

Dear Prospective Single-Family Lender:

To obtain approval as an AHFC single-family lender, please follow the attached guidelines that are also found in the AHFC Selling Guide, Section 1001. Please send your application package to:

Michelle Graves  
Manager, Mortgage Underwriting  
Mortgage Operations

Alaska Housing Finance Corporation  
4300 Boniface Parkway  
Anchorage, AK 99504

Thank you.

## SECTION 1001 – APPROVAL AS AN AHFC LENDER

### .01 INTRODUCTION

In order to originate and/or sell loans to AHFC, or to service loans purchased by AHFC, the lending institution must be approved by AHFC. Lenders must comply with all applicable federal and/or state regulations for the origination and/or servicing of mortgage loans. In order to obtain approval as an AHFC Lender, the applicant must have an origination and/or servicing facility located in Alaska, as applicable. The facilities must provide for face-to-face customer service. For servicing, moving any portion of the servicing facility to a location out of (or outside) Alaska is considered a breach of the Servicing Agreement and, in which case, the Servicing Agreement may be terminated by AHFC without any waiting period and without payment to Lender of any penalty or other amount. The one exception to this requirement is that data processing facilities may be located other than in Alaska. To meet the servicing requirement, if the Lender is not also an approved AHFC Servicer, the Lender may, subject to AHFC's approval, enter into an agreement with another AHFC-approved Servicer.

AHFC recognizes that local regional housing authorities that wish to become AHFC Lenders may not be able to meet all of the following criteria. In that event, AHFC encourages the entity to contact AHFC in writing to specify what requirements it cannot meet, and propose an offer of substitution that may be negotiated.

#### A. Investor Approvals

In order to originate and/or sell FHA, HUD, VA or RD loans to AHFC, the Lender must have approval from the specific agency. An approval by FHLMC or FNMA is required in order to originate and/or sell conventional loans to AHFC. The appropriate investor/insurer/guarantor approval must be valid at the time loans are sold to AHFC, and said approvals must remain valid in order for the Lender to continue selling loans to AHFC. If FNMA, FHLMC, FHA, HUD, VA or RD, as applicable, subjects an AHFC Lender to suspension, termination or any other disciplinary action, the Lender must notify AHFC in writing within five business days. A Lender under such disciplinary action cannot originate and/or sell loans to AHFC unless AHFC has granted specific written approval.

AHFC is not currently selling loans to FNMA or FHLMC, nor does it pool its government loans to GNMA. However, should AHFC elect to enter into a contract to sell or pool its loans, appropriate approvals from GNMA, FNMA and/or FHLMC may be required of all approved Lenders.

#### B. Financial Strength

Approved Lenders will maintain a minimum of \$100,000 of net liquid assets and an unrestricted net worth of \$250,000 plus two-tenths of one percent

(.20%) of the outstanding principal balance of its total portfolio of mortgages serviced. For this purpose, liquidity consists of unencumbered assets readily convertible to cash within two business days. In lieu of assets, AHFC will accept a letter of credit or other such agreement acceptable to AHFC.

C. Delinquency Rates

The Lender is expected to maintain delinquency rates on loans owned by AHFC at a level below or comparable with other AHFC Lenders. AHFC will review the Lender's delinquency rates to determine if its procedures are effective. Any review/comparison will take into consideration comparable size portfolios as well as loans of the same general characteristics. Generally, the Lender's delinquency rate should not exceed 1.5 times AHFC's delinquency rate for three consecutive months. Remedies may include monetary or other penalties or AHFC may consider termination of the Selling Contract and/or Servicing Contract. In computing delinquency rates, AHFC may elect not to include certain Lenders when their inclusion in computing rates creates a deviation to the mean.

D. Lender Relationship

When AHFC approves a Lender, the intent is to transact business directly with the Lender and not through a brokerage relationship. AHFC looks directly to the Lender and its experience in underwriting residential loans. Many of AHFC's programs have unique underwriting requirements and require experienced individuals to underwrite them. As a means of assuring quality control and that the Lender actually understands the underwriting of AHFC's loan programs, AHFC will only work with employees of the Lender.

## **.02 INSURANCE REQUIREMENTS**

Approved Lenders must maintain in force at all times the following policies of insurance. If the Lender's policies contain higher limits than the minimums set forth below, AHFC shall be entitled to coverage to the extent of such higher limits. Insurance policies will name AHFC and the State of Alaska as additional insured for all coverage except Workers' Compensation. The Lender and its contractors must agree to obtain a waiver, where applicable, of all subrogation rights against AHFC, its officers, officials, employees and volunteers for losses arising from work performed for AHFC by the Lender and its contractors.

A. Workers' Compensation

The Lender shall provide and maintain for all employees or agents of the Lender, Workers' Compensation insurance as required by AS 23.30.045. This coverage must include statutory coverage for states in which employees are engaging in work and employer's liability protection. The amount of coverage should be not less than \$100,000 per person, per occurrence. Where

applicable, coverage for all federal acts (e.g., Longshore and Harbor Workers Compensation Act and Jones Act) must also be included.

**B. Comprehensive (Commercial) General Liability Insurance**

The amount of coverage should be not less than \$1,000,000 combined single limit per occurrence and annual aggregates where generally applicable and must include premises-operations, independent sellers, products/completed operations, broad form property damage, blanket contractual and personal injury endorsements.

**C. Fidelity Bond and Errors and Omissions Insurance**

The Lender must maintain a fidelity bond and an errors and omissions (E&O) policy covering all officers, employees and agents of the Lender and, without limitation, insuring AHFC against loss arising from dishonest, criminal, fraudulent acts and errors and omissions by the Lender, its officers, employees or agents.

The coverage must be equal to a percentage as outlined below, of:

1. Sellers – the total annual origination volume of residential mortgages, including loans sold to other investors
2. Servicers – the total portfolio of residential mortgages that the Lender services for itself and all other investors

Minimum Required Insurance Limit	Total Annual Origination Volume
\$300,000	\$100,000,000 or less
+.150% of the next	\$400,000,000
+.125% of the next	\$500,000,000
+.100 % of the next	\$1,000,000,000

The policy's deductible clause may be for any amount up to the greater of \$100,000 or 5% of the face amount of the bond.

**3. Reports**

Upon request, the amount, kind and name of insurer of Seller's fidelity or direct surety bond and errors and omissions policy shall be reported by Seller to AHFC and copies of said policies shall be provided to AHFC.

**4. Cancellation of Coverage or Refusal to Renew**

Seller must obtain insurer's agreement to notify AHFC at least 30 days prior to cancellation if a fidelity or direct surety bond or errors and

omissions policy is to be cancelled for any reason. Seller must promptly notify AHFC of any insurer's refusal to renew a fidelity or direct surety bond or errors and omissions policy at the expiration of a premium period. Seller must notify AHFC of any more restrictive terms required by any insurer as a condition for renewal.

5. Embezzlement or Fraud; Claims Against Insurer or Surety

Seller must promptly report to AHFC any cases of embezzlement, fraud, criminal or dishonest acts by any officer, employee or agent of Seller and any claim against any insurer or surety relating to Seller's loan servicing activities which materially affect the financial well-being of the Seller.

D. Comprehensive Automobile Liability Insurance (For Approval as a Servicer)

The Servicer shall provide and maintain Comprehensive Automobile Liability Insurance covering all owned, hired and non-owned vehicles with coverage limits of not less than \$1,000,000 combined single limit per accident.

### **.03 DOCUMENTATION**

To apply for AHFC approval, please submit the following documents. These documents are required to apply for AHFC approval as a Lender and/or Servicer. AHFC will notify the applicant in writing of the approval or disapproval of the application.

Application Documentation:

1. copy of approval from FHA, HUD, VA and/or RD, as applicable;
2. copies of approvals from FNMA and/or FHLMC
3. copy of the previous two years' audited financial statements prepared by an independent certified public accountant
4. evidence of insurance as outlined in section .02 above
5. detailed analysis of its total mortgage loan portfolio by investor
6. report of delinquency ratios, both nationally and in Alaska, for loans originated/serviced in the last two years
7. copies of operational and/or policy statements pertaining to origination and servicing of mortgage loans

8. organizational chart and resumes of key mortgage origination and servicing personnel
9. detailed description of loan servicing capabilities
10. detailed description of the Lender's Quality Control (QCS) policies and procedures
11. copy of a valid Alaska business license
12. any other documentation that may be helpful to verify, clarify or substantiate information and/or documentation in the submission package so AHFC may make a prudent determination

Newly-approved Lenders are subject to a post-purchase review of 100% of all loans purchased by AHFC until the Lender has demonstrated a thorough understanding of AHFC programs and policies.

#### **.04 MAINTAINING ELIGIBILITY**

In order to maintain eligibility to originate and/or sell loans to AHFC, the Lender must comply with the Selling Contract, any separate agreements AHFC has executed and the provisions of this Guide. Any Lender that does not originate and/or sell AHFC loans for a 12-month period is placed on inactive status. To regain active status, AHFC may require the Lender to provide information to insure that it meets the approval criteria.

##### **A. Recertification**

Documentation for recertification as an approved Lender (or Servicer) must be provided annually to AHFC's Mortgage Department within 90 days of the end of each fiscal year. Required documentation includes balance sheet, income statements, a statement of retained earnings, a statement of additional paid in capital, a statement of changes in financial position and all related notes, insurances coverage as specified in the Selling Contract and a current contact list.

For recertification as an approved Servicer, please refer to Section 12002 of the Servicing Guide for documentation required to recertify as a Servicer.

##### **B. Suspension/Termination**

###### **1. Suspension**

A Lender may be suspended from selling loans to AHFC with no less than 10 calendar days' notice if it is determined by AHFC that a temporary deficiency exists (e.g., increased delinquency, slow

remittance of funds to AHFC, excessive audit exceptions). The Notice of Suspension will outline the reason for suspension and the corrective measures necessary for AHFC to consider reinstatement.

## 2. Termination

A Lender's Selling Contract may be terminated immediately if it is determined by AHFC that serious deficiencies exist (e.g., improper or inadequate underwriting of loans according to AHFC criteria, a Lender's inability to repurchase loans, lack of compliance with existing laws and regulations and insufficient net worth/liquidity).

A Notice of Termination will outline the reason for termination and corrective measures necessary prior to reapplication for approval as an AHFC Lender. Upon termination of a Selling Contract, the Lender must wait at least six months before reapplying for approval as an AHFC Lender. Reapplication will require the submission of the same documentation as an initial approval.

## **.05 AHFC POST-PURCHASE QUALITY REVIEW FUNCTION**

Lenders are required to underwrite the credit and property of a loan application based upon the criteria set forth in this Guide and the Selling Contract.

AHFC will closely monitor the quality of mortgages committed under Delegated Underwriting and Program Compliance Underwriting as well as compliance with commitment and closing criteria for mortgages committed under Full Underwriting.

AHFC will conduct post-purchase reviews to review the quality of loans and the effectiveness of the Lender's QCS. If the quality of loans and/or the effectiveness of the QCS are deemed inadequate, the Lender may be terminated or suspended from selling loans to AHFC.

### A. Post-Purchase Review

AHFC will review a percentage of all mortgages purchased. The review may take place at the Lender's office or in AHFC's office. Loans included for review will be randomly selected at the time of purchase. The Lender will be notified in writing each time a loan is selected for post-purchase review. Unless another arrangement is made, the Lender is required to provide a legible photocopy of the loan file within 15 days of the date requested in the written notification. While AHFC may choose to conduct the review at AHFC's office, AHFC reserves the right to conduct an on-site review at its convenience. The Lender will be notified in writing as to the date of any on-site quality review. If a review is to be performed in the office of the Lender, a list of files selected for review will be provided, typically within 15 or more days prior to the date of

an on-site examination. The Lender must assemble the files in an area in which the AHFC examiner can perform an uninterrupted review.

1. Delegated and Program Compliance

Loans submitted for review should include all documentation needed to support the Lender's underwriting decision, including the Lender's "in-house" approval form/worksheet, evidence that all conditions of approval have been satisfied, evidence that all AHFC requirements and/or overlays have been met (e.g., water and/or wastewater approval, contractor's license, evidence of flood/avalanche coverage, private road maintenance) and legal documents. The photographs attached to the appraisal report must be legible copies.

AHFC will review the loans to ensure that all underwriting and program eligibility requirements are met. AHFC's review will encompass a complete analysis of the credit, property and legal documents.

2. Full Underwriting

AHFC will review the loan legal documents and all other documentation to ensure that they meet all purchase and eligibility requirements.

After the review, the Lender will be notified in writing of any deficiencies and/or required corrective measures. Deficiency reports given on Post-Purchase Reviews are taken into account when determining eligibility for continued approval as a Delegated Underwriter. If more than 10% of the reviewed loans are unacceptable, AHFC will consider terminating the Lender from participating as a Delegated Lender.

B. Remedies to Deficiencies

If AHFC determines that a loan does not meet program eligibility requirements or credit and property standards as set forth in Part II and Part IV of the Selling Guide, or that the loan violates AHFC regulations, Alaska Statutes or Internal Revenue Service regulations governing the Mortgage Subsidy Bond Tax Act, the Lender must correct the deficiency to AHFC's satisfaction within 30 days of notification, or repurchase the loan.

If a Lender closed a restrictive program loan (i.e., TEP, Taxable FTHB, VMP, IRRLIB, AHELP or EEIRR) under Delegated Underwriting Authority and it is determined that the loan did not comply with the restrictions placed on the program (e.g., income, acquisition cost, previous home ownership), the Lender is required to:

1. correct the deficiency
2. reimburse AHFC for any lost income (accrued interest that should have been paid)
3. modify the loan to reflect the correct interest rate
4. comply with any other applicable remedy available to AHFC, or
5. repurchase the loan

C. Repurchase

Deficiencies considered serious enough to warrant repurchase of a loan include but are not limited to the following:

1. failure to comply with conditions of loan commitment
2. failure to obtain all appropriate loan closing documents in proper form and execution required for a particular loan program
3. failure to maintain in the Lender's file satisfactory evidence of:
  - a. water and wastewater system approval, if applicable
  - b. construction inspection documents accurately completed by an authorized inspector and certifying compliance with AS 18.56.300 and AHFC regulations for any property where construction started on or after July 1, 1992
  - c. energy inspection certifications completed by the appropriate party and certifying compliance with the Building Energy Efficiency Standards and AHFC regulations for any property where construction started on or after January 1, 1992
  - d. initial and final energy ratings, if applicable to an interest rate reduction for energy efficiency
  - e. insurance or guaranty certificates by appropriate private or federal mortgage insurance entities (FHA, HUD, VA, RD or conventional private mortgage insurers) with sufficient coverage to meet AHFC requirements
  - f. evidence that the contractor for a newly constructed or renovated house is appropriately licensed with the State of Alaska throughout construction and maintains a residential endorsement

- g. evidence the borrower(s) is not delinquent on child support obligations, and/or
  - h. evidence the borrower(s) has no other outstanding AHFC loan, other than those loans specifically exempt per AHFC's guidelines
- 4. failure to adequately address compensating factors for approving a loan which does not comply with established loan program criteria as set forth in the Selling Guide
- 5. evidence of misrepresentation or fraud by the Lender

The above list of items is not all-inclusive, as it would be impractical to predict all events that would cause AHFC to require repurchase of a loan. However, Lenders will always be given the opportunity to cure a deficiency. Repurchase of a loan would be an action of last resort by AHFC.