfer its WDVA servicing responsibilities only to another authorized WDVA Servicer and only with WDVA's acceptance. The TRANSFER OF SERVICING AGREEMENT, WDVA 1300, must be executed by all parties prior to transfer. After the agreement to transfer has been executed, a LOAN SERVICING TRANSFER, WDVA 1301, must be completed. The following rules shall apply to all transfers of servicing:

- ♦ No loan shall be transferred by the Originator until the WDVA loan closing is complete. In the case of a Construction loan, the transfer shall occur only after the WDVA has received a CERTIFICATE OF COMPLETION OF CONSTRUCTION, WDVA 2337, from the Originator;
- ♦ All documents required by Section 3—4 (j) of the Lender's Manual (except the Lender's Warranty) shall be submitted to the WDVA by the Originator prior to transfer of servicing. When the final title work and the recorded documents are available, the Originator is responsible for signing and submitting the Lender's Warranty;
- ♦ All transfers shall be effective the first day of a calendar month;
- ♦ Multiple-Draw loan interest payments made by the mortgagor prior to the commencement of regular monthly payments of principal and interest shall be collected monthly and remitted to the WDVA by the Originator;
- ♦ Escrow funds collected by the Originator shall be properly identified and transferred to the receiving Servicer's accounts with all documents pertaining to the transferred loans (see Chapter I,D,5);
- ♦ The receiving Servicer assumes the liability for all originating and servicing errors and omissions in the transferred loans.

If there are problems with the transfer, the Servicer should contact the WDVA accounting staff for assistance.

D. Administrative Requirements

1. Audit of the Servicer's Financial Statements and Records

If requested, the Servicer shall furnish to the WDVA a copy of the latest regulatory audit or an independent accountant's report of the examination of the Servicer's financial statements.

WDVA representatives will audit Servicers for compliance with the contracts, the Lender's Manual, and the Servicer's Guide. The WDVA representative may review Servicer records and WDVA loan files for completeness and accuracy. The Servicer must, when requested, make all pertinent documents, records, and data available to WDVA's representatives in a manner and form that can be efficiently used.

2. Conflict of Interest

Information obtained through normal servicing activities shall not be used by the Servicer or by its officers, employees, agents, subsidiaries, or affiliates in a way that could be construed as a conflict of interest or the creation of an unfair advantage.

Property securing a WDVA mortgage shall not be acquired by a Servicer, its officers, employees, agents, subsidiaries, or affiliates, unless the WDVA pre-approves the transaction.

3. Compliance with Applicable Law and Mortgage Terms

The Servicer shall comply with all requirements of the Primary Loan Program and monitor the mortgagor's compliance with the mortgage terms.

The Servicer shall comply with local, state, and federal law or ordinance and regulations and orders issued thereunder, including, but not limited to, the Real Estate Settlement Procedures Act (RESPA), the Equal Credit Opportunity Act (ECOA), the Truth-in-Lending Act, and the Wisconsin Consumer Act.

The Servicer shall comply with all requirements of a Mortgage Insurance Policy (RA & RB Loan Pools) and shall in no way prejudice the right of the WDVA to recover from the mortgage insurer the full amount under the insurance contract. In the event of a mortgage insurance loss, the Servicer is responsible for submitting to the mortgage insurer or guarantor all required documents.

4. Servicer's Insurance and Bond Coverage

Each Servicer must maintain in effect, at all times and at the Servicer's expense, a Fidelity Bond and an Errors and Omissions insurance policy. The coverage must be through a company and on policy forms approved by the Wisconsin Commissioner of Insurance. The Servicer must be insured against loss arising from dishonest, fraudulent, or negligent acts and errors or omissions of all officers, employees, and other persons authorized by the Servicer to act on behalf of the Servicer for the WDVA.

a. Amount of Coverage Required

The fidelity bond coverage and the errors and omissions coverage shall be for a reasonable amount.

For mortgage bankers: Instead of separate Fidelity Bond and Errors and Omissions insurance policies, the WDVA will accept either a Certificate of Insurance showing the Servicer insured under the Mortgage Bankers Blanket Bond Policy or other equivalent blanket bond coverage.

No provisions of this Section requiring the Servicer to maintain bond and insurance coverage shall diminish the Servicer's responsibilities and obligations as set forth in other sections of this Servicer's Guide. The Servicer's obligation to the WDVA for losses is not limited to the Servicer's collectable insurance proceeds.

b. Cancellation of Coverage

The Servicer shall notify the WDVA promptly if the coverage required under this section is canceled or reduced for any reason. The Servicing Agreement may be terminated immediately if the above bond and insurance coverage is not maintained.

c. Reports of Claims

The Servicer shall promptly report to the WDVA in writing (c/o Internal Audit) all cases of embezzlement or fraud. Even if WDVA funds are not involved and claims are not filed with an insurer, the total losses shall be specified.

5. Recordkeeping Requirements

a. Ownership of Records

All mortgage papers and documents, tax receipts, insurance policies, insurance premium receipts, ledger sheets, payment records, insurance claim files and correspondence, foreclosure files and correspondence, current and historical computerized data files, and all other papers and records of whatever kind or description, whether developed or originated by the Servicer or others, reasonably required to document a WDVA mortgage loan or to service such loan, shall remain at all times the property of the WDVA.

On request of the department, the Servicer shall immediately deliver designated records and documents to the WDVA or its designee. The documents shall identify each mortgage by WDVA loan number and other identification specified by the WDVA. If the Servicer has microfilmed or otherwise condensed mortgage records and documents, the Servicer shall, at WDVA's request, promptly and legibly reproduce such mortgage records at no cost to the WDVA or its designee (see Chapter I,D,5,c).

b. Records Maintenance

The Servicer shall maintain an individual file for each WDVA mortgage. Each loan file, at a minimum, must contain the applicable documents listed in APPENDIX C. All WDVA loan files shall be maintained according to sound business practices and in a consistent manner that allows examination by the WDVA at any time.

Permanent mortgage accounting records and supporting documents shall be maintained for each loan. The loan account record must identify the WDVA as owner of the mortgage and contain the WDVA loan number. The system must provide acceptable audit trails, be capable of producing, at any time for any mortgage, an account history indicating payment dates, amount and distribution of payments, and latest balances of principal, escrow, advances, and unapplied payments. The system must also record escrow account overdrafts for tax and insurance payments.

c. Paper Reduction Procedures

The microfilming or conversion of loan documents to other storage media is permitted (except for the original mortgage and the final opinion of title or title policy) provided the documents can be reproduced. When requested by the WDVA, the Servicer shall reproduce legible records

without charge. The Servicer shall assume all liability arising from failure to reproduce legible copies of such records.

d. Release or Destruction of Records

WDVA Accounting System reports (as distinguished from permanent mortgage accounts and records referred to above) shall be maintained for at least three years following the date on which the WDVA Accounting System report was filed. After that time, unless otherwise instructed, these records may be destroyed.

Permanent WDVA records and accounts, including mortgages paid in full, foreclosed, or otherwise liquidated, shall not be surrendered or destroyed by the Servicer, except:

- ◆ The Servicer may destroy original records, including mortgage payment records, if such records have been legibly microfilmed or electronically stored;
- ◆ The Abstract of Title, if any, must be returned to the mortgagor when the loan is paid off;
- ◆ The Servicer may destroy original records (including microfilm and mortgage payment records) after loan termination as allowed by law.

E. Accounting

WDVA's accounting cycle for Servicer reporting is the calendar month. All collection and disbursement activity before the "close of business" on the last business day of the month is accounted for within the month.

The Servicer must control the funds in its custody at all times and be prepared to submit complete, accurate analyses of all cash balances and account transactions during a reporting period (see Chapter VI).

All bank accounts and records must be maintained according to Generally Accepted Accounting Principles. The WDVA requires the Servicer to reconcile all WDVA accounts monthly and to clear outstanding items within a reasonable time. The Servicer must also maintain the audit trails needed to support transactions related to the mortgagor's escrow accounts and bank accounts used for WDVA activity.

The Servicer is a custodian, accountable for funds received from, or on behalf of, a mortgagor. The Servicer must, therefore, establish and maintain appropriate trust accounts for WDVA mortgage payments and other funds received on the mortgagor's behalf. Internal operating accounts must not be used.

The Servicer is expected to maintain complete separation of and control of the funds. All funds must be in institutions chartered by either the Federal Government or the State of Wisconsin and insured by the FDIC or the NCUA.

1. WDMA Custodial Account

Mortgage repayment funds must be deposited into and retained in a custodial account against which the WDMA can initiate a draft. Escrow funds may be deposited into and retained in the custodial account or in a separate escrow account established for that purpose. If there is adequate accounting for the funds, partial monthly payments may be held in either account.

The custodial account is governed by these conditions:

- a. All funds received from or on behalf of the mortgagor must be deposited into, and all disbursements must be made from, an appropriate custodial account.
- b. The Servicer must ensure (by establishing a reasonable daily cutoff) that funds will be credited to the appropriate custodial account on the day received or (if a clearing account is used) no later than the next business day following their receipt.
- c. A WDMA custodial account shall not be used for the deposit of other funds or for a purpose not authorized by this Servicer's Guide.
- d. The deposit of late charge payments or servicing fees into a custodial account is not required. However, if they are deposited into a custodial account, they must be withdrawn by the last business day of the month.
- e. The account must be maintained in the Servicer's name. The title of the account must reflect that it is custodial in nature and conform to this example:

ABC Mortgage Company (Servicer's Name)
Custodial Account for the WDMA
100 Main Street (Servicer's Address)
City, State, Zip Code

- f. For monthly remittance of P&I funds, the accounts must be subject to Automated Clearing House (ACH) or Depository Transfer Check (DTC) withdrawals by the WDMA. The account will also be subject to withdrawal in the event of the Servicer's insolvency, the repeated failure to remit principal and interest payments on a timely basis, or as otherwise determined to be in the best interest of the WDMA or its mortgagors.

- g. The custodial account must be a deposit account insured by the FDIC or the NCUA.
- h. A Servicer that is not a FDIC- or NCUA-insured depository institution must maintain the custodial account in an institution whose deposits are insured by FDIC or NCUA and maintain evidence that the account is covered by such insurance.

2. Escrow Account

If the Servicer does not maintain escrow funds in the WDVA custodial account for Principal and Interest, the Servicer may either establish a separate escrow account for WDVA mortgagors or use an existing escrow account, subject to the following conditions:

- ◆ The account must be a FDIC- or NCUA-insured deposit account. Each individual mortgagor must be insured to the maximum amount allowed;
- ◆ The account must comply with all local, state, and federal laws and regulations governing escrow funds and the holder's fiduciary responsibilities;
- ◆ The application of monthly escrow collections must be for the full amount and concurrent with the application of Principal and Interest;
- ◆ All deposits into and withdrawals from the escrow account must appear on a permanent record of escrow activity with appropriate audit trails;
- ◆ The Servicer must be able to provide a trial balance of all WDVA escrow accounts, including escrow balances on hand for mortgages paid in full or otherwise discontinued from servicing.

3. Clearing Accounts

Clearing accounts may be used if they are a component of the Servicer's systems and procedures, provided:

- ◆ Payments deposited into a clearing account must be identified and credited to the WDVA custodial account and escrow account, as applicable, no later than the first business day following receipt;
- ◆ Transfer of funds to a disbursement clearing account must be concurrent with the issuing of checks on the clearing account;

- ◆ The Servicer must maintain adequate records to support all debits and credits to the clearing accounts.

F. Compliance with Internal Revenue Service Regulations

1. Form 1098

It is the Servicer's responsibility to file IRS Form 1098 in compliance with the IRS Code. The Servicer may indicate that interest has been collected on behalf of the Wisconsin Department of Veterans Affairs, but the Servicer's federal tax identification number must be used.

2. Form 1099A

The Servicer must complete and submit Form 1099A on WDVA's behalf in compliance with the IRS Code. WDVA's name, address, and Tax Identification Number (TIN) are:

Wisconsin Department of Veterans Affairs
P.O. Box 7843
Madison, WI 53707-7843
TIN = 39-6006493

If the WDVA is penalized because a Servicer fails to file a proper information return, fails to file an accurate or timely return, or otherwise fails to comply with IRS regulations, the WDVA will require the Servicer to reimburse the WDVA for fees or penalties.

II LOAN SERVICING

A. Loan Set Up

When the WDVA underwriting section issues a loan commitment, the Originator shall promptly order the title insurance policy or request an attorney's opinion of title. As soon as marketable title is established or insured and a firm closing date is set, the Originator shall request delivery of loan funds using a ELECTRONIC FUNDS TRANSFER REQUEST, WDVA 2605. Loan funds must be ordered by mail or FAX (608-261-0178). The request must be received by the WDVA not less than three business days before the closing date.

NOTE: FINAL DRAW -- CONSTRUCTION LOANS: After the department receives the CERTIFICATE OF COMPLETION OF CONSTRUCTION, WDVA 2337, a WDVA property manager may inspect the project for compliance and completeness. This may delay disbursement of funds beyond the normal three business days. The Servicer should make all parties aware of this possibility and plan accordingly.

Instructions for requesting loan funds are in Section 3-4 of the Lender's Manual.

Loan proceeds transferred from the WDVA to the Originator must be disbursed within two business days. Funds not so disbursed should be returned to the WDVA.

Funds not disbursed or returned to the WDVA within two business days shall be subject to an interest charge. The WDVA will charge the Originator interest, at the loan rate, from the date such funds were transferred to the date the funds were disbursed or returned to the WDVA.

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To return the funds:

- ◆ Wire the funds directly to US Bank-Milwaukee:
ABA # 0750 0002 2

For credit to: State of Wisconsin
General Control Account
111 851 166
Veterans Affairs
For loan ____-____-____.
From (person returning the funds).

- ◆ Phone the Chief, Program Accounting Section, (608) 266-3852, and discuss:

- ♦ when the funds were returned (which will enable the WDVA to provide the State Controller's Office documentation to properly receipt the funds);
- ♦ whether the loan proceeds will be reordered at a later date, or the loan will be canceled;
- ♦ whether interest is due based on the period the funds were retained.

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1. Closing and Multiple-Draw Interest Collections

On Single-Draw loans, the first payment due the WDVA is closing interest collected from and including the date of closing through the end of the month of closing. The daily interest calculation is based on a 365 day year. Interest due must be based on the actual number of days in each month.

On Multiple-Draw loans, construction phase interest and required escrow payments are due starting the tenth day of the month following the month in which the first draw is made (interest accrued through the end of the previous month is due by the tenth of the month). The daily interest calculation is based on a 365 day year. The amount of interest due is based on the actual number of days each month the funds are available (the date the funds are transferred to the Servicer through the last day of the month).

On Construction loans, the construction phase interest payments and required escrow collections continue either through the tenth day of the month following the month in which the WDVA transfers the final draw to the Originator or through the tenth day of the seventh month following the month in which the Construction Note is executed, whichever is sooner. This note must be executed by the mortgagor at the closing of the Construction loan, before any funds are disbursed.

On Purchase/Improvement loans, the construction phase interest payments and required escrow collections continue either through the tenth day of the month following the month in which the WDVA transfers the final draw to the Originator or through the tenth day of the fourth month following the month in which the Purchase/Improvement Note is executed, whichever is sooner. This note must be executed by the mortgagor at the closing of the Purchase/Improvement loan, before any funds are disbursed.

On Purchase/Rehabilitation loans, the construction phase interest payments and required escrow collections continue either through the tenth day of the month following the month in which the WDVA transfers the final draw to the Originator or through the tenth day of the seventh month following the month in which the Purchase/Rehabilitation Note is executed, whichever is sooner. This note must be executed by the mortgagor at the closing of the Purchase/Rehabilitation loan, before any funds are disbursed.

Remittance of closing and construction draw interest via the Telephone Cash Remittance System must be reported as "Other" collections on SERVICER REMITTANCE SUMMARY, WDVA 1701.

INTEREST CREDIT TO THE MORTGAGOR IS NOT PERMITTED WHEN CLOSING WDVA LOANS.

2. First Monthly Principal & Interest Installment

- a. On Single-Draw loans, the regular monthly installment of Principal and Interest is due on the first day of each month beginning with the first day of the second month after closing.
- b. Regular monthly Construction loan and Purchase/Rehabilitation loan installments of Principal and Interest, as required by the note, shall begin either on the first day of the second month following the month in which the WDVA transfers the final draw to the Originator or on the first day of the eighth month following the month in which the note was executed, whichever is sooner.

If the final draw of Construction or Purchase/Rehabilitation loan funds is not transferred from the WDVA to the Originator as of the end of the seventh calendar month, the regular monthly Principal and Interest installment may be reduced by the amount of interest that would apply to the funds not drawn. The minimum payment due is the total of the principal amortization (calculated as if fully disbursed) plus interest on construction draws transferred by the WDVA through the end of the prior calendar month, plus the escrow obligation.

- c. Regular monthly Purchase/Improvement loan installments of Principal and Interest, as required by the note, shall begin either on the first day of the second month following the month in which the WDVA transfers the final draw to the Originator or the first day of the fifth month following the month in which the Purchase/Improvement Note was executed, whichever is sooner.

If the final draw of Purchase/Improvement loan funds is not transferred from the WDVA to the Originator as of the end of the fourth calendar

month, the regular monthly Principal and Interest installment may be reduced by the amount of interest that would apply to the funds not drawn. The minimum payment due is the total of the principal amortization (calculated as if fully disbursed) plus interest on Purchase/Improvement draws transferred by the WDVA through the end of the prior calendar month, plus the escrow obligation.

3. Additional Procedures to Prepare the Account for Servicing

- a. Verify that the hazard insurance and flood insurance (if the property is in a HUD flood plain) is in effect and adequate as described in Chapter III,B.
- b. Review the Title Insurance Policy or the Opinion of Title.
 - 1) Confirm that the insured party is the State of Wisconsin, Department of Veterans Affairs, or that the Opinion of Title shows the State of Wisconsin, Department of Veterans Affairs, holding the first and paramount lien;
 - 2) Confirm that Schedule B of the Title Policy is free of clouds on the title, or that the Opinion of Title indicates no clouds on the title.
- c. Establish an escrow account.
 - 1) Verify that the seller's contribution to the WDVA mortgagor's escrow has been deposited into an appropriate escrow account;
 - 2) Determine the monthly escrow amount needed to provide at calendar year-end, sufficient funds to pay the taxes for the calendar year and provide a pro rata accumulation of funds for the annual hazard insurance premium (see Chapter II,B);
 - 3) Set up the monthly mortgage payment so that the correct Principal and Interest amount, as well as the monthly escrow amount as determined in 2) above, is collected every month.
- d. Within 10 calendar days of closing, the Originator must submit to the WDVA the closing documents listed in Section 3-4 (j) of the Lender's Manual.
- e. If the Servicer chooses to rely on its Mortgage Impairment Insurance as an alternative to maintaining insurance policies, the Servicer must do the following:
 - 1) At the time of closing and disbursement of mortgage loan funds, verify the existence of a valid insurance policy containing

coverage required by the WDVA and record the policy number, amount of coverage, name of insurance company, and the agent's name;

- 2) Advise the mortgagor at closing that adequate insurance must be maintained in force throughout the life of the loan;
- 3) Put in place a process that will cause the prompt acquisition of fire and extended coverage and flood insurance (if required) for the mortgagor's account, for at least the minimum requirements of the WDVA, upon learning that the amount of coverage is being reduced or the policy is being canceled;
- 4) Continue to collect and disburse escrow funds for the payment of hazard insurance premiums;
- 5) Continue to fulfill the Mortgage Impairment insurer's requirements regarding servicing insurance escrows.

B. Escrow Accounts

WDVA mortgages require the accumulation of funds for payment of real estate taxes, special assessments, hazard insurance premiums, and, where applicable, flood and mortgage insurance premiums. These funds shall be held in trust for the payment of these accruing obligations.

As of calendar year-end, a sufficient amount must be available to pay the real estate tax bill, special assessments, etc., for the entire tax year, plus a pro rata amount for insurance escrow based upon the number of months since the last policy premium payment.

In order to provide adequate oversight of the escrow accounts, the Servicer must maintain and be able to provide for each loan, its escrow balance (including zero and deficit balances), month paid through, monthly escrow payment, amount and next due date of all hazard insurance premiums, unpaid tax liabilities, and the amount of the next year's anticipated real estate tax liability.

1. Management of the Escrow Account

The Servicer shall assume full responsibility for the administration of the mortgagor's escrow account. The escrow funds shall be maintained in an escrow account according to the procedures described in Chapter I,E,2. The monthly payment collected by the Servicer shall include, in addition to the principal and interest amounts, an escrow amount for taxes and insurance. The escrow amount must be deposited into the escrow account concurrently with the application of principal and interest. All payments of items for which funds are escrowed must be from the mortgagor's escrow account.

The escrow payment must be sufficient to accumulate by the end of the calendar year adequate amounts to pay the estimated insurance premiums, taxes, ground rents, special assessments, and other charges for the calendar year. If the escrow is insufficient to pay the hazard insurance premium when it is due, or pay the full yearly taxes in either December or January, the Servicer must either collect the deficiency from the mortgagor or make an advance from its own funds. The mortgagor is given 30 days notice to provide the funds to make up the deficiency. Failing that, the Servicer must advance the funds to pay the obligation.

If the mortgagor fails to repay an advance, or make a monthly payment agreed upon to liquidate an advance, all subsequent monthly payments, including principal and interest amounts received from the mortgagor, shall be applied against the advance until the advance is repaid.

The Servicer shall assure the timely payment of taxes, assessments, and insurance premiums, etc., so as to avoid penalties (see Chapter III,A). Current paid real estate tax bills and insurance premium notices or acceptable alternatives shall be retained by the Servicer to show timely payment and provide data for escrow analyses. These documents must be available for review at the request of the WDVA.

If hazard insurance premiums are paid as part of a comprehensive insurance policy, the monthly escrow amount shall include one-twelfth of the annual comprehensive insurance policy premium. The full amount of water and/or sewer assessments or special assessments appearing on the tax bill must be included in the annual escrow analysis. Special assessments may be excluded only if it is clearly documented that they are non-recurring.

2. Annual Escrow Account Analysis

The Servicer shall perform an escrow analysis at least once a year as early in the calendar year as practical, based on the estimated real estate tax amounts and insurance premiums next due. This annual escrow analysis shall provide a determination that balances will be adequate to pay the escrow obligations as they accrue. The Servicer shall adjust the monthly escrow amount to meet this goal and promptly furnish the mortgagor a copy of the analysis.

If the Servicer determines that a surplus of less than \$50.00 exists and the mortgage is current, the surplus may be considered in fixing the monthly escrow amount for the following year. If the surplus is \$50.00 or more and the mortgage is current, the surplus must be refunded. If the mortgage is delinquent, any surplus may be applied to the delinquency or deposited in an unapplied payments account.

When it is determined that a shortage exists in the escrow account, the Servicer must either allow the mortgagor to pay the shortage within 30 days or take the shortage into consideration in fixing the escrow payment for the following year.

A copy of the annual escrow analysis shall be provided to the mortgagor at no cost, setting forth in summary form current escrow balances, shortages or surpluses, previously and currently required escrow payments, and the options stated above.

3. Payment of Interest on WDVA Escrow Accounts

The payment of interest on the escrow balances of WDVA loans closed on or after May 3, 1996 is required by state law. Wisconsin State Statutes, Section 1, 45.79(4)(c).

4. Annual Escrow Statement

The Servicer must send each WDVA mortgagor an escrow statement annually, describing the activity of the escrow account for the calendar year, including the date and amount of all deposits, beginning and ending balances, the date, amount, and type of all disbursements.

C. Waiver of Escrow

If the mortgagor requests it and the following criteria are met, the Servicer must waive the escrow requirements.

1. Criteria

The loan must be aged at least two years and there must be at least a 30% equity position. The 30% equity may be determined by an appraisal (paid for by the mortgagor) or based on the current equalized assessed valuation. The equalized assessed valuation method is preferred.

There must be no payments 30 days or more past due during the previous 24 months. The previous calendar year's real estate taxes and any special assessments must be fully paid and the hazard insurance premium payment must be current.

At the time the waiver is granted, the mortgagor must sign a WAIVER OF ESCROW AGREEMENT, WDVA 1081, which provides for re-establishment of the escrow account, if the loan account becomes more than 30 days delinquent, the real estate taxes become delinquent, or the hazard insurance lapses.

2. Fees

If a fee is customarily charged other mortgagors, the Servicer may charge a fee of up to \$50.00.

3. Servicer Oversight

The Servicer must continue to monitor the payment of real estate taxes and hazard insurance premiums. The Servicer must assure that hazard insurance is adequate, coverage does not lapse, and all mortgage impairment insurance requirements are maintained.

4. Re-establishment of Escrow Requirements

If, after the escrow requirement is waived, the loan account becomes 30 or more days past due, or the real estate taxes become delinquent, or the hazard insurance lapses, the escrow account must be re-established.

The Servicer must immediately take action to resolve delinquencies and hazard insurance lapses. If necessary, the Servicer must advance funds for the payment of real estate taxes and the force-placement of insurance coverage (Servicer advances may be recovered per Chapter II, D,1,a). An escrow analysis must be performed and escrow payments established so that sufficient funds will be available to cover the tax and insurance obligations as they accrue.

Another waiver of the escrow requirement may not be granted until 24 months elapse from the date the delinquencies are cured or the hazard insurance coverage is restored.

D. Mortgage Accounting

Mortgage accounting includes collecting monthly Principal & Interest installments and other funds related to the mortgagor's obligations, applying these funds, remitting funds to the WDVA, and maintaining records of these activities.

1. Application of Payments Made by Mortgagors

A payment is defined as the principal and interest amount specified in the mortgage note (the installment), plus the required escrow amount.

No part of a payment may be applied unless the full payment (principal, interest, and escrow) is received. Amounts received by the Servicer must be applied to the mortgagor's obligations in the following order:

- a. Advances made by the Servicer

When advances have been made on behalf of the mortgagor by either the Servicer or the WDVA, the mortgagor may reimburse the Servicer directly for the full amount or an additional amount may be added to subsequent mortgage payments to repay such advances.

If a mortgagor fails to repay an advance or portion thereof as agreed, all subsequent mortgage payments received must be applied against the advance in the following order:

- 1) first to the Servicer's and/or WDVA's reimbursable expenses relating to the advance;
- 2) then to interest (at the note rate) on the amount of Servicer advances outstanding to the effective date of the mortgage payment;
- 3) then to the advance, itself, up to the amount needed to liquidate the advance.

Chapter II,B,1 states WDVA's policy on advancing funds when an escrow account balance is not sufficient to cover currently due taxes, insurance premiums, etc. WDVA's policy regarding advances for the protection of the property and/or security interest (property repairs, etc.) is stated in Chapters IV and V.

b. Complete monthly payments

Each full payment collected shall be applied to the oldest delinquent monthly payment first, and then to the next oldest delinquent payment until the current month's payment of escrow, interest, and principal is paid.

UNDER NO CIRCUMSTANCES MAY DELINQUENT INTEREST BE CAPITALIZED.

c. Curtailments

Additional principal payments may be accepted by the Servicer whenever the mortgage account is current.

Funds received in consideration of a partial release of security shall be applied as directed by the WDVA in Chapter III, E. Funds that the Servicer is directed to apply to principal shall be handled as a curtailment according to the instructions in Chapter VI.

Application of a curtailment shall not extend or postpone the due date of subsequent monthly payments or change the amount of such payments, unless a Loan Modification Agreement has been executed as provided under par. f.

d. Prepayments

If the mortgage account is current, any number of complete monthly payments of escrow, interest, and principal may be prepaid.

e. Late Charges, NSF Check Fees

Funds may be applied to accrued late charges and NSF check fees only if such funds are added to a regular payment and identified as such by the mortgagor. A payment may not be refused because these accrued obligations are not included. Uncollected late charges and NSF check fees may be accumulated and included in the settlement at the time of the payoff. Such late charges and fees may then be retained by the Servicer as servicing compensation.

f. Loan Modification Agreement

When a Loan Modification Agreement has been properly executed, the Servicer may accept an additional principal prepayment of a minimum of twenty-five thousand (\$25,000.00) dollars and future monthly PITI payments may be adjusted. All other conditions including the term on the indebtedness will remain unchanged. The Loan Modification Agreement application form (WDVA 2308M) may be found at the WDVA Web site at www.dva.state.wi.us/PA_lenders.asp. Submit the completed form to the WDVA Loan Accounting Section, P.O. Box 7843, Madison, WI 53707-7843.

2. Amounts received which contain more or less than an exact payment

A deficiency in the amount of the required payment (excluding late charges and NSF fees) that does not exceed \$5.00 shall be adjusted by reducing the amount applied to the mortgagor's escrow account. When the deficiency in the amount of the required installment exceeds \$5.00, the entire amount shall be deposited in the WDVA Custodial Account as an unapplied payment until sufficient funds are received to make a full payment. At that time, the funds must be applied as described in Chapter II,D,1. A record of unapplied payments shall be maintained and appropriately reported to the WDVA on the CUSTODIAL ACCOUNT ANALYSIS, WDVA 1409.

If the loan is current and the amount collected exceeds the required payment, the excess amount may be credited to the mortgagor's escrow account, retained as an

unapplied partial payment, or applied as a curtailment, as directed by the mortgagor.

3. Payment in Full

The Servicer shall determine the amount required to pay a loan in full (including accrued interest), collect and remit the proper amount, and take other actions necessary to close out the mortgage accounts.

- a. Interest must be computed up to, but not include, the date of payoff. Interest calculations must be based on a 365 day year and the actual number of days in the month of payoff.
- b. Funds in the mortgagor's escrow account or funds held as unapplied payments must be either considered in determining the payoff amount or refunded at closing.
- c. All appropriate payoff documents must be completed and all mortgage-related accounts closed. A copy of the recorded mortgage (including the legal description) must be attached to the LOAN PAYOFF & REMOVAL REPORT, WDVA 1412, and sent to the WDVA within one business day after payoff funds are received to facilitate the timely issuing of a mortgage satisfaction.
- d. Payoff amounts must be remitted via the Telephone Cash Remittance System not later than the first business day after the funds are received. The payments in full must be shown on the SERVICER REMITTANCE RECORD, WDVA 1701, as "PayOff Funds" (see Chapter VI for remitting and reporting requirements).

4. Rental Income

If the WDVA determines it is necessary to collect rent on behalf of the mortgagor, such receipts shall be collected and disbursed through an appropriate trust account in conformity with the mortgage. A record of rental collections and disbursements shall be maintained so that an accounting may be made to the mortgagor or may be considered when filing an insurance claim. When the Servicer is directed by the WDVA to act through a Property Management Broker, the net rental proceeds will be delivered to the Servicer together with a full accounting of receipts and disbursements. Disbursements from the trust account may be made only at the direction of the WDVA.

5. Insurance Loss Proceeds

To protect the priority of the WDVA first mortgage (in conformity with applicable law and the mortgage instruments):

- ♦ There must be a system for controlling and tracking the individual mortgagor's insurance loss receipts and disbursements through a WDVA Custodial Account or other accounts permitted by the WDVA;
- ♦ The damaged property must be repaired to its original condition or better;
- ♦ On properties covered by mortgage insurance or a loan guaranty, the Servicer must comply with all mortgage insurance requirements pertaining to settlement of insurance losses and local lien laws.

When evidence of hazard insurance loss is received, the Servicer must promptly file proof of loss statements with the insurance carrier (and the mortgage insurer, if required), use its best efforts to have the loss promptly adjusted, and collect the insurance proceeds due.

The Servicer must assure that the settlement check is properly endorsed. If the loss or damage is less than \$5,000.00, the Servicer may endorse the insurance check and deposit the proceeds into an appropriate escrow account. If the amount is over \$5,000.00, the Servicer must immediately inform the WDVA of the loss and the proposed use of proceeds, obtain WDVA's endorsement on the settlement check, and deposit the proceeds into an appropriate escrow account.

The Servicer is responsible for the general oversight of the restoration. This responsibility includes authorizing and arranging for the restoration of the damaged property in cooperation with the mortgagor. In the event of a total loss, the proceeds may be applied to a restoration on the original home site only.

All disbursements must be made from an escrow account and appropriately documented. Partial disbursement or a draw plan may be used, provided the Servicer makes a physical inspection at each stage to insure that the proportional amount of work is satisfactorily complete.

Proceeds in excess of replacement cost or repairs shall be applied against the mortgage debt.

III PROTECTION OF PROPERTY AND SECURITY INTEREST

A. Introduction

It is the Servicer's responsibility to safeguard WDVA's interest in its investment and to document the Servicer's efforts in doing so. This responsibility includes, but is not limited to:

- ♦ Paying in a timely manner insurance premiums, property taxes, ground rents, assessments and other charges which are, or could become, liens on properties securing WDVA mortgages;
- ♦ Maintaining adequate insurance to cover damage from casualty losses;
- ♦ Making inspections of delinquent account properties to detect vandalism and waste; promptly reporting adverse conditions to the WDVA;
- ♦ Taking appropriate action when an account involves bankruptcy, probate proceedings, condemnations, or other legal actions;
- ♦ Performing all other activities necessary to maintain WDVA's rights in the mortgage and the mortgaged property;
- ♦ Documenting compliance with the above requirements.

All penalties, losses, or damages resulting from failure to discharge these duties will be the responsibility of the Servicer and may not be passed on to the mortgagor, unless the mortgagor directly contributes to the failure. If the WDVA suffers a loss because of the Servicer's failure to fulfill these duties, the Servicer will be financially responsible.

B. Insurance

1. General

The Servicer is responsible for assuring that:

- ♦ Premiums are paid on time;
- ♦ Insurance coverage is adequate;
- ♦ The mortgagee clause names the Wisconsin Department of Veterans Affairs as first mortgagee, in care of the Servicer.

There must be an adequate review process which identifies potential problems unique to the WDVA Primary Loan Program; for example, changes of address on insurance premium notices (an indication that the mortgagor may have vacated the premises), or name changes (an indication of a possible transfer of ownership). In such cases, the Servicer must investigate and determine the appropriate action.

The Servicer will cause all insurance checks, notices, policies, invoices, etc., to be delivered directly to the Servicer. If a lapse or reduction of insurance coverage occurs, the Servicer shall immediately obtain adequate insurance coverage for the mortgagor's property (unless the account is in foreclosure; see Chapter V,E,4,d).

The Servicer shall indemnify the WDVA for losses suffered because of:

- ♦ Failure of the Servicer to have hazard insurance in effect on each mortgaged property as required in the Servicing Agreement and this Servicer's Guide;
- ♦ Failure of the Servicer to obtain additional coverage when the WDVA directs the Servicer to obtain such coverage.

The Servicer shall establish at closing that condominiums have adequate hazard insurance and that the monthly maintenance fee includes a charge for such insurance. There must also be a comprehensive policy of public liability insurance covering all of the common elements and commercial spaces in the condominium project. Note that, because funds for insurance are collected monthly and paid by the Condominium Association, it is not necessary to escrow for hazard insurance.

The Servicer must adequately document compliance with the requirements indicated above.

2. Hazard Insurance

The hazard insurance policy must be in the mortgagor's name. The mortgagee clause must indicate that the Wisconsin Department of Veterans Affairs is the first mortgagee, in care of the Servicer.

Each hazard insurance policy must be written by a hazard insurance carrier authorized by law to transact business within the State of Wisconsin.

The property securing each WDVA mortgage must, at a minimum, be covered by the lesser of, the full insurable value of the improvements, or an amount equal to the unpaid principal balance of the mortgage. All buildings valued at \$1,000 or more must be insured.

For Insurance Loss Procedures, see Chapter II,D,5.

3. Flood Insurance

If flood insurance is required, it shall be in the form of a standard flood insurance policy and shall be for the lesser of the mortgage's outstanding principal balance or the insurable value of the improvements. The Servicer must adhere to the requirements of the National Flood Insurance Program, especially in regard to third party flood plain determinations and recertification of existing loans.

C. Uninsured Risks or Natural Disasters

When the Servicer becomes aware that a property is exposed to a serious hazard which Fire and Extended Coverage does not insure, the Servicer shall inform the WDVA of the nature of the hazard and the cost of acquiring additional insurance coverage. The WDVA may require the Servicer to obtain such additional coverage, according to the terms of the mortgage.

When a natural disaster (Earthquake, Flood, Tornado, Etc.) occurs, the Servicer shall act to mitigate potential loss to WDVA's security interest. Such action may include:

- ♦ A prompt inspection to determine the extent of damage;
- ♦ Submission of a complete report of the findings to the WDVA, along with recommendations for action to protect the interests of both the WDVA and the mortgagor;
- ♦ Protection of abandoned properties against vandalism and the elements;
- ♦ Communication with mortgagors;
- ♦ Compliance with all requirements of the mortgage insurer (RA & RB Bond Issue loans).

The Servicer shall always use due diligence to prevent the attachment of superior liens to WDVA properties. The Servicer shall promptly notify the WDVA whenever it receives notice of, or otherwise becomes aware of, such liens. To protect WDVA's interest in the property, escrow funds must be disbursed as indicated in Chapter II,B,1; mortgage payments must be applied as indicated in Chapter II,D,1.

Prompt notice shall be given to the WDVA of bankruptcy, condemnations, probate proceedings, tax sales, partitions, and local ordinance violations affecting WDVA mortgagors or their properties.

D. Property Inspections

Property inspections must begin when the mortgagor fails to make the third consecutive mortgage payment. These inspections must continue every 30 days thereafter until the loan is current.

If a WDVA mortgage is current, the Servicer should inspect the property securing the mortgage only if the Servicer considers it necessary. When the Servicer has reason to believe that negligence, waste, or failure of the mortgagor to occupy the residence or to fulfill other program requirements may jeopardize WDVA's property interest, an immediate property inspection must be made. The Servicer shall notify the WDVA Property Management Section within 10 calendar days of discovering such problems. The MULTIPURPOSE LOAN SERVICE REPORT, WDVA 1327, may be used to notify the WDVA.

Compensation to the Servicer for property inspections is included in the monthly servicing fee and is not a separate fee collectable from either the WDVA or the mortgagor.

1. Repairs and Maintenance

When an inspection indicates that necessary repairs are minor, the Servicer's only requirement is to report findings to the WDVA. If the inspection indicates that waste is being committed, or that urgent repairs are required to restore the property to a habitable condition or to correct a condition that would have a detrimental effect on the value of the property, the Servicer shall inform the mortgagor of the mortgagor's obligation to make the necessary repairs. When the Servicer becomes aware of a code violation notice, the Servicer must immediately require the mortgagor to make arrangements for the appropriate repairs. The Servicer must record in the mortgage file all contacts with the mortgagor and agreements made.

The Servicer shall follow up until the repairs are completed or the mortgagor's refusal or inability to make repairs is established. In the latter case, the Servicer must communicate its recommendation to the WDVA Property Management Section. This may be done on MULTIPURPOSE LOAN SERVICE REPORT, WDVA 1327.

2. Vacated or Abandoned Properties

If an inspection of a WDVA property indicates that it is unoccupied or abandoned, the Servicer must immediately attempt to locate the mortgagor and discover the reasons for the vacancy or abandonment. The investigation may include personal contacts with employers, neighbors, friends, relatives, and utility companies. The full details of this investigation, along with its conclusions and

the Servicer's recommendation, must be reported immediately to the WDVA Property Management Section. In some situations it may be necessary to file the appropriate notice with the mortgage insurer (RA & RB Bond Issues) as soon as the Servicer establishes that the property has been vacated or abandoned.

The Servicer shall, at a minimum and within the rights of the mortgagee as stated in the mortgage, arrange immediately for the protection of the property when emergency action (boarding, winterizing, etc.) is necessary to avoid vandalism or damage by the elements. This action must be reported to the WDVA Property Management Section immediately. The Servicer shall request WDVA authorization to proceed with other repairs.

Once initiated, inspections shall be made according to the Servicer's timetable, but at least every 30 days until the problem of non-occupancy is solved. Reports of such inspections on PROPERTY INSPECTION REPORT, WDVA 2420, shall be retained by the Servicer in the mortgagor's file.

3. Property Not Occupied by the Mortgagor

The Servicer is responsible for assuring that properties securing WDVA mortgages are occupied by the veteran and properly maintained.

If the property is occupied by someone other than the veteran mortgagor, this must be reported immediately to the WDVA using the MULTIPURPOSE LOAN SERVICE REPORT, WDVA 1327. A CERTIFICATE OF NON-OCCUPANCY, WDVA 2305, must be completed by the mortgagor and submitted to the Servicer, along with a copy of the rental agreement, if applicable. The Servicer sends the completed certificate to:

Wisconsin Department of Veterans Affairs
ATTN: Bureau of State Veterans Benefits
P.O. Box 7843
Madison, WI 53707-7843

If a non-allowed ownership interest transfer has occurred, the WDVA may accelerate the loan (see Chapter V,C).

E. Partial Releases, Easements

Applications for partial release of real property or fixtures, easements, the waiver of a right under a mortgage, consent to substantial alterations, removal, demolition or division of mortgaged property, and other matters relating to changes affecting the mortgage or the mortgaged property shall require written approval of the WDVA. The Servicer should use the MULTIPURPOSE LOAN SERVICE REPORT, WDVA 1327, to request approval, including the legal description of the parcel affected, the reason for the release, and the way net proceeds, if any, will be applied.

In addition, a copy of the original recorded mortgage (including the legal description of the mortgaged property) and a statement outlining the effect the release will have on WDVA's security position must be included. The Servicer shall furnish detailed information (appraisals, blueprints, plats, sketches, legal instruments, etc.) and recommend action.

The WDVA will usually approve partial release of real property if the value of the remaining real estate equals or exceeds the mortgage balance and the consideration received by the mortgagor is at least equal to the value of the property released. If the partial release results in a reduction in the value of the remaining property in an amount greater than the amount received, the partial release may not be approved. Proceeds (with the permission of the WDVA) must be used either to lower the remaining WDVA primary loan balance or to improve the property mortgaged to the WDVA.

The proceeds may be applied to delinquent installments only if this cures the delinquency and only with the prior approval of the WDVA Property Management Section.

If the WDVA allows the veteran to make improvements with such proceeds, the improvements must be approved in advance by the Servicer. Such improvements must enhance the value of the remaining property. The proceeds for improvements shall be escrowed with the Servicer. Evidence of inspection by the Servicer to insure satisfactory completion of such improvements must be retained in the mortgagor's file.

Proceeds from a taking by eminent domain shall be reported to the WDVA by the Servicer and applied in the same manner as other partial releases.

Fees for partial releases are described in Chapter I,B,2. If, in the judgment of the Servicer, an appraisal is necessary before the Servicer can recommend a WDVA partial release approval, the Servicer shall order the appraisal and its cost shall be paid by the mortgagor. Surveys are required unless the release is for an easement, roadway expansion, the sale of platted or surveyed lots, or the sale of other owned real estate. The mortgagor must pay for the survey.

The Servicer is responsible for assuring that instruments used in connection with changes affecting mortgages or mortgaged properties are in proper form and that all legal requirements are met. A full description of the transaction shall be retained in the mortgage file.

The Servicer shall submit evidence of mortgage insurer approval, if required, (RA & RB Bond Issues) by obtaining the mortgage insurer's letter or statement.

F. Change of Property Address

If a change of address has occurred, the Servicer must ascertain the reason. If the veteran mortgagor has moved from the property, the reasons must be determined and appropriate

action taken (see Chapter III,D,3). If the address of the WDVA property has changed (streets renamed or renumbered), the Servicer's records must reflect the change in property identification and the necessary insurance endorsements must be obtained. These changes must be reported to the WDVA on the NOTIFICATION OF PROPERTY ADDRESS CHANGE, WDVA 1469.

G. Change of Ownership

The Servicer shall use its best efforts to discover the occurrence of a sale of or transfer of interest in a property mortgaged to the WDVA. An unrecorded land contract (or other deed of conveyance) and a lease with option to buy are examples of grounds for acceleration under the terms of the mortgage (see Chapter V,C).

Assumptions are permissible if procedures for the bond type are followed (see Lender's Manual, Chapter IV). When the WDVA approves the assumption loan application, the Servicer is entitled to collect an assumption fee (see Chapter I,B,2,b).

H. Delinquent Loans

When a loan becomes delinquent, the Servicer must be prepared to respond to the delinquency in an effective manner. The Servicer must have an adequate information system, trained collection staff, established policies and procedures, and a suitable management review process. To prevent a short term delinquency from becoming chronic, prompt remedial action is critical. See Chapter IV, Collections, for further discussion.

I. Properties in Foreclosure

When a delinquency cannot be cured, it may be necessary to foreclose or otherwise liquidate the mortgage. The Servicer must have staff adequately trained to manage the liquidation process. There must be a monitoring system which results in an expeditious completion of the foreclosure. See Chapter V, Mortgage Liquidations, for further discussion.

IV **COLLECTIONS**

A. **Introduction**

Each Servicer must have a delinquent mortgage servicing program that meets the generally accepted standards of loan servicing employed by prudent Servicers. Collection efforts must begin early in the delinquency to increase the probability of resolution before legal action is indicated.

1. Information System

The information system must be able to immediately identify payments not made within fifteen days after payment is due. The Servicer must be able to document all collection activities and monitor the loan status until the delinquency is resolved.

2. Collection Staff

Collection staff must be adequately trained in prudent collection procedures and aware of the unique WDVA collection activity requirements. Such staff must be accessible to the mortgagor and the WDVA staff, be adequately supervised, and have knowledge of collection practices.

3. Procedures and Controls

There must be established procedures for analyzing and monitoring each distressed or delinquent loan. Such procedures must provide for contact within the first 30 days of delinquency, regular follow-up contacts, and property inspections. These activities must continue until the loan balances are current, other satisfactory arrangements are made, or foreclosure is started.

There must be adequate controls to assure the timely filing of notices, reports, and legal documents with the WDVA, the courts, and others. Procedures must include recommendations to the WDVA based on an analysis of the mortgagor's payment history.

4. Management Review

There must be a procedure for evaluating both the mortgagor's performance and the Servicer's collection efforts before recommending to the WDVA forbearance, modification, deed in lieu of foreclosure, or foreclosure. If the Servicer recommends foreclosure or accepting a deed in lieu of foreclosure, the WDVA will make the final decision.

Where required, collection activity on mobile home loan delinquencies shall conform to provisions of the Wisconsin Consumer Act.

B. Definitions of Delinquency

- ♦ A monthly loan payment is considered delinquent if it is not received by the Servicer within 15 days after the payment is due;
- ♦ A payment shall be considered 30 days delinquent on the first day of the second month after the payment is due;
- ♦ A payment shall be considered 60 days delinquent and in default on the first day of the third month after the payment is due;
- ♦ The failure to pay late charges or NSF fees cannot, in itself, cause a loan to be considered delinquent;
- ♦ Foreclosure will not be authorized when only unpaid late charges and/or NSF check fees are due.

C. Analyzing the Delinquency

Each delinquent account should be analyzed individually to determine whether the reasons for delinquency are of a temporary or permanent nature. The Servicer must know the reasons for the delinquency so that a method for curing the delinquency can be mutually agreed upon at an early date. The attitude of the mortgagor toward the debt should be considered when determining how to resolve the delinquency.

It becomes increasingly difficult to restore a mortgage to current status as the delinquent amount increases. Therefore, immediate attention must be given to one-payment delinquencies. In cases where the delinquency cannot be cured, the mortgagor may be advised that the sale of the property may be an alternative for retiring the mortgage debt.

When warranted, the WDVA will agree to arrangements that help the mortgagor bring the mortgage current. The WDVA is willing to extend every reasonable consideration to a delinquent mortgagor who because of temporary hardships cannot make timely mortgage payments. The mortgagor must be cooperative, act in good faith, and be able to enter into a temporary arrangement to cure the default in a reasonably short time. The WDVA allows Servicers broad discretion to extend appropriate relief to mortgagors who encounter hardship, are cooperative, and have proper regard for their obligations. However, the WDVA will not agree to relief when it is clear to the Servicer that the mortgagor cannot, or will not, resume the payments.

D. Servicing Delinquent Loans

The Servicer shall at all times protect the mortgaged premises in the manner and to the extent required by the responsible management of property, including entering into management, repair, and maintenance agreements and providing the WDVA such management reports as the WDVA may require.

The Servicer shall keep complete records of the collection history of every delinquent mortgage. These records shall contain, at a minimum, the dates and amounts of payments received, the dates the payments were applied or otherwise processed, notes of all contacts regarding the delinquency resolution, and copies of all correspondence.

Property inspections must begin when the mortgagor fails to make the third consecutive mortgage payment. These inspections must continue every 30 days thereafter until the loan is current.

If a WDVA property is abandoned and title cannot be obtained from the mortgagor, the Servicer shall, with the approval of the WDVA, immediately begin foreclosure proceedings and maintain the schedule of periodic property inspections. The PROPERTY INSPECTION REPORT, WDVA 2420, shall be completed and retained by the Servicer.

In areas with a high incidence of vandalism or neglect, the Servicer must be alert to the possibility of property damage and abandonment. The Servicer shall take whatever action is necessary to protect vacated properties from the elements and vandalism. Before non-emergency actions are undertaken by the Servicer, the Property Management Section of the WDVA must be consulted.

The Servicer must be especially attentive to insurance coverage on delinquent loans. If the premium becomes due during the delinquency, the Servicer may have to advance funds for its payment. If foreclosure is initiated, the Servicer must advise the WDVA of the date the hazard insurance is scheduled to expire so that the WDVA can decide whether to continue with the individual policy or self-insure. Usually the WDVA will not authorize payment of insurance premiums during foreclosure and will not reimburse the Servicer for unauthorized premium payment during foreclosure.

1. Acceptance of Delinquent Payments

Full payments of principal, interest, and escrow may not be refused without WDVA's approval or until a NOTICE OF DEFAULT AND CUSTOMER'S RIGHT TO CURE DEFAULT, WDVA 2366, has been issued.

A partial payment occurs when an amount less than the sum of the monthly principal, interest, and escrow amounts is received. When a partial payment results in a delinquency, the Servicer shall immediately contact the mortgagor to

determine why the full amount was not paid. If, in the Servicer's opinion, the mortgagor has a proper regard for the mortgage obligation and is conscientiously trying to meet this obligation, partial payments may be accepted. Partial payments are applied according to Chapter II,D.

The Servicer is not expected to accept partial payments on a continuing basis (unless formal relief provisions are granted) and should accept such payments only when it appears that such action will help cure a delinquency. In those exceptional situations when the Servicer feels that the refusal and return of a partial payment would be effective in motivating the mortgagor to cure the delinquency, the WDVA Property Management Section must be consulted before returning the partial payment.

2. Assessment of Late Charges and NSF Fees

The Servicer has the authority to impose late charges as an incentive to the mortgagor to keep the mortgage current. The late charge is 4% of the sum of the monthly Principal and Interest.

Late charges and NSF check fees cannot be retained by the Servicer unless the payments made by the mortgagor include these amounts. Late payments may not be refused when the payments do not include the late charges and/or fees. Late charges and fees not collected by the Servicer may be accumulated and included in the settlement at loan payoff.

3. Capitalization of Delinquent Interest

CAPITALIZATION OF DELINQUENT INTEREST IS NOT PERMITTED UNDER THE WDVA PRIMARY LOAN PROGRAM.

4. Listing Property for Sale

When the reasons for the mortgagor's inability to repay the arrearage appear to be permanent or will continue beyond a reasonable time, the possibility of listing the mortgaged property for sale should be discussed with the mortgagor. A decision to grant indulgence to permit sale depends on the amount of the delinquency, the probability of sale at the mortgagor's price within a reasonable time, and the likelihood of payments being made during the indulgence period. If the possibility of sale is good, such cases should be carefully supervised to be certain that the proposed payments are being made, progress is being made toward sale, and the mortgagor is acting in good faith.

5. Relief Provisions

a. Temporary Indulgence

The Servicer may grant temporary indulgence when it is likely that the total arrearage will be paid within a reasonable time. Temporary indulgence should be granted only in extraordinary circumstances. For example, this action may be appropriate when a sale or assumption of the property is pending or an insurance settlement is being negotiated.

The Servicer must request temporary indulgence no later than the 60th day of delinquency, using the MULTIPURPOSE LOAN SERVICE REPORT, WDVA 1327. If approved, the Servicer is expected to enter into a written agreement with the mortgagor. If, at the end of the temporary indulgence period, the delinquency has not been cured, the Servicer must recommend one of the following:

- 1) Further action to cure the delinquency;
- 2) Terminating the mortgage;
- 3) Extending the indulgence period (based on a fully documented argument).

b. Forbearance

Forbearance is an oral or written agreement to bring the account current by repaying the delinquency over a period of time. A forbearance agreement should be considered when a mortgagor's delinquency is the result of temporary adversity and it appears that a change in the mortgagor's financial status will permit the payment of the arrearage within a reasonable time. The Servicer should arrange with the mortgagor to liquidate the delinquency within the shortest possible time. However, the Servicer must be sure that the mortgagor has the ability to carry out the agreement.

The Servicer may enter into a forbearance agreement without WDVA's prior approval, provided the term of the plan does not exceed six months and foreclosure proceedings have not started. If the Servicer proposes a forbearance agreement of more than six months or wants to initiate one after foreclosure begins, the WDVA must approve the agreements before they are executed.

The WDVA does not require a specific forbearance agreement form. Each plan must itemize the terms fully, including the first payment date, the

amount and due date of each payment, and the date on which the delinquency will be cured.

The Servicer should submit a MULTIPURPOSE LOAN SERVICE REPORT, WDVA 1327, to inform the WDVA of the execution of a forbearance agreement. Details of the forbearance agreement should be retained in the mortgagor's file and monitored by the Servicer.

If the mortgagor fails to make payments as scheduled, the WDVA Property Management Section must be contacted immediately for further instructions.

c. Soldiers' and Sailors' Civil Relief Act

When a mortgagor is entitled to relief under the Soldiers' and Sailors' Civil Relief Act, the Servicer is authorized to grant appropriate relief. If the interest rate or P&I installment is changed, the Servicer must notify WDVA Program Accounting so that a corresponding adjustment can be made on the Loan Accounting System.

6. Right to Cure Default

After collection efforts have failed and the mortgagor has missed three consecutive mortgage payments, the loan is in default.

When the Servicer has exhausted all reasonable means of encouraging the mortgagor to pay on time, the Servicer shall obtain approval from the WDVA Property Management Section to send the mortgagor the NOTICE OF DEFAULT AND CUSTOMER'S RIGHT TO CURE DEFAULT, WDVA 2366. **THE EXACT LANGUAGE OF THIS FORM MUST BE USED.** This is the final notice before legal action begins. A copy must be sent to the WDVA Property Management Section at the same time the notice is sent to the mortgagor. The most recent version of the NOTICE OF DEFAULT AND CUSTOMER'S RIGHT TO CURE DEFAULT, WDVA 2366, can be printed from the WDVA Web site at www.dva.state.wi.us/PA_lenders.asp, Lenders Forms.

After the right to cure notice has been sent to the mortgagor, a payment of less than the amount needed to cure the default may be refused. Near the expiration date of the NOTICE OF DEFAULT AND CUSTOMER'S RIGHT TO CURE DEFAULT, the WDVA will instruct the Servicer to initiate foreclosure (see Chapter V, E for foreclosure procedures). A mortgagor's proposal to pay less than the full amount of the default or offer to sign a quit claim deed shall be referred to the WDVA Property Management Section with the Servicer's recommendation.

If the WDVA decides to accept a payment arrangement at this time, the WDVA or the Servicer at WDVA's direction shall execute a written forbearance agreement which includes the payment amount and the due date of the first payment and each successive payment until cured. In addition, the mortgagor must sign a statement acknowledging that the default will not be cured until the agreement has been completed and that in the event the mortgagor does not adhere to the agreement, all payments made under the agreement will be retained by the WDVA and legal action will continue.

The original executed forbearance agreement, signed by the mortgagor, must be retained by the Servicer. If the mortgagor fails to make payments as scheduled, the Servicer must contact the WDVA Property Management Section for further instructions.

7. Reimbursement of Servicer Expenses

Normally, the Servicer will not incur reimbursable expenses before the WDVA initiates foreclosure. Advances to meet escrow obligations or maintenance expenses related to abandoned or vacated properties are exceptions. The WDVA Property Management Section should be consulted prior to incurring these expenses. In unusual circumstances, the WDVA may request other services requiring advances on the part of the Servicer. Advances and/or costs will usually be reimbursed after the Confirmation of Sale and after the WDVA receives the appropriate bills.

E. Reporting Delinquent Loans

The LOAN SERVICE REPORT, WDVA 2411, is the primary means of informing the WDVA of delinquency resolution progress. These reports begin when the mortgagor fails to make the third consecutive mortgage payment and continue every 30 days thereafter until the delinquency is cured or the mortgage is liquidated. This report is due on the tenth business day of each month.

The report must describe what actions have been taken and recommend further action to either cure the delinquency or liquidate the loan. The delinquent amounts reported on this form must include principal, interest, and escrow as well as unpaid real estate taxes and other obligations which might become a senior lien on the property. The loan will not be considered current unless all delinquent taxes have been paid and the escrow account is current.

EXAMPLE:

January 1, 2007 - payment not made
February 1, 2007 - payment not made
March 1, 2007 - payment not made (account is in default)
March 14, 2007 - 10th business day : delinquency must be reported to the
WDVA on WDVA 2411.

F. Delinquent Account Property Inspections

When the mortgagor fails to make the third consecutive mortgage payment, the Servicer shall begin monthly inspections of the delinquent account property. These inspections must continue until the delinquency is cured or the loan is liquidated. The PROPERTY INSPECTION REPORT, WDVA 2420, must be retained in the Servicer's file which is the file of record.

V MORTGAGE LIQUIDATIONS

A. Payments in Full (Payoffs)

THERE IS NO PREPAYMENT PENALTY ON WDVA MORTGAGES.

When a loan is to be paid in full, the Servicer shall calculate and collect the amount required to pay the loan in full.

1. Remittances

A payoff remittance must be sent to the WDVA via the Telephone Cash Remittance System not later than the first business day after the funds are received. On the same day, the Servicer shall submit a LOAN PAYOFF & REMOVAL REPORT, WDVA 1412.

Proceeds not remitted to the WDVA within one business day of receipt shall be subject to an interest charge against the Servicer at the per diem rate on the Mortgage Note. The interest charge will cover the period from the date of payoff to the day the proceeds were remitted to the WDVA.

2. Escrow Balances

The escrow balance must either be reflected in the payoff computation or be refunded to the mortgagor according to applicable law.

3. Satisfaction of Mortgage

a. Requested Before Settlement (issued in escrow)

If the Servicer wants to receive a WDVA Satisfaction of Mortgage before the proposed settlement date, a LOAN PAYOFF & REMOVAL REPORT, WDVA 1412, must be completed and sent to the WDVA with a copy of the recorded mortgage (including the legal description), so that it arrives in WDVA Program Accounting at least one week before the settlement date.

The Remarks Section must state the proposed settlement date and indicate the desired delivery date.

The WDVA will send the prepared Satisfaction of Mortgage and the original Mortgage Note to the Servicer. When the Servicer receives the funds to pay the WDVA mortgage in full, it will give the Mortgage Note

to the mortgagor or the mortgagor's agent and record the Satisfaction within the time limit required by the Wisconsin Statutes.

b. Normal Recording After Settlement (30 day deadline for recording)

The LOAN PAYOFF & REMOVAL REPORT, WDVA 1412, and a copy of the recorded mortgage (including the legal description) must be submitted to the WDVA within one business day of settlement. The WDVA will prepare the Satisfaction and return it and the original Mortgage Note to the Servicer or the Servicer's specified agent, so that the Servicer can record the Satisfaction within the 30 days required by the Wisconsin Statutes.

c. Certified Mail Request from the Mortgagor (7 day deadline for recording)

When the Servicer receives a Satisfaction request from the mortgagor by certified mail, the Servicer must:

- 1) Fax a copy of the request, the recorded mortgage (including the legal description), and the LOAN PAYOFF AND REMOVAL REPORT, WDVA 1412, to WDVA Program Accounting immediately (Fax #: 608-267-0403).
- 2) Mail a \$13.00 check, payable to the Register of Deeds, to WDVA Program Accounting by the next business day to pay for recording the Satisfaction and the attached legal description.

The WDVA will send the Satisfaction and the recording fee to the Register of Deeds. The original Mortgage Note and a copy of the Satisfaction will be sent to the Servicer.

B. Assumptions

Procedures for assuming WDVA loans are in Chapter IV of the Lender's Manual. Underwriting rules differ depending on the bond issue involved. The Servicer should review these rules before taking an assumption application.

C. Acceleration (non-allowed ownership transfer)

Unless the loan is assumed by another eligible applicant, possession is transferred because of a divorce judgment or deed executed pursuant to such judgment, or transfer of interest or ownership is to family members as delineated in the Garn-St. Germain Depository Institutions Act of 1982, the loan balance shall be payable in full whenever an ownership interest is transferred. The WDVA will make this determination based on applicable law.

D. Deed in Lieu of Foreclosure (Quit Claim Deed)

If the mortgagor offers to execute a voluntary deed in lieu of foreclosure, the Servicer shall immediately submit to the WDVA Property Management Section a MULTIPURPOSE LOAN SERVICE REPORT, WDVA 1327, indicating the details of the proposed conveyance and stating its recommendation.

The WDVA may accept such deed provided:

- ♦ The property is conveyed free and clear of encumbrances;
- ♦ No consideration is paid the mortgagor for executing a deed in lieu of foreclosure;
- ♦ The property is vacant at the time of conveyance (unless the occupancy termination date is agreed upon in writing).

E. Foreclosure

When other liquidation methods are not possible and it is clear that the mortgagor does not intend or is unable to honor the mortgage obligation, the Servicer must immediately recommend foreclosure. The Servicer requests WDVA approval to begin foreclosure by submitting a recommendation on the MULTIPURPOSE LOAN SERVICE REPORT, WDVA 1327, or the LOAN SERVICE REPORT, WDVA 2411.

1. Foreclosure Monitoring System

The Servicer shall have an effective system for monitoring foreclosure progress. This system must enable the Servicer to complete each foreclosure step as quickly as legally possible according to the terms of the mortgage.

If the property has been abandoned or the mortgagor has otherwise violated the mortgage covenants, the system must provide for immediate notification of the WDVA so that a shorter redemption period can be authorized. Swift action is essential to minimize the time the property is subject to vandalism and other risks.

The Servicer is responsible for supervising the timely performance of the attorney and other service professionals employed to facilitate the foreclosure. Failure to accomplish the foreclosure in a timely manner (because of either failure of internal controls or failure to supervise the attorney) may subject the Servicer to claims for losses and may be considered a breach of contract. Legal liability resulting from negligence of the Servicer or of an attorney chosen by the Servicer shall be the responsibility of the Servicer.

2. Recommendation to Foreclose

When the mortgagor disregards the mortgage obligation, the Servicer must make prudent recommendations (including liquidation) to protect WDVA's investment. Generally, the Servicer should recommend liquidation only after a face to face interview with the mortgagor, an inspection of the property, and a complete review of the circumstances.

The foreclosure recommendation should contain sufficient information for the WDVA to make an informed decision. This recommendation should be mailed or faxed to the attention of the WDVA Property Management Section.

Foreclosure because of non-payment may not begin until the Servicer has received WDVA's written authorization to foreclose.

3. Approval of Recommendation to Foreclose

Approximately 30 days after the NOTICE OF DEFAULT AND CUSTOMER'S RIGHT TO CURE DEFAULT, WDVA 2366, has been sent to the mortgagor, the WDVA will send a foreclosure authorization to the Servicer by certified mail. The authorization will contain the original Mortgage Note and instructions for selecting the attorney, obtaining an appraisal, and determining allowable costs. If the account is later reinstated, the original Mortgage Note must be returned immediately to the WDVA.

4. Foreclosure Procedures

Within two weeks of receiving the foreclosure authorization letter, the Servicer should deliver the foreclosure file to the foreclosure attorney. The WDVA expects the Summons and Complaint to be filed within 30 days of the date the Servicer receives the authorization to foreclose. All other foreclosure responsibilities must be fulfilled in a timely manner.

a. Selecting the Attorney

The attorney selected by the Servicer:

- ♦ Must be experienced in residential foreclosures;
- ♦ Must be familiar with the Servicer's liquidation responsibilities;
- ♦ Must be willing to send the WDVA copies of all pertinent documentation;
- ♦ Must adhere to WDVA's fee schedule.

The Servicer shall advance funds for the payment of fees and other foreclosure costs. The attorney's billing must itemize all the services performed.

If the Servicer terminates the attorney's services before the foreclosure is completed, the Servicer shall recover all documents and funds held in connection with the foreclosure.

b. Reports from the Servicer and the Attorney

The Servicer must continue to submit the monthly LOAN SERVICE REPORT, WDVA 2411, until Confirmation of Sale. Information indicating a threat to WDVA's security interests must be conveyed immediately to the WDVA Property Management Section.

The foreclosure attorney must immediately provide:

- 1) Acknowledgment of the foreclosure assignment and receipt of the loan file;
- 2) Notification of the date on which the foreclosure action is initiated;
- 3) Copies of all foreclosure documents and related written communications.

c. Title Evidence

The attorney will obtain a title insurance policy in the name of "grantee to be named." If an abstract is available, it should be turned over to the title company for credit.

d. Hazard Insurance Policies

If the hazard insurance expires during the foreclosure proceedings, the Servicer must contact the WDVA Property Management Section before renewing the policy so that the WDVA can decide whether to continue the individual policy or self-insure. **USUALLY THE WDVA WILL NOT AUTHORIZE RENEWAL OF INSURANCE POLICIES DURING FORECLOSURE AND WILL NOT REIMBURSE THE SERVICER FOR UNAUTHORIZED PREMIUM PAYMENT DURING FORECLOSURE.**

e. Servicer's Property Management Responsibilities During Foreclosure

The Servicer is responsible for the general management of WDVA properties in foreclosure until title passes to the WDVA or the property is otherwise disposed of. This includes taking whatever action is necessary to protect the mortgage security. The Servicer is responsible for payment of all foreclosure expenses. If the Servicer has questions about the reasonableness of foreclosure expenses, the Servicer should contact the WDVA Property Management Section.

The Servicer's Property Management activities include periodic inspections to assure that the property is occupied and properly maintained. Evidence of such inspections must be placed in the mortgagor's file.

If the Servicer discovers that the property is vacant or abandoned, it must inform the WDVA immediately and take appropriate action to secure the property. This may include (but is not limited to) winterizing, boarding, changing exterior locks, if necessary, and securing all windows and exterior doors. The WDVA Property Management Section must be consulted prior to boarding or winterizing a property (unless emergency conditions exist).

Generally, the Servicer shall maintain the property so as to preserve its value and prevent deterioration until the foreclosure is complete and the WDVA assumes responsibility for its management. The WDVA will normally assume total management responsibility when the WDVA Property Management Section receives the Confirmation of Sale.

f. Foreclosure Appraisal

Near the end of the redemption period the Servicer shall order an appraisal complying with the specifications in the WDVA Foreclosure Authorization Letter. The appraisal must be received by the WDVA Property Management Section at least two weeks before the sheriff's sale.

g. Bidding Instructions at Sheriff's Foreclosure Sale

Unless instructed otherwise by the WDVA, the Servicer shall advise the attorney to bid the full indebtedness on behalf of the WDVA.

The WDVA Property Management Section reserves the right to revise the attorney's instructions or displace the attorney at the foreclosure sale and enter a revised sale bid on WDVA's behalf. In such cases, if the indebtedness is not fully liquidated through the foreclosure sale, the Servicer shall not be held financially liable.

h. Expenses During Foreclosure

The Servicer is responsible for the timely payment of all taxes, assessments, and collection of rents (if applicable). Funds in the mortgagor's escrow account, as well as rent receipts, may be used only to pay taxes or other assessments and condominium association dues. If the funds in the mortgagor's escrow account are inadequate to cover these items, the Servicer must advance its own funds, but only for those items necessary to protect WDVA's interest until completion of the foreclosure. When the foreclosure has been finalized and the WDVA has taken control of the property, requests for reimbursement of foreclosure advances are submitted on the FORECLOSURE EXPENSE CLAIM, WDVA 2413.

Maintenance expenses other than emergency repairs must be authorized by the WDVA before the Servicer incurs such expenses. The WDVA expects the Servicer to act in WDVA's best interest when contracting for maintenance services and requires the Servicer to submit statements for such services, along with additional documents (invoices, receipts, field reports, etc.), if appropriate, when requesting reimbursement.

5. Reinstatement

If a mortgagor offers to pay the full delinquency after foreclosure begins, the Servicer shall determine the amount of all advances, legal costs, and other foreclosure costs and expenses that have been and will be incurred if the offer is accepted. Such offer may not be accepted by the Servicer until the WDVA Property Management Section approves the offer to pay the delinquency in full.

Generally, the WDVA will not allow partial reinstatement. The Servicer may decline a partial reinstatement offer without WDVA's prior approval.

If the WDVA accepts the offer of reinstatement, the Servicer shall immediately act to prevent incurring additional foreclosure costs and expenses. The Servicer shall pay the foreclosure costs and expenses incurred to the date of reinstatement. The mortgagor shall be the responsible source of all funds required to reimburse the Servicer for the reinstatement costs and expenses. The Servicer shall report all details of the completed transaction to the WDVA on the REINSTATEMENT OF LOAN IN FORECLOSURE, WDVA 2414.

6. Foreclosure Sale - Third Party Outbid

A third party sale is similar to a payoff. The provisions of Chapter II,D,3 can be applied generally to third party sales. The Servicer may pay the attorney's fees and expenses before the final accounting. The WDVA will reimburse the Servicer for approved expenses after all bills relating to the third party sale have been submitted to the WDVA Property Management Section.

As soon as the Servicer receives the Confirmation of Sale, the Servicer must cancel existing hazard insurance.

The Servicer must remit third party sale proceeds to the WDVA via the Telephone Cash Remittance System within one day of receipt. Loan proceeds not transferred to the WDVA within the timely remittance requirements shall be subject to an interest charge against the Servicer at the per diem note rate. The interest charge will cover the period from the day the proceeds were received by the Servicer to the day the proceeds were remitted to the WDVA. Within one business day of remitting the proceeds, the Servicer must submit the LOAN PAYOFF & REMOVAL REPORT, WDVA 1412, to WDVA Loan Accounting.

Upon receipt, the Servicer must send a copy of the Confirmation of Sale to the WDVA Property Management Section, along with a schedule showing the bid amount and a detailed list of all expenditures (including a breakdown of principal, interest, servicing fees, outstanding advances, etc.) to the foreclosure sale date.

Liquidating a WDVA mortgage through a third party sale shall not be a cause for increasing legal fees and costs by the foreclosure attorney or the Servicer.

7. Claims for Reimbursement After Sheriff's Sale

Within 60 days of the Confirmation of Sale, the Servicer must submit a detailed list of all expenditures to the WDVA Property Management Section on the FORECLOSURE EXPENSE CLAIM, WDVA 2413. This itemization should include a breakdown of principal and interest received, servicing fees due, outstanding advances, and other expenses incurred prior to the foreclosure sale date.

8. Claims Procedures on Insured Loans

Once the property is acquired, the Servicer is responsible for filing mortgage insurance claims (including loans guaranteed by the U S Department of Veterans Affairs) on RA & RB Loan Pool loans according to insurer requirements (unless instructed otherwise by the WDVA).

Mortgage insurance loss claims must be submitted within 30 days of WDVA acquisition of the property.

VI MONTHLY REPORTING SYSTEM

A. WDVA Accounting System Overview

The WDVA uses the INTERLINQ LOAN SERVICING SYSTEM (ILS) for Servicer remittance accounting. The ILS system is a positive remittance and reporting system under which all payments must be reported and allocated between principal, interest, and service fees.

Servicers report monthly payment activity to WDVA in an electronic LOAN ACTIVITY FILE that is sent to WDVA as an email attachment.

Servicers transfer WDVA loan collections to US Bank – Milwaukee through the ACH Network using the WDVA Telephone Cash Remittance System.

Remittances for the month must equal the sum of the TotalPrincipalPaid and TotalInterestPaid fields minus the TotServFee Withheld from the Header Row on the LOAN ACTIVITY FILE.

WDVA inputs the LOAN ACTIVITY FILE into the ILS system and reconciles the ILS payment activity to deposit reports provided by US Bank – Milwaukee.

The Servicer is notified immediately if WDVA discovers variances between the reported payment activity and the cash remittance.

You can print the most recent version of WDVA loan servicing forms from the WDVA Web site at www.dva.state.wi.us/PA_lenders.asp.

A LOAN PAYOFF & REMOVAL REPORT, WDVA 1412, must be submitted the day following your receipt of a payoff along with a copy of the recorded mortgage..

The SERVICER REMITTANCE RECORD, WDVA 1701, must be submitted at month-end with a LOAN PAYOFF & REMOVAL REPORT, WDVA 1412 for each payoff.

B. Telephone Cash Remittance System (TCRS)

A Telephone Cash Remittance System (TCRS) is used to transfer collections from the Servicer's WDVA Custodial Account to a State Controller's Office account in WDVA's depository, US Bank – Milwaukee. The Servicer pre-authorizes US Bank – Milwaukee to initiate debit entries to the WDVA Custodial Account. To initiate a pre-authorized draft against the Servicer's WDVA Custodial Account, the Servicer phones Automated Data Processing (ADP) with specific instructions each time funds are to be transferred. At month-end, the Servicer provides the WDVA a log of the month's TCRS activity which the WDVA reconciles to deposit reports provided by US Bank – Milwaukee.

1. Authorization

If the Servicer is the depository, the AUTHORIZATION AGREEMENT FOR RESTRICTED (ACH OR DTC) DEBITS, WDVA 1141, is completed by the Servicer and sent to the WDVA. This agreement authorizes US Bank – Milwaukee to debit the WDVA Custodial Account. These debits can take the form of Depository Transfer Checks (DTC) or Restricted Automated Clearing House Debits (ACH).

A Servicer that is not a federally-insured depository institution must maintain a demand deposit checking account in a RDFI whose deposits are insured by the FDIC or the NCUA. In these cases, the Servicer should complete the top half of the AUTHORIZATION AGREEMENT FOR RESTRICTED (ACH OR DTC) DEBITS, WDVA 1141, and send it with a cover letter to its RDFI.

The COVER LETTER TO ACCOMPANY AUTHORIZATION AGREEMENT, WDVA 1405, is intended to help the Servicer explain to its RDFI the purpose of the authorization agreement and how to complete it. The Servicer may use the suggested letter or provide its own explanation of what is needed. The Servicer’s depository (RDFI) must complete the AUTHORIZATION AGREEMENT FOR RESTRICTED (ACH OR DTC) DEBITS, WDVA 1141, and send the completed agreement to the WDVA.

2. Preparation for the Telephone Call

Please calculate a check digit prior to placing your call. A check digit is the sum of the digits and the number of digits in your deposit amount. For instance, if the remittance is \$8,215.17, the check digit is calculated as follows:

The number of Digits is	6
The Value of These Digits (8+2+1+5+1+7) is	<u>+24</u>
The Check Digit is	30

For whole dollars, be sure to count two zeros after the decimal. Keep the check digit readily available. It will be needed for verification purposes.

3. Calling Automated Data Processing (ADP) using a TouchTone Telephone

Telephone calls to report daily deposits must be completed by 5:45 p.m. Central time. The steps for calling in a remittance to the Automated Data Processing Center are indicated in the following example:

Placement of the telephone call:

- a. Dial 1-866-221-8322 (Toll Free).

- b. After “**Welcome, please enter ID**” is spoken, enter

(Customer Number)*(Location Number)*(Password)*(Dollar Amount)* #
52380 * 000000 * 000 * 5165*36 #

The above example is for an entry of \$5,165.36.

Another example is: \$150.55 = 150*55#

- c. The amount entered will be read back and a check digit may be given. If the value read back is correct and the check digit matches the one you previously calculated, enter 1#. If the value is incorrect or the check digits do not match, enter 0#. You will be prompted for the correct value.
- d. When your reporting is complete, you will be given a trace number which you should record on the **SERVICER REMITTANCE RECORD, WDVA 1701**.
- e. You will be prompted for a new location number. When you are done entering all locations, enter # to end the call.

Corrections/Cancellations:

- a. Dial 1-800-669-3110 (Toll Free).
- b. To correct a transaction, say to the operator: “ I need to make a correction. My company number is: 52380 000000 000.”
- c. Be prepared to tell the operator the trace number from your original entry, plus the new value for the Deposit Amount.
- d. To cancel a transaction: To cancel the current transaction, enter three stars (***) at any point. Enter ***# or 00000*000000*000***#

4. Calling Automated Data Processing (ADP) and Speaking with an Operator

Telephone calls to report daily deposits must be completed by 5:45 p.m. Central time. The steps for calling in a remittance to the Automated Data Processing Center are indicated in the following example:

Placement of the telephone call:

- a. Dial 1-800-669-3110 (Toll Free).
- b. After the operator identifies him/herself, record the operator #, and say "Company 52380,000000,000" giving the location (000000) and password (000) numbers assigned. The password identifies the Servicer placing the call, and the form of the restricted debit (ACH or DTC) from the Servicer's RDFI.
- c. Next say "Field 1 is ____" and state separately each digit of the amount remitted. For example: for a remittance of \$8,215.17, say "eight, two, one, five dollars and one, seven cents."
- d. The ADP operator will read back the amount being remitted, and then provide a "check digit" and a trace number as a "Verification Code." The check digit must be compared with the check digit previously calculated by the Servicer and the trace number must be entered on the SERVICER REMITTANCE RECORD, WDVA 1701.
- e. Stay on the line until the ADP operator acknowledges that the deposit(s) has been accepted.
- f. If it is necessary to correct the deposit amount after the call is terminated, call back, indicate a correction is necessary, and recite the previously provided trace number and the new dollar amount of the deposit.
- g. If the operator informs the caller that the Bond Type password is "not in file" or that the call cannot be accepted for another reason, the Servicer should contact WDVA Loan Accounting.

C. Remittance Requirements

Collections received on any business day must be deposited into the WDVA Custodial Account no later than the next business day. Collections must be transferred to the WDVA via Telephone Cash Remittance System (TCRS) whenever total collections of Principal and Interest exceed \$2,000.00, but no less often than once a week.

At end-of-month, the first two business days of the new month are used to finalize month end remittances. All collections remaining from the ending month must be remitted by 5:45 p.m. Central time of the second business day of the new month.

If the Servicer fails to remit funds within these prescribed periods, the WDVA may impose an 18% per annum penalty on the transmittal amount due, calculated from the due date to the date of transmittal.

NOTE: Do not remit new month receipts until the third business day of the month, regardless of the amount in the Custodial Account.

D. Servicer Remittance Reporting

After making and posting the last telephone call for the reporting month, the Servicer completes the SERVICER REMITTANCE RECORD, WDVA 1701, by totaling all dollars down and across and attaching copies of the LOAN PAYOFF & REMOVAL REPORT, WDVA 1412, to document payoffs.

All TCRS remittances are identified as GO.

Remittances for the month listed on the WDVA 1701 must equal the sum of the TotalPrincipalPaid and TotalInterestPaid fields minus the TotalServFeeWithheld field from the Header Row on the LOAN ACTIVITY FILE.

The WDVA SERVICER REMITTANCE RECORD, WDVA 1701, and accompanying LOAN PAYOFF & REMOVAL REPORTS, WDVA 1412's, are due at WDVA the fifth business day of the month.

When posting a TCRS remittance to the SERVICER REMITTANCE RECORD, WDVA 1701, the collections shall be recorded in one of the following categories:

1. Regular Interim Collections

Interim collections are monthly installments of principal and interest, curtailments, and advance monthly installments of principal and interest. Interim collections do not require supporting documentation.

Servicing fees may be deducted either proportionately from each interim collection or in total from the final interim collection of the month.

2. Payoff Funds

These collections are the final payment of a loan either at or before its maturity.

Servicing Fees due the Servicer on payoffs should be shown on the LOAN PAYOFF & REMOVAL REPORT, WDVA 1412, and deducted from the payoff proceeds remitted to the WDVA.

The LOAN PAYOFF & REMOVAL REPORT, WDVA 1412, with a copy of the recorded mortgage (including the legal description) must be submitted to the WDVA within one business day of payoff. This enables the WDVA to prepare a Satisfaction of Mortgage within the 7 or 30 day time periods prescribed by state law.

A second copy of the LOAN PAYOFF & REMOVAL REPORT, WDVA 1412, must be submitted with the SERVICER REMITTANCE RECORD, WDVA 1701, at the end of the report month.

Payoffs should be included as a separate Detail record on the LOAN ACTIVITY FILE.

E. Servicer ILS Reporting Requirements

1. SERVICER REMITTANCE RECORD, WDVA 1701, must be submitted by the fifth business day of the new month.
2. LOAN PAYOFF & REMOVAL REPORT, WDVA 1412,
 - a. Must initially be submitted to WDVA along with a copy of the recorded mortgage within one business day of the payoff.
 - b. A copy of each LOAN PAYOFF & REMOVAL REPORT, WDVA 1412, must also accompany the SERVICER REMITTANCE RECORD, WDVA 1701.
3. Electronic submission of LOAN ACTIVITY FILE, must be submitted by the 5th working day of the month.
4. Submit CUSTODIAL ACCOUNT ANALYSIS, WDVA 1409, and BANK STATEMENT only when requested. When requested, the Servicer shall prepare a CUSTODIAL ACCOUNT ANALYSIS, WDVA 1409, for all the Custodial Account activity during the month. The completed report, along with a copy of the account statement, shall be forwarded to WDVA when requested.
5. You can print the most recent version of this form from the WDVA Web site at www.dva.state.wi.us/PA_lenders.asp.

F. Electronic Submission of LOAN ACTIVITY FILE

1. See the file layout and specifications for ILS System reporting and CHARACTERISTICS OF THE LOAN ACTIVITY FILE in APPENDIX E.
2. Send the electronic loan activity file as an email attachment to: ILSACTIVITYFILE@DVA.STATE.WI.US.
3. LOAN ACTIVITY FILE Naming Convention: The subject of your email and the name of your LOAN ACTIVITY FILE should be your Servicer ID #, followed by the month ending date. Example: 123 01-31-07.

APPENDIX A

FORMS LIST

(alphabetical)

WDVA 1141	<i>AUTHORIZATION AGREEMENT FOR RESTRICTED (ACH OR DTC) DEBITS</i>	<i>(04/07)</i>
WDVA 2337	<i>CERTIFICATE OF COMPLETION OF CONSTRUCTION</i>	<i>(04/07)</i>
WDVA 2305	<i>CERTIFICATE OF NON-OCCUPANCY</i>	<i>(04/07)</i>
WDVA 1405	<i>COVER LETTER TO ACCOMPANY AUTHORIZATION AGREEMENT</i>	<i>(04/07)</i>
WDVA 1409	<i>CUSTODIAL ACCOUNT ANALYSIS</i>	<i>(04/07)</i>
WDVA 2605	<i>ELECTRONIC FUNDS TRANSFER REQUEST</i>	<i>(11/06)</i>
WDVA 2413	<i>FORECLOSURE EXPENSE CLAIM</i>	<i>(04/07)</i>
WDVA 1412	<i>LOAN PAYOFF & REMOVAL REPORT</i>	<i>(04/07)</i>
WDVA 2411	<i>LOAN SERVICE REPORT</i>	<i>(04/07)</i>
WDVA 1301	<i>LOAN SERVICING TRANSFER</i>	<i>(04/07)</i>
WDVA 1327	<i>MULTIPURPOSE LOAN SERVICE REPORT</i>	<i>(04/07)</i>
WDVA 2366	<i>NOTICE OF DEFAULT AND CUSTOMER'S RIGHT TO CURE DEFAULT</i>	<i>(04/07)</i>
WDVA 1469	<i>NOTIFICATION OF PROPERTY ADDRESS CHANGE</i>	<i>(04/07)</i>
WDVA 1471	<i>NOTIFICATION OF SERVICER LOAN ID CHANGE</i>	<i>(04/07)</i>
WDVA 1472	<i>PRE-AUTHORIZED ACH CREDITS AGREEMENT</i>	<i>(04/07)</i>
WDVA 2420	<i>PROPERTY INSPECTION REPORT</i>	<i>(04/07)</i>
WDVA 2414	<i>REINSTATEMENT OF LOAN IN FORECLOSURE</i>	<i>(04/07)</i>
WDVA 1701	<i>SERVICER REMITTANCE RECORD</i>	<i>(04/07)</i>
WDVA 1300	<i>TRANSFER OF SERVICING AGREEMENT</i>	<i>(04/07)</i>
WDVA 1081	<i>WAIVER OF ESCROW AGREEMENT</i>	<i>(04/07)</i>

APPENDIX A

FORMS LIST

(by Loan Servicing Function)

Disbursement of Loan Proceeds

*WDVA 1472 PRE-AUTHORIZED ACH CREDITS AGREEMENT
WDVA 2337 CERTIFICATE OF COMPLETION OF CONSTRUCTION
WDVA 2605 ELECTRONIC FUNDS TRANSFER REQUEST*

Setting Up the Telephone Cash Remittance System

*WDVA 1141 AUTHORIZATION AGREEMENT FOR RESTRICTED (ACH OR DTC) DEBITS
WDVA 1405 COVER LETTER TO ACCOMPANY AUTHORIZATION AGREEMENT*

Transfer of Servicing

*WDVA 1301 LOAN SERVICING TRANSFER
WDVA 1300 TRANSFER OF SERVICING AGREEMENT*

File Maintenance

*WDVA 1469 NOTIFICATION OF PROPERTY ADDRESS CHANGE
WDVA 1471 NOTIFICATION OF SERVICER LOAN ID CHANGE*

Remittance Processing

*WDVA 1412 LOAN PAYOFF & REMOVAL REPORT
WDVA 1701 SERVICER REMITTANCE RECORD*

Loan Servicing

*WDVA 2305 CERTIFICATE OF NON-OCCUPANCY
WDVA 2413 FORECLOSURE EXPENSE CLAIM
WDVA 2411 LOAN SERVICE REPORT
WDVA 1327 MULTIPURPOSE LOAN SERVICE REPORT
WDVA 2366 NOTICE OF DEFAULT AND CUSTOMER'S RIGHT TO CURE DEFAULT
WDVA 2420 PROPERTY INSPECTION REPORT
WDVA 2414 REINSTATEMENT OF LOAN IN FORECLOSURE
WDVA 1081 WAIVER OF ESCROW AGREEMENT*

Loan Accounting System Monthly Reports

Monthly Reconciliations

WDVA 1409 CUSTODIAL ACCOUNT ANALYSIS

APPENDIX B -- Service Fee Factors

Derivation of Service Fee Factors				
Loan Pool	Interest Rate	Calculation	Service Fee Factor	
A	8.43	.00375 / .0843	0.044484	
B	7.85	.00375 / .0785	0.047771	
C	7.00	.00375 / .0700	0.053571	
D	6.75	.00375 / .0675	0.055556	
E	7.00	.00375 / .0700	0.053571	
F	7.00	.00375 / .0700	0.053571	
G	6.35	.00375 / .0635	0.059055	
H	6.23	.00375 / .0623	0.060193	
J	6.11	.00375 / .0611	0.061375	
J****	5.25	.00375 / .0525	0.071429	
J****	6.00	.00375 / .0600	0.062500	
J****	6.55	.00375 / .0655	0.057252	
J****	6.875	.00375/.06875	0.054545	
K	6.03	.00375 / .0603	0.062189	
M	6.44	.00375 / .0644	0.058230	
N	6.58	.00375 / .0658	0.056991	
P	6.25	.00375 / .0625	0.060000	
Q	6.88	.00375 / .0688	0.054506	
R	6.70	.00375 / .0670	0.055970	
S	6.91	.00375 / .0691	0.054269	
T	7.31	.00375 / .0731	0.051300	
U	6.60	.00375 / .0660	0.056818	
V	7.31	.00375 / .0731	0.051300	
W	10.20	.00375 / .1020	0.036765	
X	9.20	.00375 / .0920	0.040761	
Y	9.90	.00375 / .0990	0.037879	
Z	10.30	.00375 / .1030	0.036408	
RA	9.83	.00375 / .0983	0.038149	
RA****	13.00	.00375 / .1300	0.028846	
RB	12.31	.00375 / .1231	0.030463	
AA	10.60	.00375 / .1060	0.035377	
AB	8.55	.00375 / .0855	0.043860	
AC	8.55	.00375 / .0855	0.043860	
AD	8.55	.00375 / .0855	0.043860	
AE	8.55	.00375 / .0855	0.043860	
AF	7.85	.00375 / .0785	0.047771	
AG	7.85	.00375 / .0785	0.047771	
AH	7.85	.00375 / .0785	0.047771	
AJ	8.25	.00375 / .0825	0.045455	
AK	8.25	.00375 / .0825	0.045455	
AL	8.25	.00375 / .0825	0.045455	
AM	8.10	.00375 / .0810	0.046296	
AN	8.10	.00375 / .0810	0.046296	
AP	7.40	.00375 / .0740	0.050676	
AQ	7.40	.00375 / .0740	0.050676	
AR	7.40	.00375 / .0740	0.050676	
AS	5.25	.00375 / .0525	0.071429	
AT	5.25	.00375 / .0525	0.071429	
AU	6.00	.00375 / .0600	0.062500	
AV	6.00	.00375 / .0600	0.062500	
AW	7.25	.00375 / .0725	0.051724	
AX	7.45	.00375 / .0745	0.050336	
AX****	6.55	.00375 / .0655	0.057252	
AY	8.55	.00375 / .0855	0.043860	
AZ	10.60	.00375 / .1060	0.035377	
BA	7.45	.00375 / .0745	0.050336	
BA****	6.55	.00375 / .0655	0.057252	
BA****	6.40	.00375 / .0640	0.058594	
BB	7.45	.00375 / .0745	0.050336	
BC	6.55	.00375 / .0655	0.057252	
BC****	6.40	.00375 / .0640	0.058594	
BD	6.55	.00375 / .0655	0.057252	
BE	7.00	.00375 / .0700	0.053571	
BE****	6.90	.00375 / .0690	0.054348	
BF	7.00	.00375 / .0700	0.053571	
BG	6.90	.00375 / .0690	0.054348	
BG****	6.40	.00375 / .0640	0.058594	
BH	6.90	.00375 / .0690	0.054348	
BH****	6.40	.00375 / .0640	0.058594	
BJ	6.90	.00375 / .0690	0.054348	
BJ****	6.40	.00375 / .0640	0.058594	
BK	6.40	.00375 / .0640	0.058594	
BL	6.65	.00375 / .0665	0.056391	
BM	6.40	.00375 / .0640	0.058594	
BN	6.65	.00375 / .0665	0.056391	
BP	6.50	.00375 / .0650	0.057692	
BQ	6.50	.00375 / .0650	0.057692	
BR	6.50	.00375 / .0650	0.057692	
BS	6.85	.00375 / .0685	0.054745	
BT	6.85	.00375 / .0685	0.054745	
BU	7.50	.00375 / .0750	0.050000	
BV	7.80	.00375 / .0780	0.048077	
BW	7.80	.00375 / .0780	0.048077	
BX	7.80	.00375 / .0780	0.048077	
BY	7.90	.00375 / .0790	0.047468	
BZ	7.90	.00375 / .0790	0.047468	
CA	6.80	.00375 / .0680	0.055147	
CB	6.80	.00375 / .0680	0.055147	
CC	6.80	.00375 / .0680	0.055147	
CD	6.80	.00375 / .0680	0.055147	
CE	7.00	.00375 / .0700	0.053571	
CF	7.00	.00375 / .0700	0.053571	
CG	6.80	.00375 / .0680	0.055147	
CH	6.80	.00375 / .0680	0.055147	
CI	6.50	.00375 / .0650	0.057692	
CJ	6.50	.00375 / .0650	0.057692	
CK	6.50	.00375 / .0650	0.057692	
CL	6.50	.00375 / .0650	0.057692	
CM	5.65	.00375 / .0565	0.066372	
CN	5.65	.00375 / .0565	0.066372	
CO	5.75	.00375 / .0575	0.065217	
CP	5.75	.00375 / .0575	0.065217	
CQ	5.65	.00375 / .0565	0.066372	

****There are a few loans within loan pools J, RA, AX, BA, BC, BE, BG, BH, and BJ that have interest rates that are different from the majority of loans within those loan pools. Be sure to check the interest rate when looking up the service fee factor for loans in those loan pools.

Derivation of Service Fee Factors							
Loan Pool	Interest Rate	Calculation	Service Fee Factor	Loan Pool	Interest Rate	Calculation	Service Fee Factor
CR	5.75	.00375 / .0575	0.065217	EA	6.00	.00375 / .0600	0.0625
CS	5.75	.00375 / .0575	0.065217	EB	5.65	.00375 / .0565	0.066372
CT	5.35	.00375 / .0535	0.070093	EC	6.00	.00375 / .0600	0.0625
CU	5.35	.00375 / .0535	0.070093	ED	6.00	.00375 / .0600	0.0625
CV	5.35	.00375 / .0535	0.070093	EE	5.75	.00375 / .0575	0.065217
CW	5.75	.00375 / .0575	0.065217	EF	5.875	.00375 / .05875	0.06383
CX	5.75	.00375 / .0575	0.065217	EG	4.85	.00375 / .0485	0.07732
CY	5.30	.00375 / .0530	0.070755	EH	5.55	.00375 / .0555	0.067568
CZ	5.30	.00375 / .0530	0.070755	EI	5.25	.00375 / .0525	0.071429
DA	5.30	.00375 / .0530	0.070755				
DB	5.30	.00375 / .0530	0.070755				
DC	5.30	.00375 / .0530	0.070755				
DD	5.30	.00375 / .0530	0.070755				
DE	5.75	.00375 / .0575	0.065217				
DF	5.75	.00375 / .0575	0.065217				
DG	6.40	.00375 / .0640	0.058594				
DH	6.40	.00375 / .0640	0.058594				
DI	6.15	.00375 / .0615	0.060976				
DJ	6.15	.00375 / .0615	0.060976				
DK	6.15	.00375 / .0615	0.060976				
DL	6.15	.00375 / .0615	0.060976				
DM	5.99	.00375 / .0599	0.062604				
DN	5.99	.00375 / .0599	0.062604				
DP	5.99	.00375 / .0599	0.062604				
DQ	5.99	.00375 / .0599	0.062604				
DR	6.30	.00375 / .0630	0.059524				
DS	6.30	.00375 / .0630	0.059524				
DT	6.50	.00375 / .0650	0.057692				
DU	6.50	.00375 / .0650	0.057692				
DV	7.00	.00375 / .0700	0.053571				
DW	6.50	.00375 / .0650	0.057692				
DX	7.50	.00375 / .0750	0.05				
DY	6.00	.00375 / .0600	0.0625				
DZ	6.25	.00375 / .0625	0.06				

****There are a few loans within loan pools J, RA, AX, BA, BC, BE, BG, BH, and BJ that have interest rates that are different from the majority of loans within those loan pools. Be sure to check the interest rate when looking up the service fee factor for loans in those loan pools.

APPENDIX C

UNDERWRITING AND CLOSING DOCUMENTS THAT SHOULD BE INCLUDED IN A WDVA LENDER FILE OF RECORD

1. ORIGINAL UNDERWRITING DOCUMENTS

- ◆ WDVA Underwriting Checklist (WDVA 2333)
- ◆ Uniform Residential Loan Application (Fannie Mae 1003)
- ◆ WDVA Addendum and Amendment to Residential Loan Application (WDVA 2301A)
- ◆ Request for Verification of Employment (WDVA 2304)
- ◆ Other Appropriate Forms of Income Verification (i.e., VA Award Letters or Complete Federal Income Tax Returns)
- ◆ Request for Verification of Deposit (WDVA 2304A)
- ◆ Gift Verification (WDVA 2304B)
- ◆ Factual Data Credit Report (Mortgage Report)
- ◆ Offer to Purchase
- ◆ Real Estate Condition Report
- ◆ Life of Loan Flood Zone Certificate
- ◆ Uniform Residential Appraisal Report (WDVA 2302)
- ◆ Appraisal Report - Individual Condominium or PUD Unit (WDVA 2307)
- ◆ Appraisal Addendum (WDVA 2302(B))
- ◆ Original Photos of Subject Property
- ◆ Interim Construction Note to be Replaced (if Take Out Loan)
- ◆ Offer to Purchase or Deed for Land (Construction, Purchase Construction, or Take Out)
- ◆ Firm Price Construction Contract With One Year Builder's Warranty (Construction, Purchase Construction, or Take Out)
- ◆ Amendment To Contract Painting and Staining (WDVA 2336A) (Construction)
- ◆ Copies of Building Plans (Construction)
- ◆ Cost Breakdown (WDVA 2382) (Construction)
- ◆ Description of Materials (HUD-92005) (Construction)
- ◆ Certificate of Completion of Construction (WDVA 2337)
- ◆ WDVA Commitment Letter
- ◆ Other Pertinent Documents
- ◆ All Correspondence From WDVA Relating to Loan Underwriting

2. ORIGINAL CLOSING DOCUMENTS (UNLESS SPECIFIED OTHERWISE)

- ◆ Electronic Funds Transfer Request (WDVA 2605)
- ◆ Title Insurance Binders (Required on all Condominium Loans) or Attorney's Preliminary Opinion of Title
- ◆ Copy of Appropriate WDVA Mortgage Note
 - ◆ Purchase, Purchase Construction, Take Out, and Condominium Loans (WDVA 2308)
 - ◆ Mortgage Note Construction (WDVA 2308C)
 - ◆ Mortgage Note Purchase/Improvement (WDVA 2308I)
 - ◆ Mortgage Note Purchase/Rehabilitation (WDVA 2308R)
- ◆ Closing Statement (HUD 1)
- ◆ Copy of Truth-In-Lending
- ◆ Construction Loan Agreement (WDVA 2336)
- ◆ Purchase/Improvement, Purchase/Rehabilitation Loan Agreement (WDVA 2322)
- ◆ Novation Agreement (Assumptions) (WDVA 2323)
- ◆ Mortgage (recorded) (WDVA 2309)
- ◆ WDVA Mortgagor's Affidavit (WDVA 2303)
- ◆ WDVA Lender's Warranty (WDVA 2306) Copy
- ◆ Title Policy or Abstract of Title
- ◆ Final Opinion of Title, indicating WDVA has first lien
- ◆ Lien Waivers for Construction, Purchase/Improvement, or Purchase/Rehabilitation Loan
- ◆ Compliance Inspection Reports, for Construction loans and as required for other loan types
- ◆ Other Pertinent Closing Documents including verification of fulfillment of all loan contingencies
- ◆ All correspondence from WDVA relating to closing documents.

APPENDIX D

MATH FORMULAS

The mathematical formulas used by the WDVA Accounting System for standard amortization, calculation of servicing fees, and reverse amortization are shown below:

STANDARD AMORTIZATION

The following formulas are used by WDVA to allocate a monthly P&I payment to interest and principal and to determine the loan ending principal balance. The appropriate number of decimal places for each calculation is shown in the following example.

$$\begin{aligned}\text{monthly interest rate} &= \text{annual interest rate} / 12 \\ \text{interest component} &= \text{monthly interest rate} \times \text{beginning unpaid principal balance} \\ \text{principal component} &= \text{monthly P\&I} - \text{interest component} \\ \text{ending principal balance} &= \text{beginning principal balance} - \text{principal component}\end{aligned}$$

For example, the first P&I payment of \$266.11 on a \$40,000 loan at 7.0% is allocated to principal and interest as follows:

1. Determine monthly interest rate

$$\begin{aligned}\text{monthly interest rate} &= (0.07000)/12 = .0058333333 \text{ (unrounded to 10 decimal places)} \\ \text{plus a rounding factor} &+ \underline{.0000000005} \\ \text{then drop the final digit} &= .0058333338 \\ \\ \text{monthly interest rate} &= .005833333 \text{ (truncate to 9 decimal places)}\end{aligned}$$

2. Determine the interest component

$$\begin{aligned}\text{interest component} &= \$40,000 \times .005833333 = \$233.33333332 \text{ (unrounded to 9 places)} \\ \text{plus a rounding factor} &+ \underline{.005000000} \\ &= \$233.33833332 \text{ (truncate to 2 places)} \\ \\ \text{interest component} &= \$233.33\end{aligned}$$

3. Determine the principal component

$$\text{principal component} = \$266.11 - \$233.33 = \$32.78$$

4. Determine the ending principal balance

$$\text{ending principal balance} = \$40,000 - \$32.78 = \$39,967.22$$

CALCULATION OF SERVICING FEES

The following formulas are used by WDVA to calculate Servicing Fees. The appropriate number of decimal places for each calculation is shown in the following example.

annual servicing fee rate = is provided by the servicing contract = .37500 %

annual interest rate = is unique for each loan as shown on the note

servicing fee factor = Annual Servicing Fee Rate / Annual Interest Rate

Servicing Fees are calculated by multiplying the interest component of each transaction by the Servicing Fee Factor of the loan.

For example, the amount of Servicing Fees earned on the first \$266.11 P&I payment on the \$40,000 loan at 7.0% (that was provided as an example of the LAS Standard Amortization) is calculated as follows:

1. Determine the Servicing Fee Factor

$$\begin{aligned} \text{servicing fee factor} &= .00375 / .070000 = .0535714 \text{ (unrounded to 7 decimal places)} \\ \text{plus a rounding factor} &+ \underline{.0000005} \\ &= .0535719 \text{ (then truncate to 6 decimal places)} \\ \\ \text{servicing fee factor} &= .053571 \end{aligned}$$

2. Calculation of Servicing Fee Amount

$$\begin{aligned} \text{servicing fee amount} &= \text{interest component} \times \text{servicing fee factor} \\ &= (\$233.33) \times (.053571) \\ &= 12.499721430 \text{ (unrounded to 9 decimal places)} \\ \text{plus a rounding factor} &+ \underline{.005000000} \\ &= 12.504721430 \text{ (then truncate to 2 decimal places)} \\ \\ \text{servicing fee amount} &= \$12.50 \end{aligned}$$

REVERSE AMORTIZATION

To determine the P&I components and loan balance for the previous payment applied:

1. Add the P&I amount to the current principal balance, to determine factor [A].
2. Determine the monthly interest rate by dividing the annual rate by 12.
3. Add 1.0 to the monthly interest rate, to determine factor [B].
4. Divide factor [A] by factor [B], to determine the previous principal balance.
5. Subtract the current principal balance from the previous principal balance to determine the principal component of the most recent payment.
6. Subtract the principal component from the P&I amount to determine the interest component.

For our example:

factor [A]	=	$\$39,967.22 + \266.11	=	$\$40,233.33$
monthly interest rate	=	$0.07 / 12$	=	0.005833333
factor [B]	=	$1.0 + .005833333$	=	1.005833333
previous principal balance	=	$\$40,233.33 / 1.005833333$	=	$\$40,000.00$
principal component	=	$\$40,000 - \$39,967.22$	=	$\$32.78$
interest component	=	$\$266.11 - \32.78	=	$\$233.33$

APPENDIX E

CHARACTERISTICS OF THE LOAN ACTIVITY FILE

The preferred electronic format for the LOAN ACTIVITY FILE is as a Tab-Separated Text File (*.txt).

We will also accept the LOAN ACTIVITY FILE as a Microsoft Excel File (*.xls).

ONE HEADER ROW

- The Service Bureau ID will always be 0.

MULTIPLE DETAIL ROWS

- The LoanNumber_In should be the WDVA loan number.
- Should be sorted by LoanNumber_In in ascending order.
- A complete separate record is needed for loans with multiple payment transactions, i.e., P & I transactions, Curtailments, and Payoffs, etc. All of the columns in each row should be filled in, which means that some columns will contain repeated information.
- When there are multiple detail entries for the same loan, the principal balance on each of the rows should show the same balance and that is the balance after application of all the transactions for the loan for the processing period.
- The Service Fee Factor will always be 0.0003125.
- The Program Number will always be 0.
- Bond Issue Code # can be 0.

LOAN ACTIVITY FILE LAYOUT

GENERAL LAYOUT INFORMATION

- This is a TAB-separated text file, with one payment record for each row.
- Each row should end with a line feed and carriage return.
- The first row is a “header” row for the entire text file.
- The remaining rows are the “details.”

ONE HEADER ROW

Field Name	Data Type	Max Character Size	Remarks
Rec_Key	Character	1	Fixed value = H
ServiceBureauID	Integer	Variable	Fill with 0 if data not available.
ServicerID	Character	10	
ReportDate_In	Character	10	MM-DD-YYYY or MM/DD/YYYY
TotalPrincipalPaid	Money	Variable	
TotalInterestPaid	Money	Variable	
TotalServFeeWithheld	Money	Variable	Fill with 0 if data not available.

MULTIPLE DETAIL ROWS

Field Name	Data Type	Max Character Size	Remarks
Rec_Key	Character	1	Fixed value = D or (single space) or (any character other than H).
ProgramNumber	Integer	Variable	Fill with 0 if data not available.
LoanNumber_In	Character	10	The 10 digit WDVA Loan ID.
BondIssueCodeNumber	Double	Variable	Fill with 0 if data not available.
PrincipalPaid	Money	Variable	
InterestPaid	Money	Variable	
ServiceFeeWithheld	Money	Variable	Fill with 0 if data not available.
PaymentDueDate_In	Character	10	MM-DD-YYYY or MM/DD/YYYY
CustomerTransDate_In	Character	10	MM-DD-YYYY or MM/DD/YYYY
PrincipalBalance	Money	Variable	
PIConstant	Money	Variable	
InterestRate	Double	Variable	
ServiceFeeFactor	Double	Variable	Monthly SF factor. Fill with 0 if data not available.

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