LOAN POLICY

The mission of NeighborWorks of Western Vermont is to strengthen the development of a regional economy by promoting safe, efficient and stable housing, and community projects through education, technical assistance, and financial services Together, we can build strong, vital communities.

110 Marble Street
West Rutland, Vermont 05777

Last Approved Update: January 2022

Contents

1. Board Approval

By underwriting financially, and otherwise sound projects and homeownership loans that demonstrate the greatest measurable benefits to creditworthy individuals, the revolving loan fund provides capital and technical assistance in support of NeighborWorks® of Western Vermont's mission.

It is the policy of NeighborWorks® of Western Vermont to fully comply with both federal and state lending regulations, which includes, but is not limited to: The Equal Credit Opportunity Act Regulation B, Truth-in-Lending Act Regulation Z, Real Estate Settlement Procedures Act (RESPA) Regulation X, and Home Mortgage Disclosure Act (HMDA). NWWVT will make every effort to adhere to these regulations when they are applicable, and continually monitor for compliance.

It is the policy of NeighborWorks of Western Vermont that its Board of Directors review these loan policies, revising them, as appropriate, on an annual basis, or more frequently if needed.

NWWVT will provide access to information in other languages and make accommodations for those with disabilities in all service areas.

It is the policy of NWWVT to strive toward sustainability of the revolving loan fund by using loan repayments, additional loan capital, capital obtained or to be obtained from public and private sources, as well as operating funds from the Vermont Community Development Program (VCDP), NeighborWorks® of America, and other grant sources.

The policies that follow have been approved by the NWWVT Board of Directors as of February ____, 2022.

____	___________________________
Jennifer Yakunovich President of the Board of Directors	Date

2. Loan Committee

A. Composition

The NeighborWorks of Western Vermont (NWWVT) Loan Committee (hereafter called "Loan Committee) is composed with the intention of providing a balance of professional lending skills with input from the NWWVT board and communities being served.

The Loan Committee shall be comprised of residents in Addison, Bennington, and Rutland counties, representatives from local and/or partnering lending institutions, board members and members of the community at large.

As an active Loan Committee member, candidates shall receive training on the loan policy as well as the roles, responsibilities, and procedures of the Loan Committee. Training will be provided by the Loan Committee or NWWVT staff at least annually.

No actions may be taken without a quorum present. A quorum shall consist of three (3) members, one of which shall be a resident and the other a lender.

B. Chair

The Board of Directors shall appoint the chair of the Loan Committee. The chair and Director of Lending with the acceptance from the board of governance shall be responsible for recruiting and replacing committee members.

C. Authority

The Director of Lending, required to be a licensed lender in the state of Vermont, has loan authority to approve conforming loans up to a cumulative limit of $200,000, and to deny and make counteroffers on loan applications without seeking approval of the Loan Committee. The licensed lender is defined as a mortgage loan officer employed by NWWVT for the purposes of originating loans.

Upon nearing the $200,000 cumulative loan amount, the Director of Lending shall notify the Loan Committee of the total amount of loans approved per each loan product. The cumulative loan amount could be slightly over the $200,000 mark. If this occurs prior to providing information to the Loan Committee, the Director of Lending will explain the context within which the lending department is operating during that time period.

The Loan Committee shall have the authority to approve applications for non-conforming or conforming loans up to a per loan limit of $200,000. Loan requests over $200,000 must be presented to all members of the board for approval after initial review by the Loan Committee.

Conforming loans are those loans which do not require a policy exception. Nonconforming loans, or those that require a policy exception, will be presented by the lender to the Loan Committee for review and approval at the monthly committee meeting, or may be sent electronically for committee approval outside of regularly scheduled Loan Committee meeting.

Lending limits will be set by the NWWVT Board of Directors. Loan authority maximum lending amounts will be reviewed from time to time by the Board of Directors.

D. Reporting

The actions of the Loan Committee shall be reported by the Director of Lending or Chair of Loan Committee to all members of the Board of Directors via a report in the board packet or by presentation at regularly scheduled board meetings.

E. Confidentiality

To promote trust, all information regarding the personal business and financial affairs of borrowers will be kept strictly confidential in accordance with our privacy policy.

All employees must ensure that records and information are safeguarded, and they must understand that unauthorized access or use is prohibited.

Committee members shall be advised regularly of the need for strict confidentiality in all matters and will sign confidentiality statements annually, acknowledging their understanding of and their agreement to adhere to said policy.

During Loan Committee meetings, loan applicants will be referred to by their loan numbers. Identifying information will be withheld to ensure privacy is protected. All other information necessary to make a sound loan decision including credit history, property information and value, source of repayment and other pertinent information will be shared with the Loan Committee. At the end of each committee meeting, the names of the applicants will be disclosed in no particular order to be sure local lenders who serve on the Loan Committee have the opportunity to recuse themselves from the transactions of any borrower with whom they may have had financial dealings in the private sector. Those members who recuse themselves will subsequently have vote removed from that borrower.

F. Conflict of Interest

Loan Committee members requesting a loan may not be present when the application is being discussed by the committee. Controversial cases may be referred to the full Board of Directors. In the event that an individual faces a conflict of interest in his or her role as committee member, said individual is expected to withdraw from relevant discussions and abstain from any voting that may be inappropriate. NWWVT staff requesting a loan must be reviewed and approved by all of the following: The Director of Lending, the Loan Committee, the Executive Director and the President of the Board of Directors.

Soliciting or accepting tangible property, or services, or anything of value as a gift or a condition to a transaction will be prohibited.

G. Referral

The committee chair or the executive director may refer controversial cases to the complete membership of the Board for consideration. This may be done for the purpose of policy clarification, education, the resolution of differences, or for the discussion of possible conflicts of interest.

3. General Overview

A. General Purpose and Mission

The Mission of NeighborWorks of Western Vermont (NWWVT) is to strengthen the development of a regional economy by promoting safe, efficient and stable housing, and community projects through education, technical assistance, and financial services in Addison, Bennington, Rutland, Caledonia, Orleans and Essex Counties, Vermont. We do so by providing loans and technical assistance to homeowners and responsible landlords for energy efficiency, home repair, and home purchase. Down payment assistance and energy loans are available to the entire state of Vermont.

As a certified CDFI, it is the policy of NWWVT to make at least 60 percent of its loans, both by number and dollar volume, to eligible low-income borrowers and/or to eligible Investment Areas approved by the CDFI Fund.

NWWVT expects and accepts credit risks beyond the tolerance of regulated lenders. The sound management of these risks is a primary task for our lending operation. We seek to underwrite and manage our loan portfolio with the goal of financial sustainability, and to conserve the loan fund's capital, including loan repayments, additional loan capital, capital obtained or to be obtained from public and private sources, as well as operating funds from the Vermont Community Development Program (VCDP), NeighborWorks® of America, and other grant sources.

Individuals who are eligible for credit from either a private or public sector source are encouraged to seek that alternative funding first. Staff and Loan Committee members shall make reasonable efforts to involve private financial institutions in NWWVT projects.

B. Lending Practice - General

It is the responsibility of the lender to accept loan applications, ensuring that they are complete and that all the necessary supporting documentation has been provided.

Throughout the loan process, the lender is the primary point of contact for the borrower, as well as to other NWWVT staff.

The lender accepts the loan application enters the loan and information onto the LOS (Loan Origination System) does a preliminary review, then the loan package is sent to the processor to request any additional information, create a loan file and send it to our underwriter for review. If necessary, the lender will prepare and present the loan request to the Loan Committee.

The Director of Lending will base approval or refusal of a loan request upon a combination of need, ability to repay, and the underwriting criteria, found in Section Five below. While reference has been made to certain conditions necessitating a review by the Loan Committee, NWWVT's directive is to serve those borrowers who are not served by traditional financial institutions. Therefore, flexibility in our consideration of individuals seeking access to our lending program is crucial to the success of our mission.

In general, the more complex the loan transaction, the more diligence is required in underwriting the transaction. While additional care shall be taken when underwriting a larger loan, a smaller, yet more complex, loan may require an equivalent measure of caution.

C. Trade Area

The trade area for NWWVT is Addison, Bennington, Rutland, Caledonia, Orleans and Essex Counties. Energy loans and down payment assistance loans are available to all of state of Vermont.

D. Licensed Lender Requirement

All mortgage originators working for NWWVT are required to be licensed.

The following are requirements to obtain licensure in the state of Vermont:

- Employed (W2) and sponsored by a company licensed as a lender and/or mortgage broker by the State of Vermont. Dual sponsorship is not permitted.
- Completion of 20 hours of NMLS approved pre-licensure education courses. **A**t least 2 hours of the 20 NMLS approved pre-licensure education courses must be approved VT specific pre-licensure education courses.
    - Passing score on: National and State of Vermont components of the S.A.F.E. Mortgage Loan Originator Tests,
    - National and Stand-alone Uniform State Content components of the SAFE Test, and
    - National Test Component with Uniform State Content.
- Submission of fingerprints for an FBI criminal history background check. Authorization through NMLS to obtain a credit report and credit score. Licensed and in good standing in state of residence.

E. Conflict of Interest

The Board of Directors wishes to ensure that the lending process maintains the highest degree of honesty, integrity, and objectivity.

Conflicts of interest between officers, employees, directors, their related interests, borrowers, and NWWVT will be avoided.

Loans to immediate family members of a lending officer will need to be approved by Loan Committee, executive director and the board.

Soliciting or accepting tangible property, or services, or anything of value as a gift or a condition to a transaction will be prohibited.

Purchases and sales directly or indirectly involving a borrower and an officer, employee, director, or their related interests, will be made on the same terms as for any other disinterested party, or otherwise, will be fully disclosed and will be approved by the Board of Directors.

F. Types of Loans

The types of loans may include but are not limited to:

- First, second, or third position loans based on income guidelines of funding sources.
- Down payment assistance for home purchase.

- Tandem or partner loans where two loans are made—the first loan by a private lender, NWWVT or public agency, and the second loan by NWWVT.
- Loan packaging on behalf of funders.

The Director of Lending and Loan Committee members shall endeavor to work creatively together, exploring all possible loan-packaging techniques to make loans to revitalize communities and increase opportunities for home ownership within the state of VT.

G. Permissible Uses

A wide variety of rehabilitation and homeownership needs shall be considered eligible uses of the revolving loan fund. Permissible uses of the fund shall include, but are not limited to:

a.) Home Repair

- Any repair that addresses a health and safety issue
- Any repair that addresses a code compliance issue
- Any repair that addresses a mechanical or structural defect
- Energy efficiency measures
- Home Repair and resale of vacant or "problem" buildings throughout the NWWVT service area

b.) Home Ownership

- Down payment cost assistance
- Refinancing
- Purchase/Home Repair

c.) Landlord Loans

- Home Repair
- Purchase/Home Repair
- Energy Loans

H. Loan Priorities

It is NWWVT's intention to manage a balanced portfolio of projects that contribute to the sustainability of the revolving loan fund program while maintaining adherence to our mission.

I. Borrower Eligibility

Borrow eligibility shall be the lender's responsibility and is limited to applicants and projects that meet certain criteria provided by the funding source and our underwriting standards.

Applicant eligibility per loan production will require the following:

a.) Home Repair Loans – The applicant must

- reside in or be in the process of purchasing a property in Addison, Rutland, or Bennington Counties,
- demonstrate repayment ability,
- provide adequate collateral for the loan,
- evidence a credit history that indicates a responsible attitude towards debt,

- own or otherwise control—as in life lease or purchase and sale agreement—the property for which funding is sought,
- agree to reside in the home for the duration of the loan, or refinance/sell the home and repay the loan in full, and
- commit to ensuring the entire structure complies with Section 8 minimum housing standards and current National Fire Protection Health and Safety Code, where applicable, and to make all necessary repairs or improvements to that end.

b.) Energy Improvement Loans

- For weatherization and energy efficiency improvements on a residences or four-unit apartment buildings in Vermont.

c.) Purchase Assistance Loans

- For purchasing a primary residence in Vermont.

d.) Loans saleable on the secondary market

- Purchasing or refinancing a home located in Vermont.

f.) Employees, Committee Members and Board Members

- NWWVT recognizes that its employees, committee member and board members may need lending products offered by NWWVT and shall make loans available to this group under the same circumstances and terms as every other loan applicant subject to appropriate review.

4. Loan Products and Underwriting Criteria

The Director of Lending reviews and changes interest rates for each product with input from appropriate staff based on our current blended cost of funds, budgeted rate spread, and competitor lender interest rates.

A. Energy Efficiency

Income and credit score will determine eligibility. Credit scores that fall below 620 will be underwritten and may require additional documentation. In some cases, the loan may also be required to be secured by property. All rates and terms are subject to change.
Criteria includes:

- That the loan is being used to finance insulation, air sealing, heating/cooling units, renewables (including solar) and any improvements needed for effectiveness of these upgrades.
- Minimum credit score of 620.
- Maximum loan amount of $40,000.
- Available rate.
- Maximum term of 10 years.
- Unsecured loan.
- $250 Escrow management fee (financed).
- An energy audit is not required to obtain an energy loan. It is recommended but is optional to our borrower(s).
- Efficiency incentives may be applied to loan principal.
- Income to support repayment with debt-to-income (DTI) 46% or lower.

- One year of income documentation and one month of bank statements are required for this special program vs. expanded criteria for other programs.

B. Down payment Assistance Loans

- Minimum credit score of 620.
- Maximum loan amount of $40,000.
- Purchase of Primary residence, single family, duplex, 1-4 family, townhouse, or condominium.
- No first-time homebuyer requirements.
- Homebuyer education required if a first-time homebuyer.
- This loan is secured, typically in a second position.
- The maximum total loan to value is 100% unless the borrower is using the VHFA Assist purchase mortgage.
- First mortgage lender ordered appraisal used by NWWVT.
- Rate is fixed at 2% above the first mortgage rate.
- Loan term is 15 years, fully amortizing.
- Debt to income not to exceed 45%
- No origination fees, regular closing costs may not be financed.

C. Purchase with Home Repair Loans

- Minimum credit score is 620.
- Rate is prime plus 2%
- Term is 30 years
- Debt to income not to exceed 45%
- Project management will be done by the appraiser and NWWVT lending staff.
- Appraisal and inspections required.
- First mortgage secured.
- Closing costs are not to be financed.
- Underwriting fee $250.00, documentation fee of $250.00 and 1.5% origination fee.
- Purchase of a primary residence, single family, town house, 1-4 family and condominium.

D. Home Repair Loans

- Review by a NWWVT home evaluator is required.
- Project management is required.
- Minimum credit score of 620
- Maximum loan amount of $50,000
- This loan is secured by either a first, second or a third lien on the property.
    - All loans exceeding $10,000.00 shall be secured by appropriate mortgage security documents and legally recorded.
    - At the discretion of the lender a loan at $10,000.00 or less can be made an unsecured loan.
    - Second and third lien mortgages will require a notice to first lienholder notifying them of the NWWVT second mortgage and must be acknowledged in writing by the first lienholder.
- In general, the loan-to-value should not exceed 100%, but flexibility is allowed, particularly when it comes to health and safety measures.
- Automated Value Model (AVM) is required when available, otherwise the assessed value of the property will be used to determine property value (used to determine LTV).

- The rate is based on the NWWVT cost of funds and the AMI of the household. The rate is fixed for a term of up to 10 years.
- Income to support a total debt to income of not to exceed 46%
- No origination fees for borrowers under 80% AMI, regular closing costs may be financed.
- Area median income is no more than 120%.

E. Refinance Loans/Work-Out Loans

In general, NWWVT is not a refinance lender. However, under certain conditions where the NWWVT borrower is facing the potential loss of their home NWWVT will consider a refinance which may or may not include a rehabilitation component.

- Minimum credit score is 620.
- Current available rate fixed for 10 to 15 years.
- Review by a NWWVT home evaluator maybe required.
- Appraisal or AVM is required.
- Closing costs may be financed.
- Debt to income not to exceed 45%

5. Underwriting

A. Income

Primary Income

Proper documentation of income should provide information necessary to determine the applicant's ability to repay the debt. Identifying the stability, quantity, and the continuousness of income is essential to loan qualification purposes.
The applicant's and co-applicant's gross monthly incomes are a computation of the following:

- Stable monthly base earnings.
- Overtime, averaged over a period of at least two years.
- Commissions, averaged over a period of at least two years.
- Bonuses, if documented for a period of at least two years.
- Documented rental income.
- Fixed income sources, e.g., Social Security, SSDI, pension, fuel assistance, 3SquaresVT. The actual tax-exempt portion of these types of earnings can be grossed up by 25% if documentation of tax exemption is provided.
- Any other verifiable funds that show the probability of continuing and are pertinent to reviewing the loan.

Loan applications are reviewed based on a consideration of primary income. Primary income is:

- Derived from stable base earnings, and/or
- Considered the principal source of income.
- Expected to continue for the next three years.

A verification of employment, W2s, or current paystubs must be received for all employers for whom the applicant has worked in the last two years.

If the following circumstances appear when analyzing the employment history, the applicant must provide a written explanation:

- Gap in employment history.
- Frequent change of jobs without advancement.
- Movement from one line of work to another.

Oddities, such as different handwriting or ink color on the "Verification of Employment" form are to be questioned. Information on the verification should coincide with the information supplied on the residential loan application. Any discrepancies require explanation.

Secondary Income

Secondary income is defined as continuous earnings separate from the base pay of primary employment and can be derived from various sources. Secondary income can be considered for loan qualification purposes if:

- Continuation of the income is probable.
- The secondary income is reliable as defined by a two-year history.
- The income is substantiated either in writing or verbally by loan officer or their designated agent.
- Seasonal employment and unemployment are acceptable if there is a verifiable history.

Part-time & Seasonal

Part-time or seasonal employment can be considered if:

- Verification is obtained for that position and/or a related field for a period of not less than two years.
- Probability of continuance is established.

Commissions

Commissions received in addition to a base salary must be verified on the "Verification of Employment" form. The last two years' 1040s and W-2s or 1099 forms may also be required.

When considering commissions for loan qualification purposes, consideration must be given to previous amounts earned and the likelihood for future earnings.

Bonuses

Bonuses are considered optional for an employer therefore sufficient documentation is required to assure the stability and duration of this income.

Retirement Income

Retirement income is verified by obtaining a copy of the award letter and a copy of bank statements showing deposits in the applicant’s account.

Alimony & Child Support

Alimony and child support are considered if the applicant reveals the information for repayment purposes.

The following documentation should be supplied for review:

- Copy of the printout from Superior Court showing continuity.
- Divorce decree.
- Evidence that payments are current and regular for 12 months or longer.
- Child support and alimony payments are acceptable with a guarantee of continued payment for at least three years.

Social Security, Government Assistance & Disability

Social Security, government assistance, and disability income can be considered as an income source if the following documentation is submitted:

- Award letter.
- Copies of the last two months of bank statements evidencing receipt of income.
- Most recent two years’ SSA-1099 evidencing benefits received.
- Supplemental Security income doesn’t trigger a 1099 but evidence of receipt for the last two years should be requested and may be obtained from the office.

If benefits are being received for a minor child, documentation must reflect that the income will continue for at least three years.

Tips

Tips are verified using copies of tax returns reflecting this type of income. Tips should also be verified by the employer on the “Verification of Employment” form and by copies of pay stubs.

Dividend & Interest Income

Dividend and interest income may be considered, provided the following is obtained for review:

- Two years’ tax returns and 1099 forms.
- Statement of interest earned.
- Most recent two consecutive months of brokerage statements verifying the asset from which the income is derived.

The available assets must be analyzed to ensure that the funds or stocks that represent this source of income will not be liquidated for use toward the purchase price.

Expense Accounts

Expense accounts, such as those for a car allowance or entertainment, may not be considered unless they can be documented, since they offset specific expenses.

Rental Income

Income from other real estate owned can be considered. To evaluate rental income, the following items may be required:

- Schedule of real estate owned.
- Operating statements, if available.
- Current leases or tenant statements.

Most recent two years' tax returns, including all schedules, are required in order to substantiate net rental income.

Rental income or loss on other real estate owned must be calculated and included for qualifying purposes.

If the borrower hasn't owned the property for the past 12 months, it is difficult to calculate actual income and expenses. In this instance, rental income can be calculated using 75% of gross rental income as verified by signed leases per secondary market guidelines.

Self-Employment Income

The NWWVT will consider a self-employed applicant, provided that:

- The applicant supplies all required documents.
- The business is viable and can be expected to continue.
- The applicant's income is sufficient to support the loan.
- The business has been established for at least one year, although two years is recommended.

The qualifying method for the self-employed applicant must be justifiable and completely documented. All documentation must be examined to determine an accurate income/cash-flow profile.

Regardless of how the self-employed applicant's business is structured, certain documents are required to be considered for a loan.

The following documents are required:

- Tax form 1040, "U.S. Individual Tax Return"—including all schedules and attachments for the two most recent years.
- Corporate and/or partnership returns for all businesses in which the borrower has a 25% or greater ownership interest for the two most recent years.
- A year-to-date profit/loss income statement, with information covered through the last quarter, may be requested.
- Business debt not shown on the credit bureau report may need to be verified with a history of payments.

The calculation of a self-employed borrower's average monthly income must be based on a review of the borrower's complete individual federal tax returns (Form 1040) including W2s and K-1s (if applicable) as well as the borrower's complete business tax returns (Forms 1120, 1120S, and 1065), when applicable.

Written analysis of the borrower's self-employed income is required. Non-cash items, such as depreciation, depletion, and amortization may be added back to adjusted gross income for the purpose of determining qualifying income. Documented nonrecurring losses, such as casualty losses, can also be added back to the adjusted gross income, as well as loss carry-overs from previous tax years. In general, the Freddie Mac Form 91 or similar form will be used to calculate self-employed income.

The following generally included deductions qualify:

- Depreciation on real property.
- Depreciation on personal property when it is not fully consumed during the current operating cycle. To be acceptable, personal property must be depreciated over its generally accepted useful life.
- IRA/KEOGH retirement contributions.
- Interest income and dividend exclusions.
- Non-taxable pension income.
- Non-cash losses.
- Married couple deductions.
- Non-recurring losses.

B. Credit Documentation

Each applicant's credit history will be thoroughly reviewed by the lender and/or the underwriter to demonstrate ability and willingness to repay and manage their financial affairs. Credit counseling may be recommended as a condition of the loan. Staff may request letters of explanation for any areas of concern. At the discretion of the staff, applicants may submit alternative sources of credit, such as utility payment history, to establish creditworthiness.

If the credit score of either borrower is below 620, the loan will need to be reviewed by the Loan Committee.

Before pulling credit on a non-present borrower the loan officer will take steps to identify the borrower which will include asking a security question not found on the loan application (such as the applicant's mother's maiden name). The next step is to ask the borrower to identify one piece of information that can be found and verified on the credit report such as a previous address, a credit provider or a monthly payment amount for a specific loan.

The Credit Report

It is essential that the entire report be examined. The information presented must be reviewed for accuracy and consistency with the initial and final loan applications. Items to be reviewed:

- Applicant's name.

- All known aliases.
- Address information for the previous two years.
- Employment history for the previous two years.
- Social security numbers.
- Identity of creditors.
- Dates the accounts were opened or closed.
- Highest credit limits.
- Dates of last transactions.
- Account balances.
- Any past-due amounts.
- Payment and loan terms.
- Rating as to the manner of payment.
- Public record information.
- Number of inquiries.
- OFAC watch lists and SSA death master lists.

The credit report must be analyzed for consistency with loan applications as well as for complete credit account information from the credit-reporting agency. Any inconsistencies must be explained by the applicant in writing. Any obligations listed on the credit report that are not verified or rated will require written verification as part of the underwriting process.

If any obligations appear on the initial application, but are absent from the credit report, a written explanation from the applicant and proof that payments have been made, or proof that the obligations are paid in full, is required.

All recent derogatory remarks on the credit report must be explained in writing by the applicant, even if the account has been brought current. Recent is defined as within the past 12 months.

Public Records

The public records reference on each credit report is to be checked for:

- Suits involving the applicant.
- Judgments against the applicant.
- Collection accounts.
- Bankruptcy.

If any of these are reported, the loan will not be considered unless the applicant provides documentation and explanation as to the cause of the problem. Evidence of satisfaction and release from all debts related to the action may also be required.

An applicant who has a history of bankruptcy must demonstrate evidence of discharge of bankruptcy and that a satisfactory credit history has been reestablished. In general, at least two years must have elapsed since the bankruptcy was discharged, and reasonable credit must be reestablished for loan consideration, barring extenuating circumstances. A loan application that is recommended for approval by the lender, and contains a bankruptcy less than two years old, is a policy exception and must be considered by the Loan Committee. All credit explanations by the applicant must be examined to determine plausibility and that conditions that caused the difficulties are not likely to recur. When analyzing bankruptcies, consideration will be given to whether there is a history of recovery and evidence of a current good financial standing.

General Liabilities

A liability is a debt to which a person is legally bound to pay or an obligation to make good on any loss or damage occurring in a transaction.

The analysis of liability in underwriting will provide insight into the applicant's credit habits and indicate his or her ability to manage financial affairs.

Outstanding liabilities must be verified and rated, either by a written loan status statement from the applicable account holder, or on the credit report.

In addition to documenting all outstanding liabilities on the loan application, inquiries on the credit report less than 120 days' old that do not have a corresponding liability should be explained in writing and reviewed to ensure additional loans have not been added.

Analysis of the applicant's liabilities is necessary to ensure that over-extension has not occurred.

Installment Loans

Installment loans with less than 10 monthly payments remaining do not have to be included in debt-to-income calculations. Regardless of whether loans are paid in full within a 10-month period, consideration should be given to patterns of credit use and whether the account is a revolving or installment account.

Real Estate Loans

A real estate loan is secured by real property. Written verification from the lender or a credit-reporting agency must be obtained to indicate mortgage status and rating, and to analyze as a major factor in determining new loan management.

Any late payments on any mortgages within the last 24 months must be explained in writing by the borrower. Any late payments within the last 12 months consist of a policy exception and, if loan approval is recommended by the lender, the loan must be reviewed by the Loan Committee.

Specific documentation on the loan application must appear under the assets section, liabilities and pledged assets sections, and on a schedule of real estate owned, indicating disposition of property.

If the existing real estate will be sold prior to closing, and if the equity realized from the sale is required for purchase of the new real estate, the applicant must provide the following:

- Receipt of a copy of the contract of sale prior to closing.
- Receipt of a fully executed closing statement evidencing amount and receipt of sufficient equity for the new purchase.

If the house will be rented, the underwriter must determine whether the result of this endeavor will be a negative cash flow that must be added to the applicant's liabilities, or whether a positive cash-flow will result in additional income.

If a home equity line of credit is in place, the line balance should be considered as if fully advanced, and an analysis shall be completed to determine if the borrower would still qualify at the maximum rate.

Pledged Assets

Pledging assets is a form of secured borrowing. Items which may be pledged are deposit accounts, stocks, bonds, and life insurance.

A review of this type of liability will determine the direct relationship to the value of the assets, which, if applicable, affects total net worth and the monthly payment requirements.

Pledged assets must be listed on the loan application under "liabilities" and "pledged assets." They must be considered when calculating the applicant's long-term total liabilities unless the asset can be liquidated, and the liability fully repaid with the proceeds. Line of Credit

A line of credit enables an applicant to borrow funds by writing a check or other means. The underwriter must determine:

- Repayment terms: Monthly payments, if applicable, must be disclosed on the loan application and will be considered as liabilities.
- Effect on applicant's available assets and net worth, to include a review of past use of the line of credit, outstanding balance, and maximum line of credit available.

Alimony, Child Support & Separate Maintenance Payments

When the applicant is obligated to pay alimony, child support, or separate maintenance, evidence that payments are current should be obtained and the obligation should be counted as a long-term liability.

Student Loans

Student loans are a form of unsecured debt. When an applicant indicates an outstanding student loan, the credit report should document the information. If the credit report cannot verify the account, a written rating request from the particular loan center may be requested; alternatively, a loan calculation indicating the anticipated loan payments upon repayment may be used. The monthly loan payment, including deferred payments, must be included in the liability section of the loan application in addition to the recurring debts section if the period to pay off the debt exceeds 10 months. The fact that a loan has been deferred may be identified as a mitigating factor for applicants with high debt relative to income.

Credit Report Requirements

The credit report is used to help determine the applicant's credit worthiness. The information provided on the report will be valuable for determining the applicant's history of debt repayment, manner and pattern of repayment, and attitude towards the use of credit.

A credit report must be a standard, factual data credit report issued by an authorized credit-reporting agency. The report must include information covering at least two years of credit history and residency and must be no older than 120 days at the date of loan approval. There must be evidence that public records have been checked.

A credit report must be obtained for each applicant. When applicants are married to each other, and their assets are combined and reported jointly, only one report, with information concerning both parties, is necessary.

Other Credit Documentation

For those borrowers who do not have established credit, a 12-month history of non-traditional credit may be considered. These may include but are not limited to: rent, utilities, cell phone accounts, "rent-to-own" or furniture stores. Savings pattern can also be used as a credit reference.

C. Debt Ratios

Housing Debt Ratio

The housing ratio is calculated by dividing the total monthly housing costs by the applicant's gross monthly income.

Monthly payments for the following items are to be included when considering the monthly housing ratio:

- Principal and interest payment of first mortgage.
- Any secondary financing.
- Real estate taxes.
- Hazard insurance premium.
- Flood insurance premium, if applicable.
- Private mortgage insurance premium, if applicable.

As a rule, the result of the housing ratio should not exceed 33% of the applicant's gross monthly income; however, the most important ratio is the total debt to income ratio, which should not exceed 46% (45% for some programs).

Debt-to-Income Ratio

As outlined above, housing costs generally should not exceed 33% of gross income; Housing plus consumer debt (all revolving and installment debt) should not exceed 46% (45% for some programs) of gross income. If the debt to income exceeds 46%, the loan will need to be reviewed by the Loan Committee.

Other monthly obligations to be considered include:

- Total monthly housing payment on the property.
- Net monthly housing expenses on other real estate owned.
- Long-term installment debt (beyond 10 months remaining to be paid).
- Revolving accounts and lines of credit.
- Alimony, child support, or maintenance, if applicable.

- Student loan payments (even if deferred at the time of application).

Special Financing Allowances for Higher Ratios

In some cases, NWWVT will be applying its financing in conjunction with other first mortgage financing for home purchase that allows the applicant to have higher ratios. In these cases, NWWVT will consider the higher ratios and substantiate that the borrower has met any special requirements of these programs, such as counseling or attendance at home-buying or landlord seminars. Documentation and 'memo' within the 1008 Uniform Underwriting and Transmittal Summary form, stating exceptions and compensating factors will be included in the loan documentation.

Approval Justification

The ratios discussed here are general guidelines. Flexibility may be exercised in specific underwriting situations. The following are examples of considerations that may justify approvals of loans with higher ratios:

- Applicant's proven ability to devote a larger amount of income to housing expenses while maintaining a good credit history.
- Applicant has a significant equity stake in the property.
- Applicant's net worth.
- Applicant's demonstrated ability to maintain good credit history.
- Documented VA residual income calculation.
- Evidence of applicant's potential for future increased earnings and job stability.
- A substantial down payment on the purchase of the property, or a strong equity position.
- Cost-efficient property characteristics—such as documented energy-efficient items—that make more income available for repaying mortgage debt.
- Health and safety issues that, if not repaired, would cause further damage or an immediate hazard.

D. Assets

Overview

The applicant's assets are an essential part of underwriting a loan. Assets demonstrate the applicant's ability to manage finances and whether there are sufficient funds to apply towards the down payment, closing costs, and prepaid items, in the case of a purchase transaction, or incidental expenses, in the case of other types of loan applications.

Types of Assets

Assets include funds in savings and checking accounts, escrow deposits held toward the purchase of a property, and funds received as a gift. Common additional assets include:

- Stocks and bonds.
- Money market funds and IRA accounts.
- Profit-sharing and thrift plans.
- Cash value of life insurance policies.
- Assets related to or involving the ownership of real estate.

Verification of Deposit

Verifications document the amount and liquidity of those assets of an applicant that are held in a depository institution and whether they are sufficient to close the loan. In lieu of a verification of deposit, the most recent two consecutive months of bank statements may be used.

Recent unexplained increases in deposits must be explained in writing. Gifts from relatives are allowed as long as they are documented with gift letters and a copy of the gift check.

E. Property

Property Type

Eligible properties usually consist of one to four units that are owner-occupied, primary homes. Investment property loan applications will be considered based upon the availability of funding and whether or not the property in question is located within our investment area.

Mobile Homes

The loan-to-value shall not exceed 100%.

Home repair loans for mobile homes on <u>owned land</u> will follow standard NWWVT lending procedures. Mobile home should not be older than 20 years.

Home repair loans for mobile homes on <u>rented land</u> shall not exceed $5,000.00 unless the loan can be secured by other means or approved by Loan Committee. Mobile home should not be older than 20 years.

Terms shall not exceed the useful life expectancy of the mobile home and, when affordable to the homeowner, the term shall not exceed 10 years.

Repairs to mobile homes on rented land shall have a primary focus on health and safety concerns. Repairs shall include, but are not limited to, the following:

- Roof repairs
- Furnace replacement
- Weatherization (skirting and underbelly insulation)
- Kitchen and bathroom floor replacement
- Plumbing and electrical repairs
- Window replacement

F. Appraisals

First mortgage purchase loans require an appraisal.

For a down payment assistance loan, an appraisal will be done by the first mortgage lender—generally based on the “as is” value of the property. Otherwise, the appraisal must be ordered by NWWVT; a borrower ordered appraisal may not be used.

The total acquisition cost will be considered the purchase price to acquire the property in addition to the total cost of rehabilitation. Consideration must be given to whether NWWVT is restricted by the first mortgage lender's loan-to-value requirements.

When a loan involves substantial rehabilitation, the total acquisition cost will be considered. An appraisal will be based on an "as completed" value, using a scope of work detailing the improvements to be made to the property. The scope of work is to be completed by the NWWVT home evaluator.

When an appraisal is appropriate, the appraisal must be completed by an independent fee appraiser properly licensed in the state of Vermont. The appraisal will be selected by NWWVT staff from a rotating list of appraisers. Each appraisal should contain two approaches to value: Cost of replacement and Market Value. The appraiser must reconcile the values.

6. Loan to Value Ratio

The loan to value ratio is determined by dividing the loan amount by the total value of the property. If the loan will be in a subordinate position, an additional step must be taken, determining the total loan to value. This is determined by dividing the total of all loans, including the subject request, by the total value of the property.

As a general rule, the loan-to-value ratio should not exceed 100%, unless otherwise specified. Exceptions can be made under circumstances where health and safety concerns outweigh the risk associated with excessive LTVs or there are other mitigating factors. If the loan to value exceeds 100%, the loan will need to be reviewed by the Loan Committee.

Either an appraisal or an automated valuation model can be used to determine value at the discretion of the lender or the Loan Committee. If an AVM is not available, the tax assessment may be relied on as a last resort.

7. Closing Costs & Fee Schedules

Except as restricted by certain funders or investors in the fund, closing costs may be included in the loan amount.

NWWVT may pay costs incurred in processing loans declined by the Loan Committee at the discretion of the staff or committee.

8. Building Evaluation

No project or loan secured by property will be considered without a property evaluation and written report from an NWWVT Home Evaluator or other qualified building evaluator unless the loan is an energy efficiency loan. If a current appraisal has been furnished, and no significant issues are indicated, no evaluation is required.

9. Emergency Loans

A licensed lender, along with approval by the Loan Committee or the Executive Director shall be able to make emergency loans of up to $10,000 for “urgent needs”. Urgent needs are defined as mechanical, structural, or financial crises, which, in the opinion of the staff, would cause the occupant(s) undue hardship, or that would result in further structural or financial damage if not addressed. NWWVT standard underwriting criteria shall apply, and staff will review the income verification and household income form to determine area median income (AMI).

10. Decision Timing

Loan decisions will be provided within the 30 days of the date of application, if there is insufficient information in the file to render a decision a notice of incomplete application will be mailed out. If the potential borrower doesn’t respond within 30 days, the file will be withdrawn as incomplete.

11. Ability to Repay (ATR) and Qualified Mortgages (QM)

NWWVT is exempt from the ability to repay requirements as cited below:

Extensions of credit made by certain types of creditors are exempt from the ATR requirements.

- Extensions of credit made by creditors designated by the U.S. Department of the Treasury as Community Development Financial Institutions, and creditors designated by HUD as either a Community Housing Development Organization or as a Down Payment Assistance Provider of Secondary Financing, are, under certain conditions, exempt from the ATR requirements.

- Extensions of credit made by creditors designated as nonprofit organizations under section 501(c)(3) of the Internal Revenue Code of 1986 that extend credit no more than 200 times annually, provide credit only to low-to-moderate income consumers, and follow their own written procedures to determine that consumers have a reasonable ability to repay their loans, are also generally exempt from the ATR requirements. Note that some subordinate liens are not counted towards the 200-credit extension limit.

The exemptions above apply to all loans made by these creditors or pursuant to these loan programs, provided the conditions for the exemption are satisfied. An exempt loan remains exempt, even if it is sold, assigned, or otherwise transferred to a credit that would not qualify for the exemption.

Note that the ATR requirements do not apply to these loans. Thus, a loan that is eligible for one of these exemptions is not eligible for QM status, as the QM provisions are only applicable to loans subject to the ATR requirements. A consumer who obtained a loan that was exempt from the ATR requirements would have no ability-to-repay claim under the ATR/QM rule.

12. General Requirements

A. Borrower Relations

In accordance with provisions of the Equal Credit Opportunity Act, there shall be no discrimination against the credit applicant on the basis of race, color, religion, national origin, sex, marital status, disability, or age (provided the applicant has the legal capacity to enter into a binding contract), the fact that all or part of the applicant's income derives from any public assistance program, or the fact that the applicant has, in good faith, exercised any right under the Consumer Protection Act, or any similar state law. It is the policy of NWWVT to abide by this and all applicable laws and lending regulations.

Any Home Repair complaints shall be in writing and will be provided to the Director of Lending, the Director of Operations who oversees Home Repair and the Executive Director. Involved staff should write a narrative of the events clearly outlining the actions that were taken and the timeline of events. When appropriate, supervisory staff should write a report including the recommended action or corrective procedures and comments on whether the complaint represents an isolated case or a pattern that needs to be corrected.

The complaint must be acknowledged within 15 days after receipt of the correspondence, oral, telephone or electronic notification of a complaint. Complaints not involving an on-site investigation should be fully processed and responded to within 30 days of receipt and complaints involving an on-site investigation should be resolved within 45 days after receipt.

Information about borrowers that is obtained by NWWVT's staff and used by the Loan Committee to evaluate a loan application shall be kept confidential. Access to the borrower files is restricted to staff who require additional information to better serve borrower.

B. Commitment Letters

Per Vermont Banking Regulation B-98-1:

All loans secured by real estate must be evidenced by a written commitment letter, the timing of which must be as follows:

- All commitment letters, shall be delivered to the Borrower no less than 24 hours prior to the Closing, provided, however:
    - A lender may deliver a commitment letter less than 24 hours prior to the Closing, only when it has sufficient cause to do so, and when failure to close the mortgage loan within less than 24 hours after the delivery of the letter shall create a hardship for the Borrower. This exception shall only apply to the timing of the delivery of said commitment letter, and shall in no way exempt any lender from all other requirements of this regulation; and
    - For every transaction in which a commitment letter is delivered less than 24 hours before the Closing, the lender shall document and keep on file, for examination purposes, a written explanation stating the circumstances and reasons for the application of subsection 5A to such transaction.

Such commitment letter shall include, but not be limited to, the following information, provided, however, that the following information shall be (i) grouped together in a meaningful way, and/or (ii) bolded or otherwise made easily distinguishable from the remainder of the text:

- Name of Borrower.,
- Date of issuance of the commitment letter,
- Property address and/or any other real property being secured as collateral for the loan,
- Loan type (fixed or adjustable interest rate),
- Commitment expiration date,
- Principal loan amount,
- Loan term,
- Number of points or dollar amount (if applicable),
- Amounts of monthly payment, including but not limited to the following:
    - Principal and interest amount (if known)
        - Escrow
        - State whether or not escrow will be required by the lender
        - If escrow is required, list all components of the escrow, including the amounts of such items, if known
        - All other components of the monthly payment including the amounts of such items, if known
    - Rate program (locked or floating)
        - If the interest rate is not locked as of the date of issuance of the commitment letter, the lender shall notify the Borrower of the maximum interest rate for which he or she qualifies, or if no maximum rate is stated, then the lender shall state the conditions upon which the lender may terminate the commitment
        - Rate lock expiration date (if applicable and if different than the commitment expiration date)
    - Interest rate
        - The rate (if known); and if the rate is adjustable, the lender shall state the frequency at which such rate may be adjusted
    - Prepayment terms
- Name and phone number of the person whom the Borrower may contact with questions.

If a condition to the loan commitment is that the Closing occur more than 24 hours prior to the commitment expiration date, the commitment letter shall include a Closing deadline.

It is the responsibility of the Lender to produce the commitment letter.

C. Private Mortgage Insurance (PMI)

PMI is not required. However, the Loan Committee has the authority to require loan applicants to purchase PMI in those cases where it is determined that the organization must be protected against undue risk.

D. Homeowners' Insurance

Prior to closing, NWWVT requires loan recipients to provide evidence of homeowner's insurance sufficient to cover the amount of all mortgages—including the NWWVT loan. Notification shall be sent to the insurance carrier to add *Rutland West Neighborhood Housing Services, Inc., d/b/a NeighborWorks of Western Vermont* to the mortgagee clause. The deductible should be no more than $1,000. All insurance binders will name NWWVT as the "loss payee" or "mortgagee." The term of the binder must be at least 30 days from date of closing.

E. Flood Insurance

A flood zone determination for the "life of loan" is required for every loan file. Flood insurance with a deductible of $1,000 or less is required if a flood zone determination indicates the property is in a flood zone. The policy must name *Rutland West Neighborhood Housing Services, Inc., d/b/a NeighborWorks of Western Vermont* as "loss payee" or "mortgagee" and be sufficient to cover all mortgages including the NWWVT loan.

F. Title Insurance

All first mortgage-position loans that exceed $30,000 require a title opinion and title insurance.

Homeowners must acquire title insurance on the down payment assistance loans used to purchase the property. A limited title report available through an approved source is acceptable on loans in second position.

The title must indicate NWWVT will be in the appropriate lien position as determined by the application, with no adverse tenants in possession or title flaws in existence. The final Title Insurance Policy must contain all required endorsements, survey exceptions removed and environmental hazard endorsements. The title insurance legal description must parallel the legal description contained in the mortgage/deed of trust.

Environmental issues will be considered in connection with loans, including, but not limited to toxic waste, solid waste, radon, asbestos, other chemicals or hazardous materials, and environmentally sensitive areas. An environmental study will be required before committing loan funds to a property that may have any environmental liability.

13. Loan Denials

Applicants who are denied for any valid reason will be notified in writing of the adverse action, as well as the reason for which it was taken, within 30 days of receipt of the completed application. Adverse action notices will be sent by the lender. Any rejected application will be kept for 25 months.

14. Credit and Loan Files

A. Credit Files Contents and Maintenance

The Lender is responsible for creating and maintaining the credit file for each loan that is approved and closed. The file must contain each of the items listed in the appropriate loan product checklist.

Each borrower will also have a document file, containing the original promissory note and mortgage, as well as the title policy. These files must be retained in a fire-proof, locked vault.

It is critical that the lending staff prepare documentation in a manner compliant with all Federal, State and Local Regulations. All mortgage documentation must be completed on approved forms and filed as soon after closing as possible.

All procedures and forms must comply with regulatory requirements of investors in the fund and those of a participating secondary mortgage market.

B. Loan File Review – Internal

All files go through a post-closing quality control review to ensure complete and accurate documentation is in the file, as well as compliance with lending regulations and loan policies.

C. Loan File Review – External

NWWVT's annual financial auditor reviews a sample of loan files on an annual basis. The auditor shall look for compliance with lending policy, appropriate underwriting and loan documentation, as well as the number of loans that are approved with policy exceptions, and whether those policies are appropriate for the types of loans NWWVT is writing. The auditors also review our files for compliance with Federal, State and Local lending laws.

It is the duty of the Lending Director to carefully consider all feedback from the auditor, and make appropriate changes as needed, to address concerns that are raised during the audit.

15. Adherence to Regulations & Grant Conditions

Staff and Loan Committee shall adhere to all applicable regulations attached to fund-administered accounts by their funding sources, e.g., Vermont Community Development Program (VCDP), NeighborWorks® America, and Community Development Financial Institution (CDFI).

Staff and Loan Committee will also adhere to all conditions of all grants, loans, or investments issued to NWWVT for the fund.

16. Loan Loss Reserve

NWWVT will maintain adequate cash and/or paper reserves to back lines of credit and contingent liabilities. The reserves will be dispersed and allocated in compliance with the terms specified in the agreements drafted by NWWVT's funders.

17. Loan Servicing & Collection

While NWWVT understands and expects that for a certain percentage of the loans made, additional time and effort will be required for the collection of payments. The goal of this section of the policy is to address the continuing problem of delinquent loans by determining the cause of delinquency and resolving the matter.

A. Loan Servicing & Collection

Interest shall be calculated on a 360/30-day basis.

Most real estate secured loan payments are due on the first day of every month. Loans may be prepaid anytime without penalty.

Unrestricted loan payments are due the day of the month the loan was closed. Borrowers will be notified via monthly invoice.

Loan set-up and activation is the responsibility of the loan servicing manager, who follows up with a welcome letter after the closing.

If the hazard and/or flood insurance policy lapses during the term of the loan, NWWVT will have the right to force place insurance on the property to protect the organizational interest in the property. This step will be in compliance with appropriate regulations and taken only after the required notifications have been made to the borrower.

A loan shall be deemed delinquent and collection efforts initiated by the Loan Servicing Manager in accordance with the below schedule of recommended actions.

DAY	MONTHS PAST DUE	RECOMMENDED ACTION
15+*	<1	Letter/Phone call by staff
30-45	>1	Default letter sent
60+*	>2	Demand letter sent (*Payment demand is made with the awareness of the lien position.)
90+	>3	Loan put on non-accrual
120+	>4	Seek approval from Loan Committee to foreclose, rewrite or write off

* Infers a 15 day grace period.

NWWVT will be sensitive to particular circumstances which dictate when some cases are handled differently from the timeline recommended. The Loan Committee will be consulted in every instance of such exceptions, and courses of action will be thoroughly documented and placed in the borrower file.

In cases of serious delinquency (defined as 90+ days past due) a referral for financial counseling will be made to help the borrowers define a plan to bring their loan current.

B. Escrows for Taxes and Insurance

At the time of the loan closing, NWWVT learns of the current real estate taxes and the current premium for insurance. Assuming the borrower will make monthly payments, one-twelfth of the taxes and insurance premium is remitted with the principal and interest payment. These funds are deposited in a separate account; NWWVT does not pay interest on the deposit. The borrower must send tax bills and insurance premiums to NWWVT for payment.

The loan servicing manager is responsible for reviewing the borrower's escrow account to be sure there are sufficient funds with which to pay bills. If the funds are adequate, a check will be mailed to make the required payment. If there is a shortage in the account, the borrower may be given the option to make up the shortfall immediately or to pay it over the upcoming 12-month period.

When tax bills are received and insurance policies are renewed, the Loan Servicing Manager should compare the charges to those paid the previous year. If the new bills show an increase in the mortgage payment, then the monthly escrow payment from the borrower must be increased accordingly. When a change is required in the escrow payment, the borrower shall be notified by mail.

C. Loan Risk Rating

The purpose of the risk rating is to have an understanding of the quality of the loan portfolio on a regular basis as well as to maintain appropriate loan loss reserves.

All new loans are assigned a risk rating based on the following criteria:

- Credit
- Debt to income
- Loan to value
- Delinquency history in the last 12 months
- Delinquency history in the last 24 months

2-step risk rating process

Loans are assigned points between1-3 based on the borrowers Debt to Income Ratio, Loan to Value Ratio, and credit score as outlined below:

Credit Score	Over 720, than 3	Over 660, then 2	under 660, then 1
Debt to Income	Less than 38%, 3	38-45%, 2	45%+, 1
Loan to Value	Below 80%, 3	80-100%, 2	100%+, 1
Delinquency w/in 12 months	0 times, 3	1 time, 1	2+ times, (-1)
Delinquency beyond 12 months	0 times, 3	1 time, 2	2+ times, (-1)

Loans that are unsecured are determined to be 100% LTV.

Based on the total number of points the loan is given, a risk rating is assigned as outlined below:

Type Loans	Points	Reserve
A Loans (Strong)	13 to 15 points	0.5%
B Loans (Average)	9 - 12 points	3%
C Loans (Weak)	5 to 8 points	10%

Loan risk ratings criteria will be evaluated every 24 months by the Director of Lending and the findings will be reported to the Loan Committee and the Chief Financial Officer.

NWWVT deferred loans, along with the rest of the portfolio, are not currently risk rated according to this system. These loans are considered not to have a history of delinquency as no payment is due until the loan matures or the home is sold.

D. Late Fees

Fees shall be assessed after the 15th day of the month and will be set according to repayment amount - i.e. 5% of loan payment amount, less impounds.

E. Partial Payments

The loan servicing manager may negotiate partial payments when, in her opinion, a partial payment plan represents a good faith attempt to repay. Partial loan payments are set aside in a separate account and are not credited to the loan until the full payment is collected.

The Loan Servicing Manager, Director of Lending, or Executive Director shall be authorized to negotiate payment arrangements with respect to any account delinquent for less than 90 days. Such delinquencies shall continue to be listed on the portfolio delinquency report.

F. Foreclosures and Work-Outs

Foreclosures will be handled exclusively by an attorney and shall be subject to the provisions of the Promissory Note and Mortgage Deed. No payments, full or partial shall be accepted by NWWVT staff once the account has been turned over to an attorney for foreclosure. Any payments received shall be forwarded to the attorney.

In some cases, after the delinquent loan has been turned over to NWWVT's attorney, a foreclosure may be averted by negotiating a "work-out" or refinance agreement. A work-out agreement is an opportunity to bring the loan current.

G. Loan Modifications and Refinance

Modifications will be considered for a borrower who is experiencing a hardship. The goal is to bring the borrower current.

Modifications can be handled in two ways:

1) provided there is an "advance clause" in the original mortgage documents that allows for a modification, a modification can be completed, or

2) the complete refinance of the loan.

All modifications and refinances are subject to State and Federal lending regulations.

Any loan modification, reinstatement and/or work-out/refinance agreement must be approved by the Loan Committee and reported to the Board of Directors.

H. Loan Write-offs

Loans will be reviewed by the Loan Committee for action. Loans approved for write-off by the Loan Committee must be presented to the Board

Once approved by the Board, the Director of Finance will post the loan to "Allowance for Loan Loss". A write-off will remove the debt from the asset portfolio. When a loan is written off and the balance including principal, interest, fees, penalties, administrative costs and/or fines The Loan Servicing Manager will send out a 1099-C Cancellation of Debt to the IRS and furnish a copy to the debtor. This is done when the loan is no longer collectible, any claims to the property have been released and no further collection action will be taken.

I. Active Military Indulgence

The Service member(s) *Civil Relief Act* provides protection and relief to those borrowers who are mobilized by the military. The act bars foreclosure during the active duty.

J. Internal Portfolio Review Reporting

The Loan Servicing Manager is responsible for preparing a monthly delinquency report and for reporting quarterly on the performance of the portfolio to the Loan Committee and the Board of Directors. The report will include details such as the type of loan, the balance, how long the loan has been outstanding, the current risk rating, the collateral position, the nature of the issue resulting in poor payment performance, and any recommendations for action.

The allowance for loan loss reserves will be adjusted by the Director of Finance depending on the payment performance of the portfolio.

K. External Reports

In partnership with the Finance Department, the Loan Servicing Manager is responsible for preparing investor reports monthly, which, along with the remittance, are sent to the investors at months end in compliance with grant agreements. The Loan Servicing Manager, on or before January 31 of each year, will send borrowers the IRS form 1098 to report interest paid for the previous calendar year, as well as a year-end statement for payments applied to the loan from the previous year.

L. File Retention

All files dated on or before September 30, 1986 must be retained for a minimum of five years from the time the loan is paid in full. All files dated on or after October 1, 1986 must be retained for a minimum of six years after the loan is paid in full. All files dated on or before July 1, 2014 must be retained for a minimum of seven years after the loan is paid in full.