



FEDERAL HOME LOAN BANK OF INDIANAPOLIS

*Building Partnerships. Serving Communities.*

# Mortgage Purchase Program Guide

---

*Federal Home Loan Bank of Indianapolis*

Effective Date | 08-01-2016



## Table of Contents

---

1.	Introduction.....	9
1.1	Overview.....	9
1.1.1	MPP Guide Contents.....	9
1.2	Eligible Mortgages .....	9
1.3	Standards and Regulatory Compliance .....	10
1.4	FHLBI Contacts.....	11
1.4.1	External Resources .....	11
1.5	Glossary.....	12
2.	Eligibility Determination .....	31
2.1	Seller Eligibility Requirements.....	31
2.1.1	Compliance Reporting Requirements.....	34
2.1.2	Secured Obligations.....	34
2.1.3	Lender Risk Account .....	35
2.2	Continuing Eligibility .....	35
2.2.1	Notification of Changes.....	35
2.2.2	Periodic Eligibility Review.....	37
2.3	Documentation Requirements.....	37
2.3.1	Additional Required Documents.....	38
3.	Commitment Process .....	39
3.1	Seller Approval Procedure .....	39
3.2	Program Documentation.....	39
3.2.1	Master Agreement .....	39
3.2.2	Master Commitment Contract (MCC).....	39
3.2.3	Mandatory Delivery Contract (MDC).....	39
3.3	Obtaining Prices.....	40
3.3.1	Hours during Which Contracts May Be Obtained .....	40
3.4	Delivery Contract.....	40
3.4.1	Required Documentation.....	40
3.4.2	Mandatory Delivery Requirements.....	40

3.4.3	Defective Delivery .....	41
3.4.4	Settlement Date Extension.....	41
3.4.5	Mandatory Delivery Contract Cancellation.....	42
3.4.6	Pair-off Fees.....	42
3.4.7	Increasing the MDC Amount.....	43
4.	Sale Requirements .....	44
4.1	General .....	44
4.2	Underwriting.....	44
4.3	Loan Data Transmission to FHLBI .....	44
4.4	Custodial Accounts.....	45
4.4.1	Document Custodian .....	45
4.4.2	Custody File.....	45
4.5	Settlement with FHLBI.....	46
5.	Mortgage Purchase .....	47
5.1	Mortgage Criteria .....	47
5.2	Purchase Proceeds.....	48
6.	FHLBI Underwriting Guidelines.....	50
6.1	Limitations & Restrictions.....	50
6.1.1	Partnerships and Corporations.....	50
6.1.2	Manufactured and Mobile Homes.....	50
6.1.3	Borrower Eligibility .....	50
6.1.4	Other Eligibility Requirements.....	50
6.2	Maximum Age of Documentation .....	50
6.3	Eligible Loans.....	52
6.3.1	Maximum Loan to Value (LTV).....	53
6.3.2	Maximum Combined Loan to Value (CLTV).....	53
6.3.3	Escrow Accounts.....	53
6.3.4	Loan Amortization Period.....	54
6.3.5	Fixed Rate, Level-Payment Mortgages .....	54
6.3.6	Third Party Origination (TPO) .....	54
6.3.7	Private Mortgage Insurance (PMI) Requirements.....	55

6.3.8	Rate-and-Term Refinance Mortgages.....	57
6.3.9	Cash Out Refinances.....	57
6.3.10	Purchase Money Mortgages.....	60
6.3.11	Pay Off Land Contract.....	60
6.4	Borrower Eligibility.....	61
6.4.1	Loans to Foreign Borrowers.....	62
6.4.2	Qualifying Indicator Score – Calculation.....	62
6.4.3	Down Payment Sources.....	63
6.4.4	Interested Party Contribution Limitations.....	66
6.5	Property Types.....	66
6.5.1	Primary Residence.....	66
6.5.2	Condominium Projects.....	67
6.5.3	Planned Unit Developments (PUDs).....	69
6.5.4	Modular or Prefabricated Homes.....	70
6.5.5	Manufactured and Mobile Homes.....	70
6.5.6	Investment Properties.....	70
6.5.7	Second/Vacation Homes.....	70
6.6	Property Appraisal Requirements.....	71
6.6.1	Maximum Age of Appraisal.....	71
6.6.2	Appraisal Requirements.....	71
6.6.3	Rural Properties.....	77
6.7	Automated Underwriting System (AUS) Underwriting.....	79
6.8	Manual Underwriting.....	80
6.8.1	Credit Guidelines.....	80
6.8.2	Qualification Ratios.....	85
6.8.3	Documentation Requirements.....	88
6.9	Power of Attorney (POA).....	91
6.9.1	POA Documentation Requirements.....	92
6.10	Property Title Requirements.....	92
7.	Quality Assurance (QA) Program Requirements.....	94
7.1	Introduction.....	94

7.2	Limitations & Restrictions.....	94
7.2.1	QA Plan Requirements.....	94
7.3	QA Reviewers.....	95
7.4	Corrective Action & Reporting.....	95
7.5	File Retention.....	96
7.6	Sampling Requirements.....	96
7.7	Legal Document Review.....	97
7.8	Origination Document Review.....	97
7.8.1	Employment and Income.....	98
7.8.2	Assets.....	98
7.8.3	Mortgage and Rent.....	98
7.8.4	Credit Reports.....	98
7.8.5	Occupancy.....	98
7.8.6	Appraisals.....	99
7.9	Underwriting Decisions.....	99
7.10	Automated Underwriting.....	100
7.11	QA Reviews.....	100
8.	Servicer Approval and Transfers.....	102
8.1	Limitations & Restrictions.....	102
8.2	FHLBI's Rights.....	102
8.3	Servicer Approval Process.....	102
8.4	Seller/Servicer Responsibilities.....	103
8.4.1	Submitting Information for Servicer Approval.....	103
8.4.2	Submitting Requests for Transfers of Servicing.....	104
8.4.3	Review of Transferor and Transferee.....	104
8.4.4	Delinquency Reporting.....	105
8.4.5	Due Diligence.....	105
8.4.6	Mortgage Insurance (MI) Coverage.....	105
8.4.7	Reporting to FHLBI.....	105
8.4.8	Transfer of Mortgage and REO Files.....	106
8.4.9	Transfer of Portfolio Records.....	107

8.4.10	Transfer of Funds.....	107
8.4.11	Note Endorsements and Assignment of Security Instruments.....	108
8.4.12	Document Custody Requirements .....	109
8.4.13	Notice to Borrowers .....	110
8.4.14	Borrower Issues and Inquiries .....	110
8.4.15	Funds and Correspondence Received after Transfers of Servicing.....	111
8.4.16	Notices to Third Parties.....	111
8.4.17	Liability of the Transferor and Transferee.....	111
9.	Remittance Schedule.....	113
9.1	Scheduled/Scheduled.....	113
9.2	Actual/Actual.....	113
10.	Servicing Guidelines.....	114
10.1	Limitations & Restrictions.....	114
10.2	Mortgage Servicing and Administration.....	114
10.2.1	Servicing Loans under MCCs with SMI.....	116
10.2.2	Servicing Loans under MCCs without SMI.....	117
10.2.3	Non-delegable Duties .....	117
10.2.4	Required Record Keeping.....	118
10.2.5	Mortgage Administration Costs.....	118
10.2.6	Pledging Servicing Rights.....	118
10.2.7	Servicing Fees.....	119
10.2.8	Inspection of Properties.....	119
10.2.9	Loan Modifications.....	120
11.	Custodians .....	123
11.1	Document Custodian Eligibility .....	123
11.1.1	Requirements for Related-Party Document Custodians.....	123
11.2	Transfer of Document Custodian Functions by FHLBI .....	123
11.3	Accounts.....	123
11.3.1	Custodial Funds Accounts Eligibility .....	123
11.3.2	Principal & Interest (P&I) Account .....	124
11.3.3	Escrow Custodial Account .....	126

11.3.4	Timing of Deposits to Custodial Accounts.....	127
12.	Insurance.....	128
12.1	Limitations & Restrictions.....	128
12.2	Required Insurance Coverage.....	128
12.2.1	All Risk Property Insurance.....	128
12.2.2	Tile Insurance.....	129
12.2.3	Improvement Survey Requirements.....	133
12.2.4	Flood Insurance.....	134
12.2.5	Hazard Insurance.....	140
12.3	Evidence of Coverage.....	145
13.	Audit.....	146
13.1	Audit Records.....	146
13.2	Access to Audits.....	146
14.	Payments to FHLBI.....	147
14.1	Scheduled/Scheduled.....	147
14.1.1	Method and Timing.....	147
14.1.2	Computation of Payments.....	147
14.1.3	Early Receipt of Scheduled Payments.....	149
14.1.4	Escrow and Miscellaneous Collections.....	149
14.2	Actual/Actual.....	149
14.2.1	Method and Timing.....	149
14.2.2	Computation of Payments.....	150
14.3	FHA Delinquency and Losses.....	150
14.4	Advances to Pay Taxes and Insurance.....	150
14.5	Other Expenses.....	151
14.6	LRA and SMI Advances.....	151
14.7	Early Payoffs/Prepayments.....	151
15.	Advance Agreements and Reimbursement of Advances.....	152
15.1	Ledger.....	152
15.2	Funds in Escrow.....	152
15.2.1	Deficit Escrow Balance.....	152

15.3	Reimbursement of Advances.....	152
16.	Servicing Delinquent and/or Defaulted Mortgages.....	153
16.1	Mortgages in Default.....	153
16.2	Servicer Responsibilities.....	153
16.3	Delinquency Rates.....	154
16.4	Inspection.....	154
16.5	Loss Mitigation Review.....	154
16.6	Foreclosure Bidding Instructions.....	155
16.6.1	Loans with PMI or SMI.....	155
16.6.2	Loans without PMI or SMI.....	156
16.7	Foreclosure Sale Results/REO Notifications.....	156
16.8	Cash for Keys.....	157
16.9	Listing and Sale of REO Properties.....	157
16.10	Claim Filing.....	157
16.10.1	Loans without SMI.....	157
17.	Remittance Reporting Requirements.....	163
17.1	Remittance Reporting Submission.....	164
17.2	Penalties for Late Submission.....	164
17.3	Monthly Reporting and Withdrawal Summary.....	165
18.	Repurchase.....	166
18.1	Involuntary Repurchase.....	166
18.2	Voluntary Repurchase.....	166
18.3	Indemnification.....	167
18.4	Offset.....	167
19.	Participations.....	168

# 1. Introduction

---

## 1.1 Overview

Since its inception in 2001, the Mortgage Purchase Program (MPP) has provided a source of liquidity to Federal Home Loan Bank of Indianapolis (FHLBI) members and expanded options to loan originators to prudently help borrowers own a home. TMPP is offered to participating financial institutions (PFIs) to support their respective missions. MPP offers members a competitively priced alternative to the secondary mortgage market that can generate additional income while providing reduced interest rate risk and balance sheet flexibility.

### 1.1.1 MPP Guide Contents

This Guide details everything needed to facilitate MPP including:

- Application requirements
- Commitment Process
- Sale Requirements
- Purchase Information
- Underwriting Guidelines
- Quality Assurance Program details
- Transfer of Servicing Rights
- Remittance Schedule
- Mortgage Servicing Guidelines
- Payments
- Advance Agreements

## 1.2 Eligible Mortgages

FHLBI will purchase 15, 20, or 30 year fixed rate, fully amortizing, up to conforming loan limits, level-payment mortgages limited to points and fees less than 3% of the total loan amount, or such other limits for low balance loans as set forth in the Consumer Financial Protection Bureau (CFPB) Qualified Mortgage (QM) rule and are QM compliant including:

- Primary, owner-occupied, detached residences
- Single-family properties
- 2, 3, and 4 unit properties
- Modular housing
- Primary, owner-occupied, attached residences, including condominiums and Planned Unit Developments (PUDs)
- Second/vacation homes

FHLBI will purchase the following mortgages as described above at the following pricing structure:

<b>Loan Term</b>	<b>MDC Price</b>
5 to 15 year loans	15 year price
Greater than 15 years up to 20 years	20 year price
Greater than 20 years up to 30 years	30 year price

Mortgages more than 120 days from Note Date to the Settlement Date require FHLBI approval prior to entering into the Mandatory Delivery Contract (MDC).

All mortgages must meet Master Commitment Contract (MCC) parameters, the guidelines specified in this MPP Guide, and the property securing the loan must also be located in the continental United States, Alaska, or Hawaii unless otherwise indicated in seller's MCC.

### **1.3 Standards and Regulatory Compliance**

Sellers must be in full compliance with all applicable federal, state, and local laws including, without limitation, usury, Truth in Lending, real estate settlement procedures, predatory lending, consumer credit protection, equal credit opportunity, fair housing, and lending disclosure laws applicable to the Mortgage.

The Truth in Lending Act and the Real Estate Settlement Procedures Act (TILA-RESPA) Integrated Disclosure Rule (TRID) took effect for most loan applications for closed-end credit transactions secured by real property received on or after October 3, 2015. Sellers must ensure that their institutions are implementing and complying with this rule.

In addition, FHLBI requires all loans sold into MPP meet the definition of QM loans, as defined in applicable CFPB regulations, and to meet the CFPB's Safe Harbor QM requirements.

## 1.4 FHLBI Contacts

Use the following table of contacts for any questions you may have about MPP or this Guide.

**Toll Free Number:** 800-274-4636

**Department Email:** [mpp@fhlbi.com](mailto:mpp@fhlbi.com)

**Fax:** 317-465-0287

Name	Area	Contact Information
Cathy Garrett	Business Development, MCC Negotiations, Training, Underwriting, LAS	317-465-0553 <a href="mailto:cgarrett@fhlbi.com">cgarrett@fhlbi.com</a>
Mark Holt	Acquisitions (MCC Contracts, Trading, Pair-Offs, LAS)	317-465-0557 <a href="mailto:Mholt@fhlbi.com">Mholt@fhlbi.com</a>
Candace Zuercher	Acquisitions (MCC Contracts, Trading, Pair-Offs, LAS)	317-465-0554 <a href="mailto:czuercher@fhlbi.com">czuercher@fhlbi.com</a>
Steve Broviak	Servicing (Remittance, Loss Claims, Foreclosures)	317-465-0546 <a href="mailto:sbroviak@fhlbi.com">sbroviak@fhlbi.com</a>
Jeff Gentner	Servicing (Remittance and Reporting)	317-465-0544 <a href="mailto:jgentner@fhlbi.com">jgentner@fhlbi.com</a>
Laurel Harpster	Servicing (Loss Claims and Foreclosures)	317-465-0415 <a href="mailto:lharpster@fhlbi.com">lharpster@fhlbi.com</a>
Keith Pempek	Quality Assurance (Underwriting, Servicing Audits, Document Custodian Questions)	317-465-0558 <a href="mailto:kpempek@fhlbi.com">kpempek@fhlbi.com</a>
Afshan Memon	Quality Assurance (Underwriting, Servicing Audits, Document Custodian Questions)	317-465-0548 <a href="mailto:amemon@fhlbi.com">amemon@fhlbi.com</a>

### 1.4.1 External Resources

See Appendices, specifically Appendix D for a list of commonly referenced external websites.

## 1.5 Glossary

### ***Ability-to-Repay (ATR)***

Borrower(s) must have the financial means to repay their mortgage obligation, at the time of origination. The Seller must ensure the borrower(s) can repay the loan by reviewing financial documents (bank statements, tax records, etc.).

### ***Accounting and Servicing Report***

Sellers must submit monthly accounting and servicing reports for all mortgages as provided in [Section 17](#) of this Guide.

### ***Actual/Actual***

A remittance type that requires the lender to remit to FHLBI only the actual interest collected from borrowers and the actual principal payments collected from borrowers.

### ***Addendum***

A document attached to the Note or Security Instrument.

### ***Advances, Pledge, and Security Agreement***

FHLBI's blanket agreement for advances and the creation of security interests in collateral as it now exists and as it may be amended from time to time.

### ***Affiliate***

An organization that can exercise control or significant influence over the management or operating policies of the Seller; directly or indirectly, through some type of control or ownership, as defined in current financial accounting standards.

### ***Aggregated Pool***

A group of loans sold to FHLBI by multiple Sellers under specified Master Commitment Contract (MCC) aggregated into one pool under MPP's Pool Aggregation Program.

### ***Allonge***

An attachment to a Promissory Note or a negotiable Instrument where additional endorsements can be added.

### ***Amortization***

The gradual reduction of the mortgage debt through periodic payments scheduled over the mortgage term.

### ***Appropriate Proceedings***

Any legal or administrative action by the Servicer affecting either a loan or title to a property.

### ***Assignment***

Transfer of a right or lien interest in mortgages or the transfer instrument.

**Authorized Seller Representative**

Representative authorized by the Seller to enter into Master Commitment Contract (MCCs) and Mandatory Delivery Contracts (MDCs). The Authorized Seller Representative is also referred to as a Manager or Trader in FHLBI's Loan Acquisition System (LAS) whose authority is granted by the Seller's Corporate Resolution.

**Automated Underwriting System (AUS)**

An automated underwriting system uses completed loan application data and makes loan decisions based on a variety of parameters.

**Blanket Legal Opinion**

A document expressing the opinion of qualified legal counsel on a group of similar documents or instruments as opposed to a separate opinion on each document or instrument.

**Bond Market Business Day**

A day or particular portion of a day other than a day or particular portion of a day on which the Bond Market Association schedules or recommends an early or full market closing.

**Borrowed Funds**

Funds invested in the transaction that come from a loan obtained by a verified borrower other than a loan secured by the subject property.

**Broker Price Opinion (BPO)**

A written estimate of the probable sales price of a property performed by a real estate broker or sales person with or without an interior property inspection. Commonly used for quality control and loss mitigation.

**Business Day**

A day other than:

- 1) A day on which the Federal Reserve Bank of New York is authorized or obligated by law or executive order to remain closed, or
- 2) A day on which the offices of FHLBI are closed.

**Cash for Keys**

A program for occupants of a property after a foreclosure to receive cash in exchange for surrendering the keys and vacating a property.

**Cash Management Services (CMS) Account**

The Seller's Demand Deposit account at FHLBI.

**Cash Out Fee**

A fee assessed for certain LTVs for 'cash out refinance' transactions as defined by MPP Guidelines.

**Cash Out Refinance**

A refinancing transaction in which the amount of money received from the new loan exceeds the total of the money needed to repay the existing first mortgage, closing costs, points, and the amount required to satisfy any outstanding subordinate mortgage liens.

**Certification Form**

For Initial Certification, the Document Custodian must certify the loan(s) in Loan Acquisition System (LAS) or complete a certification form (Exhibit A in the Custodial Agreement) pursuant to the Document Custodian Manual (Appendix A).

**Clerk-Certified Copy**

A true and correct copy certified by the recorder's office.

**Closing Documents**

Specific documents required in order to close a loan.

**Closing Disclosure (CD)**

Form that combined the HUD-1 and final Truth-in-Lending disclosure (final TIL and, together with the initial TIL, the Truth-in Lending forms). Form provides disclosures to consumers in understanding all of the costs of the transaction. This form must be provided to consumers at least three business days before consummation of the loan.

**Combined Loan to Value (CLTV)**

A ratio that is used for a mortgage loan that is subject to subordinate financing, which is calculated by dividing the sum of:

$$\text{CLTV} = \frac{\text{Original Loan Amt} + \text{Outstanding Principal Bal. of a HELOC} + \text{UPB of subordinate Financing}}{\text{Lesser of Property Sale Price or Appraised Value}}$$

**Contingent Liability**

When an individual may be held legally responsible for payment of a debt if another party, jointly or severally obligated, defaults on the payment.

**Contract Commitment Amount**

The total aggregate Unpaid Principal Balance (UPB) of mortgages to be sold to FHLBI specified on the applicable Mandatory Delivery Contract (MDC).

**Conventional Mortgage**

A mortgage that is not insured or guaranteed by the federal government.

**Cosigned Obligations**

To sign a document that has already been signed by a borrower of money, declaring that, should the borrower be unable to repay that money, the signer will repay the amount due.

**Credit Losses**

Losses related to non-payment of the mortgage.

**Credit Policy**

FHLBI's credit policy as it now exists and as it may be amended from time to time.

**Credit Score**

A number summarizing an individual's credit profile. The number indicates the likelihood that a borrower will repay future obligations.

**Curtailment**

A partial prepayment of a loan balance.

**Custodial Account**

An account the Servicer deposits mortgage principal and interest payments into.

**Custodial Agreement**

A required agreement between The Seller and a Document Custodian. This agreement delineates the obligations and rights of the Document Custodian.

**Custody File**

A Custody File may include, but is not limited to the following: original promissory note, original assignment of mortgage, copy of mortgage, copy of interim assignments and Power of Attorney (if applicable). The Seller is required to submit a Custody File to the Document Custodian as specified in Appendix A for each mortgage.

**Custody Register**

The Document Custodian must maintain a Custody Register for each Seller pursuant to Section 1.4.4 of the Document Custodian Manual (See Appendices).

**Cut-off Date**

The last day of a calendar month.

**Debt to Income Ratio (DTI)**

A ratio derived by dividing the borrower's total monthly obligations (including housing expense) by his or her stable monthly income. This calculation is used to determine the mortgage amount for which a borrower qualifies. This term is often used interchangeably with total debt-to-income ratio and also expense ratio.

$$DTI = \frac{\text{Total Monthly Obligations}}{\text{Gross Monthly Income}}$$

**Deed of Trust**

A conveyance (of real estate title) by a borrower to a trustee as collateral security for the payment of a debt with the condition that the trustee must reconvey the title to the borrower upon satisfaction of the debt or, in the event of a default, sell the collateral real estate and pay the debt to the lender.

**Deed-in-Lieu**

A deed-in-lieu of foreclosure is a transfer of title from a borrower to the lender in satisfaction of the mortgage debt to avoid foreclosure; also called a Voluntary Conveyance.

**Default**

The event giving rise to a loss as specifically described in [Section 16](#), or as otherwise described in this Guide.

**Defective Mortgage**

A mortgage that meets one of the following criteria:

1. Will not be insured by an FHLBI approved private mortgage insurer or FHLBI's supplemental mortgage insurance provider.
2. For which private or supplemental mortgage insurance has been withdrawn.
3. Does not otherwise conform to the requirements of this Guide or any of the Program Documents.

**Delivery Period**

The number of days specified in the Mandatory Delivery Contract (MDC) during which the Seller will deliver mortgages to FHLBI.

**Demand Deposit Account**

A bank account in which the funds are available for withdrawal at any time without penalty.

**Document Custodian**

The Document Custodian is an entity approved by FHLBI in accordance with Appendix A that verifies and keeps custody files in accordance with the Document Custodian manual and the custodial agreement. The Seller may act as Document Custodian for the mortgages with FHLBI approval.

**Document Custodian Manual**

The Document Custodian Manual delineates the rights and responsibilities of the Document Custodian.

**Document Release Form**

The Seller must submit a Document Release Form (Exhibit A of the Document Custodian Manual) to obtain the release of documents held in custody by the Document Custodian.

**Early Payment Default**

A loan that becomes more than 60 days delinquent within the first six (6) months of origination.

**Effective Income**

Income used in calculating the borrower's income ratios must be verified, stable, and expected to continue.

**Endorsement**

The assignment of an entire interest in a Promissory Note from one holder to another.

**Equifax**

Equifax is one of the three major reporting credit bureaus. Using a variety of credit scoring algorithms, Equifax offers a BEACON<sup>®</sup> score ranging from 300 to 850.

**Escrow Custodial Account**

The account into which the Servicer deposits Escrow Payments as specifically described in [Sections 11.3.1](#) and [Section 11.3.3](#) of this Guide.

**Escrow Payments**

All taxes, assessments, ground rents, insurance premiums, and comparable items relating to a mortgage to be held in an Escrow Custodial Account, as specifically described in [Section 11.3.3](#) of this Guide.

**Executed**

With respect to a document, completed (i.e., signed).

**Expected Losses**

The estimated losses according to the terms in a Master Commitment Contract (MCC).

**Experian**

Experian is one of the three major reporting credit bureaus. Using a variety of credit scoring algorithms, Experian offers a Fair Isaac rating, most commonly called a FICO® score ranging from 300 to 850.

**Fannie Mae**

The Federal National Mortgage Association (or FNMA).

**Fannie Mae or Freddie Mac Approved Mortgagee**

An entity approved by Fannie Mae or Freddie Mac to sell and service mortgages.

**Federal Housing Administration (FHA)**

The Federal Housing Administration (FHA).

**FHLBank**

Any Federal Home Loan Bank (FHLBank).

**Federal Home Loan Bank of Indianapolis (FHLBI)**

The Federal Home Loan Bank of Indianapolis (FHLBI), its successors and assigns, whether on its own behalf or acting as agent for any other entity, including, without limitation, any other Federal Home Loan Bank (FHLBank).

**FHLBI Guidelines**

All applicable laws, regulations, and all other Program Documents.

**Fixed Lender Risk Account (LRA)**

An LRA maintained with a dollar amount equal to a percentage of the aggregate principal balance of mortgages sold to FHLBI, at the time of sale to FHLBI, which is maintained for a period of time by FHLBI to cover losses subject to release to the Seller under terms specified in the Master Commitment Contract (MCC).

**Foreclosure**

A legal procedure whereby property used as security for a debt is sold or the title is taken in order to satisfy the debt because of a default in payment or otherwise under the mortgage.

**Freddie Mac**

The Federal Home Loan Mortgage Corporation (or FHLMC).

**Funding Schedule**

The funding schedule is provided via Loan Acquisition System (LAS) and discloses the allocation of the funding amount to principal, interest, and fees.

**Funds Custodian**

The Funds Custodian is a financial institution that maintains principal and interest (P&I) custodial accounts and escrow custodial accounts for the mortgages. The Seller may act as the Funds Custodian for the mortgages with FHLBI's approval.

**Ginnie Mae or Government National Mortgage Association (GNMA)**

A wholly owned corporate instrumentality of the United States Department of Housing and Urban Development (HUD).

**Good Faith Estimate (GFE)**

An estimate of the fees due at closing for a mortgage loan that must be provided by a lender to a borrower within three business days of the lender taking a borrower's loan application.

**Good and Marketable Title**

A title to real estate that is clear and free from encumbrances, litigation, and other defects, and that can readily be sold or mortgaged to a reasonable buyer or mortgagee. It is a title that a court of equity considers to be so free from defect that it will legally force its acceptance by a buyer.

**Government Sponsored Enterprise (GSE)**

Examples include Fannie Mae, Freddie Mac, or an FHLBank.

**Ground Lease/Leasehold Estate**

A way of holding title to a property wherein the borrower does not actually own the property but rather has a recorded long-term lease on it.

**Government Sponsored Enterprises (GSE) Guidelines**

Any and all Guide books, requirements, bulletins, or updates pertaining to mortgage selling and servicing promulgated by Freddie Mac, Fannie Mae, or Ginnie Mae, as the same may be amended or supplemented from time to time.

**Government Sponsored Enterprises (GSE) Servicing Guidelines**

Those portions of GSE Guidelines that pertain to servicing mortgages eligible for purchase by the applicable GSE, including but not limited to the Fannie Mae Servicing Guide.

**Guide**

This MPP Guide, as it may be amended or supplemented from time to time.

**Home Owners Association (HOA)**

An entity formed to manage the day-to-day operation and long term interests of residential dwelling communities, including condo, co-op, and PUD projects. An HOA is typically created and vested with specific roles, responsibilities, and rights by the project's legal documents in compliance with applicable laws. For FHLBI's purposes, the term HOA includes a homeowners' association, a common interest community association, a cooperative corporation, and other similar entities.

**Housing and Urban Development (HUD)**

The United States Department of Housing and Urban Development.

**HUD-1 Settlement Statement**

A form required by federal law that provides disclosures to borrower(s) of the final loan terms and costs of the mortgage loan transaction. References to "settlement statement" include the HUD-1 Settlement Statement and Closing Disclosure forms, as applicable, based on the application date of the mortgage loan.

**Independent Audit (IA)**

An independent auditor that meets the auditor qualifications required by the banking agency or federal regulating authority that has jurisdiction over the particular Seller including the qualifications relating to independence and continuing professional education. Additionally, the audit organization must meet the quality control standards of such banking agency or federal regulatory authority.

**Initial Certification**

The Document Custodian's certification that it has received all mortgage documents required by Appendix A for Initial Certification to be in the Custody File at least one business day prior to the applicable Settlement Date.

**Installment Land Contract**

An agreement to transfer title to a property once conditions of the contract have been fulfilled. Also known as a contract or bond for deed.

**Inter Vivos Revocable Trust**

A trust that an individual creates during his or her lifetime that becomes effective during his or her lifetime, but which can be changed or canceled at any time for any reason during its creator's lifetime.

**Interested Party**

Anyone (other than the Property Purchaser) who has a financial interest in, or can influence the terms and the sale or transfer of the subject property.

**Interim Assignment**

The transfer or conveyance of ownership rights to another party.

**Investor Property Mortgage**

A loan secured by a mortgage on an investment property.

**Junior Lien**

Sometimes also referred to as a Junior (Second or Third) Mortgage, a Junior Loan is secured by a mortgage that does not stand in a first lien position.

**Legal Opinion**

A formal written opinion that cites legal precedent from qualified outside legal counsel as to whether a Security Instrument or other document complies with jurisdictional law and/or practice.

**Lender Risk Account (LRA)**

The lender risk account established on behalf of the Seller for each Master Commitment Contract (MCC) to provide first loss coverage after private mortgage insurance, if applicable, for expected losses. The LRA may be either a fixed LRA or a spread LRA. The required balance of the LRA shall be computed as provided in the LRA Agreement.

**Letter of Determination Review (LODR)**

This option is available through Federal Emergency Management Agency (FEMA) to a property owner to appeal a lender's flood zone determination.

**Letter of Map Amendment (LOMA)**

An official amendment, by letter from Federal Emergency Management Agency (FEMA), to an effective National Flood Insurance Program (NFIP) map. This amendment establishes a property's location in relation to the Special Flood Hazard Area (SFHA). LOMAs are usually issued because a property has been inadvertently mapped as being in the floodplain, but is actually on natural high ground above the base flood elevation.

**Letter of Map Revision (LOMR)**

This is a response from Federal Emergency Management Agency (FEMA) to modify an effective Flood Insurance Rate Map (FIRM), Flood Boundary and Floodway Map (FBFM), or both.

**Lien**

A form of security interest granted over an item of property to secure the payment of a debt or performance of some other obligation.

**Limited Cash Out**

A refinance transaction in which the mortgage amount generally is limited to the sum of the Unpaid Principal Balance (UPB) of the existing first mortgage, closing costs (including prepaid items), points, and the amount required to satisfy any mortgage liens if the documented proceeds of the subordinate financing were solely used to acquire the property (if the borrower chooses to satisfy them), and other funds for the borrower's use (as long as the amount does not exceed the lesser of \$2000 or 2% of the principal amount of the new mortgage).

**Living Trust (Inter Vivos)**

An arrangement under which one person or entity, called a Trustee, holds legal title to property for the benefit of another person, called a Beneficiary.

**Loan**

See Mortgage below.

**Loan Acquisition System (LAS)**

FHLBI's Loan Acquisition System.

**Loan Estimate (LE)**

Form that combined the Good Faith Estimate (GFE) and the initial Truth-in-Lending disclosure (initial TIL). The form provides disclosures to consumers in understanding key features, costs, and risks of the mortgage loan for which consumers are applying. This form must be provided to consumers no later than the third business day after they submit a loan application.

**Loan Modification**

A process where the terms of a mortgage are modified outside of the original terms of the contract agreed to by the lender and borrower (i.e. mortgagee and mortgagor).

**Loan to Value (LTV)**

The loan-to-value ratio is the Unpaid Principal Balance (UPB) of the mortgage divided by the lesser of the sales price or appraised value of the property.

**Loss**

The amount payable as a result of a default by the borrower on a loan, calculated in accordance with Section 6 of the Master Commitment Contract (MCC).

**Lost Note Affidavit (LNA)**

An affidavit filed for the missing or destruction of a Note or other indebtedness secured by the deed of trust, mortgage or other instrument from the owner or holder of the instrument.

**Mandatory Delivery Contract (MDC)**

A transaction that obligates a Seller to sell a specified dollar amount of mortgages with specified characteristics to FHLBI at a specified purchase price on a specified Settlement Date.

**Master Agreement**

The mortgage selling and servicing Master Agreement details the obligations of the Seller and FHLBI regarding sales and servicing of mortgages.

**Master Commitment Contract (MCC)**

An agreement between FHLBI and the Seller to sell a specified aggregate principal balance of mortgages with specified characteristics over a fixed period of time.

**Master Commitment Contract (MCC) Number**

As reported in Loan Acquisition System (LAS), a number FHLBI assigns to all Master Commitment Contracts (MCCs).

**Master File**

The Document Custodian must maintain a Master File in accordance with the Document Custodian Manual (Appendix A).

**Master Servicer**

The entity which FHLBI shall contract with to process the monthly remittance reporting of all mortgage purchases.

**Member**

A member or associate of the Federal Home Loan Bank of Indianapolis (FHLBI).

**Mortgage**

Residential mortgage loan sold to FHLBI by the Seller, evidenced by a note, bond, or other instrument of indebtedness and secured under a mortgage, deed of trust or similar instrument. Mortgages include such instruments of indebtedness and security, together with the evidence of title, chattel mortgage or security agreement, financing statement, and all other documents, instruments, and papers pertaining to the mortgage loan.

**Mortgage Assumptions**

The conveyance of the terms and balance of an existing mortgage to the purchaser of a financed property, commonly requiring that the assuming party is qualified under lender or guarantor guidelines.

**Mortgage Documents**

Mortgage documents include without limitation; books, documents, files, papers, and other records and data relating to a mortgage, including any maintained in any database or in any data processing, storage, or retrieval system.

**Mortgage Electronic Registration System (MERS)**

An electronic registration system that eliminates the need for recorded assignments. Additional information can be found at [www.mersinc.org](http://www.mersinc.org).

**Mortgage Insurance (MI)**

Mortgage insurance issued as credit enhancement for the loan. The insurance provides loss protection for the investors in the case of a mortgage default. The MI may include Private Mortgage Insurance (PMI) and/or Supplemental Mortgage Insurance (SMI).

**Mortgage Insurance Certificate**

This document serves as evidence of an insurance policy which compensates lenders or investors for losses due to the default of a mortgage loan.

**Mortgage Product**

15, 20, or 30 year fixed rate, level payment, fully amortizing mortgages specifically described in [Section 5.1](#) of this Guide.

**Mortgage Purchase Program (MPP)**

FHLBI's Mortgage Purchase Program as documented in this Guide.

**Mortgaged Property**

The property subject to a mortgage.

**Mortgagee**

The lien holder in a mortgage transaction.

**Mortgagor**

The obligor under a mortgage.

**No Cash Out**

The refinancing of an existing mortgage for an amount equal to or less than the existing outstanding loan balance plus an additional loan settlement cost.

**Non-credit Losses**

All losses on a mortgage that are not credit losses or non-insured credit losses.

**Non-insured Credit Losses**

Credit losses which are not covered by the Supplemental Mortgage Insurance (SMI) due to percentage or dollar limits on the coverage or the failure of a particular mortgage to be covered under the policy.

**Non-QM loans**

Loans that are not Qualified Mortgage (QM) compliant and may not receive protection from borrower Ability-to-Repay (ATR) damage claims or defenses.

**Note**

In connection with a mortgage, the instrument which evidences a borrower's obligation to pay a specified sum of money at a stated interest rate during a specified time.

**Note Rate**

The Note Rate at which interest accrues on the Unpaid Principal Balance (UPB) of a mortgage in accordance with the provisions of the promissory note secured by such mortgage.

**Note Rate Delivery Range**

The range of Note Rates eligible to be delivered under a Mandatory Delivery Contract (MDC) and specified on the MDC.

**Offer Price**

The commitment specific price for mortgages established by FHLBI as of the pair-off date.

**Owner Occupied**

A form of housing ownership where a person, called the owner-occupier, owner-occupant, or home owner, owns the home in which he/she lives.

***Pair-off Amount***

The amount obtained by subtracting:

- a. the purchase variance from the MDC amount and
- b. the UPB of mortgages delivered and accepted for purchase by FHLBI.

***Pair-off Date***

The earlier of either:

- a. the date the Seller notifies FHLBI of the cancellation of the Mandatory Delivery Contract (MDC),  
or
- b. the date on which the MDC expires.

***Pair-off Fee***

The fee assessed for failure to deliver mortgages according to the terms of the Mandatory Delivery Contract (MDC).

***Pass-through Rate***

The Note Rate less the applicable servicing spread.

***Pay Off Date***

The date a loan is paid in full.

***Power of Attorney (POA)***

A written instrument authorizing a person, the attorney-in-fact, to act as agent on behalf of another person to the extent indicated in the instrument.

***Price Sheet***

The price sheet of indicative purchase prices for the purchase of mortgages published by FHLBI as specified in [Section 3.3](#) of this Guide. Pricing is primarily available via the Loan Acquisition System (LAS).

***Principal***

The amount of indebtedness owed by a borrower.

***Principal & Interest (P&I) Custodial Account***

The account the Servicer deposits mortgage principal and interest payments into, specifically described in [Sections 11.3](#) and [Section 11.3.2](#) of this Guide.

***Private Mortgage Insurance (PMI)***

Private Mortgage Insurance.

***Private Mortgage Insurance (PMI) Provider***

The insurance company providing the Private Mortgage Insurance (PMI) on the loan.

***Program Documents***

FHLBI Guidelines, Master Agreement, Master Commitment Contract (MCC), Mandatory Delivery Contract (MDC), Guide, Document Custodian Manual, and any amendments, bulletins, or agreements issued by FHLBI pertaining to MPP.

**Promissory Note**

A written agreement between the mortgagor and the mortgagee specifying the amount and terms of repayment for a loan.

**Property or Mortgaged Property**

The property that is now or was formerly subject to a mortgage.

**Purchase Agreement**

An agreement entered into for a purchase transaction.

**Purchase Price**

The percentage set forth in a Mandatory Delivery Contract (MDC).

**Purchase Proceeds**

The dollar amount that FHLBI will pay to the Seller for the sale of mortgages as described in [Section 5.2](#).

**Purchase Variance**

The amount by which the aggregate Unpaid Principal Balance (UPB) of mortgages purchased pursuant to an applicable Mandatory Delivery Contract (MDC) may vary from the MDC amount. The purchase variance is the greater of 1.0% of the MDC amount or \$10,000.

**Qualified Mortgage (QM)**

Rule amending Regulation Z, which implements the Truth in Lending Act (TILA), generally requires creditors to “make reasonable, good faith determination of a consumer’s Ability-to-Repay (ATR) any consumer credit transaction secured by a dwelling.” QM puts a limit on Upfront Points and Fees; and limits on Debt-to-Income Ratios; No Toxic Loan Features.

**Qualifying Indicator Score**

The one credit score identified to represent the eligibility of the mortgage for purchase by MPP as further described in [Section 6.4.2](#) of this Guide.

**Quality Control Contractor (QCC)**

FHLBI may contract with an independent QCC to perform Quality Assurance (QA) reviews of the Seller’s mortgage sales to FHLBI and of the Seller’s mortgage operations, specifically provided in [Section 7.11](#) of this Guide.

**Ratings Methodology**

The methodology utilized by FHLBI to establish the amount of credit enhancement required for the mortgages to be delivered under the Master Commitment Contract (MCC).

**Rebuttable Presumption Loans**

Higher priced loans refers to a loan with an interest rate that is more than 1.5% higher than the current prime rate that meet the Qualified Mortgage (QM) requirements, but will receive a lesser degree of protection from damage claims and defenses by borrowers.

**Recertification**

For a loan or group of loans, a certification following a transfer of Seller responsibility or of document custodian responsibility that the loan documents satisfy the requirements of the Document Custodian Manual (Appendix A).

**Recording**

The act of entering or recording documents effecting or conveying interests in real estate in the recorder's office established in each jurisdiction. Depending on jurisdictional law and/or practice, until recorded, a deed or mortgage is not generally effective against subsequent purchasers of mortgages.

**Remittance Date**

A Remittance Date is the day the monthly principal and interest are due. This date is the 15<sup>th</sup> or the 18<sup>th</sup> (for FHA or Conventional loans respectively) calendar day of each month or the next business day if the 15<sup>th</sup> or the 18<sup>th</sup> calendar day is not a business day.

**Restructured Mortgage Loans**

Any restructured loan for which the original transaction has been changed, resulting in absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan that results in any of the following, but not limited to:

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness
- Conversion of any portion of the original mortgage debt to a *soft* subordinate mortgage
- Conversion of any portion of the original mortgage debt from secured to unsecured

**Rider**

A document attached to a Note or Security Instrument amending the document after its proper body cannot be amended and restated.

**Safe Harbor Loans**

Lower priced loans that meet regulatory requirements specified for Qualified Mortgage (QM) Safe Harbor Loans will be protected from damage claims and defenses by borrowers based on a failure to meet Ability-to-Repay (ATR) requirements.

**Schedule of Mortgages**

Specifies details of loans that have been delivered into a Mandatory Delivery Contract (MDC). The Schedule of Mortgages is created in and printed from the Loan Acquisition System (LAS) and is based on data provided by the Seller.

***Scheduled Interest***

The interest due to FHLBI each calendar month under each mortgage as computed as one-twelfth of the Pass-Through Rate payable on the mortgage, multiplied by the beginning scheduled balance of the mortgage on the cut-off date prior to the calendar month in which the interest payment on the mortgage is due.

For Remittance, the interest reported each calendar month under each mortgage as computed as one-twelfth of the Note Rate payable on the mortgage, multiplied by the beginning scheduled balance of the mortgage on the cut-off date prior to the calendar month in which the interest payment on the mortgage is due.

***Scheduled Principal***

The scheduled amount of principal due on the mortgage on the first day of the calendar month in which the principal payment on the mortgage is due.

***Security Deed***

A conveyance constructed as a deed transferring title, not as a mortgage, that is intended to collateralize the payment of all sums secured thereby.

***Security Instrument***

A written document by which the title to property is conveyed or deposited as security for the satisfaction of an obligation or the payment of a debt. The most common Security Instruments are mortgages and deeds of trust.

***Self Custody***

Self Custody is when the Seller also acts as the Document Custodian.

***Seller***

The member, approved by FHLBI for MPP and acting in the capacity of Seller of mortgages to FHLBI.

***Servicer***

The entity who owns the servicing rights for a particular loan or pool of loans and who bears the responsibility of servicing the loan for the borrower and the investor.

***Servicing***

The duties of a Servicer to service mortgages specifically provided in [Section 10](#) and [Section 14](#), and various areas in this Guide, and in the other Program Documents.

***Servicing Fee***

The dollar amount that is retained by the Servicer in exchange for performing servicing functions. The monthly servicing fee is computed by multiplying 1/12 of the servicing spread by the Unpaid Principal Balance (UPB).

***Servicing Questionnaire***

A Seller applying to become a Servicer for MPP must complete a Servicing Questionnaire. The questionnaire is reviewed and approved by FHLBI as part of the application to MPP.

***Servicing Spread***

The servicing spread is specified in the applicable Master Commitment Contract (MCC) and the Mandatory Delivery Contract (MDC) and represents the compensation payable to the Servicer for the performance of its duties under this Guide.

***Settlement Date***

The date upon which FHLBI pays the Purchase Proceeds for mortgages pursuant to the applicable Mandatory Delivery Contract (MDC).

***Soft Second***

A loan whose repayment is forgiven or fully deferred until resale. No interest accrual is allowed during the deferral period.

***Spread Lender Risk Account (LRA)***

The sum of the Spread LRA fee maintained for a period of time subject to release to the Seller under terms specified in the Master Commitment Contract (MCC) on any mortgage loan.

***Spread Lender Risk Account (LRA) Fee***

The portion of the monthly payment applied as a contribution to the LRA as detailed by the terms of the MCC.

***Standard Mortgage Insurance (MI) Level***

As referenced in [Section 6.6](#) of this Guide, Standard MI Level is mortgage insurance at the level required by FHLBI at the time of the mortgage delivery, in accordance with this Guide.

***Subservicer***

An outside company/servicer hired by a Servicer to collect mortgage payments.

***Successor Document Custodian***

The Document Custodian that receives required loan documents when there is an FHLBI-approved change in custodial responsibilities.

***Supplemental Mortgage Insurance (SMI)***

Supplemental Mortgage Insurance, also commonly referred to as pool insurance. The SMI policy provides mortgage insurance on all loans in a given pool or Master Commitment Contract (MCC).

***Supplemental Mortgage Insurance (SMI) Provider***

The insurance company providing Supplemental Mortgage Insurance (SMI) on the Master Commitment Contract (MCC).

***Third Party Mortgage Originator (TPO)***

A person or company involved in the process of marketing mortgages and gathering borrower information for a mortgage application. This information is then transferred or sold to the actual mortgage lender being a Participating Financial Institution (PFI).

***TILA-RESPA Integrated Disclosure (TRID) rule***

Consolidates four existing disclosures required under TILA and RESPA for closed-end credit transactions secured by real property into two forms: a Loan Estimate that must be delivered or placed in the mail no later than the third business day after receiving the consumer's application, and a Closing Disclosure that must be provided to the consumer at least three business days prior to consummation.

***Title Commitment/Policy***

Insurance against loss resulting from defects in the title to real estate.

***TransUnion***

TransUnion is one of the three major reporting credit bureaus. Using a variety of credit scoring algorithms, TransUnion offers an EMPIRICA<sup>®</sup> score.

***Trust***

A fiduciary relationship whereby legal title to property is conveyed to a person or institution, called a trustee, to be held and administered on behalf of another party, called a beneficiary, which holds equitable title to such property.

***Trustee***

Any person who holds property, authority, or a position of trust or responsibility for the benefit of another, and also is allowed to do certain tasks but not able to gain income.

***Truth-in-Lending (TIL)***

A disclosure that provides information to consumers about the costs of credit. The Truth-in-Lending Act (TILA) requires borrowers receive a TIL disclosure twice: an initial TIL disclosure when borrowers apply for a mortgage loan, and a final TIL disclosure before closing. The TIL form includes information about the cost of the mortgage loan including annual percentage rate (APR).

***Uniform Appraisal Dataset (UAD)***

A standard of common requirements for appraisal and loan delivery data.

***Uniform Residential Appraisal Report (URAR)***

Available through both Fannie Mae and Freddie Mac, this form is used for a one-unit property (including an individual unit in a PUD project and an individual unit in a detached condominium project) based upon an interior and exterior property inspection.

***Unpaid Principal Balance (UPB)***

The remaining unpaid principal balance of a mortgage as of a particular date.

***Usury***

The act of lending money at an interest rate that is considered unreasonably high or that is higher than the rate permitted by law.

***Verification of Deposit (VOD)***

The lender uses this form for applications for conventional first or second mortgages to verify the cash deposits that the applicant listed on the loan application.

***Verification of Employment (VOE)***

The lender uses this form for applications for conventional first or second mortgages to verify the applicant's past and present employment status.

***Vertical Independence***

The person with hiring, supervising, and compensation authority over employees of the Seller performing mortgage origination, selling, or servicing functions are different from the persons having similar authority over the employees of the Seller exercising its Document Custodian functions.

***Whole Loans***

A single residential or commercial mortgage that a lender has issued to a borrower and that has not been included in a Security.

***Zoning***

The control by authority of the use of land, and of the buildings thereon. Areas of land are divided by appropriate authorities into zones within which various uses are permitted.

## 2. Eligibility Determination

---

### 2.1 Seller Eligibility Requirements

The following requirements must be met to be eligible as a Seller:

#### 1. FHLBI Membership

The Seller must be a member of the Federal Home Loan Bank of Indianapolis (FHLBI).

#### 2. Application

The member must complete the application as required in this MPP Guide.

#### 3. Sound Financial Condition

The member will be subject to evaluation of financial condition.

#### 4. Experience

The member must be an active originator of conventional mortgages or demonstrate the ability to become an originator of conventional mortgages. The Servicer must have Mortgage Backed Securities (MBS) style Scheduled/Scheduled or Actual/Actual reporting capabilities (electronic format), as applicable.

#### 5. Facilities

The member must have adequate facilities with which to originate and service mortgages, as applicable.

#### 6. Selling and Servicing Standards

Once approved, the member must be able to follow the Master Agreement, FHLBI Guidelines, this MPP Guide, and all other Program Documents with respect to originating, selling, and servicing mortgages.

#### 7. Quality Assurance

The member must have a Quality Assurance (QA) program that conforms to the requirements below:

1. The QA program must enable the Seller and FHLBI to determine whether the Seller's mortgage loan origination, underwriting, closing, delivery, and servicing procedures meet all of FHLBI's requirements. FHLBI's full QA requirements are outlined in [Section 7](#).
2. The Seller must submit QA reports to FHLBI or the Quality Control Contractor (QCC) as requested by FHLBI.
3. Upon discovery of any discrepancies or defects through its QA program, the Seller must notify FHLBI in writing of such discrepancies or defects within 30 days.
4. If the Seller wishes to obtain approval in accordance with [Section 4.1](#) of this Guide to sell mortgages originated by a third party to FHLBI, the Seller must also:
  - a. Make all of the representations, warranties, and covenants set forth in this Guide to the same extent as if the Seller were the originator of the mortgages, and

- b. Own the third party originated mortgages as of the date such mortgages are delivered to FHLBI for purchase.

Please refer to [Section 6.3.6](#) of this Guide for further guidance on documentation required for prior approval.

5. In addition to any requested QA reports, the Seller must provide FHLBI, upon its request, with any explanations of the reports submitted to the Seller's senior management.

## 8. Capital Requirements

The member and the member's parent corporation, if any, must meet the capital requirements of each state and federal regulatory agency with jurisdiction over any of the member's or parent corporation's activities (as applicable).

## 9. Legal Standing

1. The member must be duly organized, validly existing, and in good standing under the laws of the jurisdiction of its organization; it must be qualified to transact business and be properly licensed in each jurisdiction where it originates or services mortgages.
2. The member must be in good standing with all applicable regulatory authorities and not be subject to any extraordinary supervision of its operations.
3. The member must have the power and authority to enter into the Master Agreement, MCC, MDC, the Custodial Agreement, and any other Program Documents.
4. The member's compliance with the terms and conditions of the Program Documents, including the terms and conditions of this Guide, must not violate any of the provisions of its Articles of Incorporation, Charter, By-Laws, or any other instrument relating to the conduct of the member's business, the ownership of its property, or any other agreement to which it is a party or by which it is bound.

## 10. Insurance

The member must have a Fidelity Bond and Mortgage Errors and Omissions Insurance Policy that meets the following requirements:

1. The Seller is responsible for maintaining, at its sole cost and expense, blanket fidelity and errors and omissions insurance coverage in the amounts specified below.
2. If at any time coverage expires or there is a change in coverage, the Seller must immediately deliver evidence of the new or modified coverage to FHLBI.
3. Minimum Amount of Coverage Required:
  - a. The minimum amount of Fidelity and Mortgage Errors and Omissions (E&O) coverage is based on the higher of:
    - i. The aggregate principal balance of the Seller's mortgage servicing portfolio, including residential and commercial mortgage loans or
    - ii. The aggregate principal balance of all residential and commercial loans sold by the Seller on a servicing-released basis during the immediately preceding twelve (12) months.
  - b. The amount determined pursuant to the preceding sentence is the **Base Amount**.

- c. The requisite amount of fidelity coverage is determined in accordance with the following schedule:

Base Amount	Minimum Coverage Required
\$100 million or less	\$300,000
More than \$100 million, but not more than \$500 million	\$300,000 +0.15% of base over \$100 million
More than \$500 million, but not more than \$1 billion	\$300,000 +0.15% of \$400 million (i.e., \$600,000) +0.125% of base over \$500 million
Over \$1 billion	\$300,000 +0.15% of \$400 million (i.e., \$600,000) +0.125% of \$500 million (i.e., \$625,000) +0.1% of base over \$1 billion

- d. The Seller's mortgage E&O coverage must be maintained at a minimum limit equal to the higher of:
- \$300,000 or
  - 20% of the fidelity coverage required in the table above.
- e. The required insurance must be written by an insurance carrier with an A.M. Best's rating of B+ or better. The carrier must be specifically licensed or authorized by law to transact business within the states or territories where the properties are located. Lloyd's of London, although not rated, is an acceptable insurer.
- f. The amount of coverage required for a direct surety bond covering officers not included in the Seller's Fidelity Bond coverage is calculated pursuant to the preceding schedule except that the base amount is the aggregate Unpaid Principle Balance (UPB) of mortgages serviced by the Seller.
4. Scope of Coverage
- The Fidelity Bond and Mortgage E&O coverage must insure the Seller against losses resulting from dishonest or fraudulent acts committed by the Seller's personnel including any employees of outside firms that provide data processing services for the Seller and temporary contract employees or student interns.
  - The Fidelity Bond coverage must also protect FHLBI against dishonest or fraudulent acts by the Seller's principal owner, if the Seller's insurance writer provides that type of coverage.
  - In addition to dishonesty and fraud, the E&O policy must protect the Seller against negligence, errors, and omissions in:
    - maintaining hazard and flood insurance that meets the requirements of this Guide
    - maintaining mortgage insurance
    - determining whether mortgaged properties are located in special flood hazard areas
    - paying real estate taxes and any special assessments
    - complying with FHLBI reporting requirements

4. Each Fidelity Bond and Mortgage E&O Insurance Policy must satisfy the following requirements:
  - i. FHLBI must be named as a loss payee on drafts the insurer issues to pay for covered losses FHLBI incurs.
  - ii. FHLBI must have the right to file a claim directly with the insurer if the Seller fails to file a claim for a covered loss that FHLBI incurs.
  - iii. FHLBI must be notified at least 10 days before the insurer cancels, reduces, declines to renew, or imposes a restrictive modification to the Seller's coverage for any reason.
5. Deductible
  - a. The deductible under any Mortgage E&O Insurance Policy may be no greater than 5% of the loss per occurrence.
  - b. The deductible for fidelity and direct surety coverage may be no more than the greater of \$100,000 or 5% of the face amount of the bond.
6. Document Custodian Eligibility  
The Document Custodian must meet the insurance requirements specified in the Document Custodian Manual (Appendix A).

#### 2.1.1 Compliance Reporting Requirements

1. The Seller must deliver copies of its internal QA reports to FHLBI or the QCC as requested by FHLBI.
2. The Seller must deliver copies of any audit reports issued by governmental agencies such as HUD, Fannie Mae, Freddie Mac, or any other FHLBank mortgage purchase program regarding the Seller to FHLBI within 15 days of the Seller's receipt of such reports.
3. If any disciplinary action is taken by any such agency, including suspension or termination of the Seller's servicing or selling rights, the Seller must notify FHLBI within three business days of such action.

#### 2.1.2 Secured Obligations

1. All of the obligations of the Seller under this Guide, the Master Agreement, any MCCs, any MDCs, and any other Program Documents shall be deemed to be *obligations* as such term is used in the Advances, Pledge, and Security Agreement between the Seller and FHLBI.
2. The Advances, Pledge, and Security Agreement secures the payment and performance of all obligations as specifically described in the Advances, Pledge, and Security Agreement.

### 2.1.3 Lender Risk Account

1. The Seller directly bears the responsibility for expected losses on the mortgages sold to FHLBI under an MCC. This is accomplished through the Lender Risk Account (LRA) and may be either a fixed LRA or a spread LRA.
2. Funds in both the fixed LRA and spread LRA will be retained by FHLBI for a fixed period of time as specified in the MCC. Funds in excess of the scheduled retention amount will be released to the PFI unless there are defaulted loans (as defined in [Section 16.1](#)) in the pertaining MCC or aggregated pool of MCCs, in which case the releasable funds will be withheld until the defaulted loans are resolved.
3. For fixed LRAs, an administrative fee may be assessed in an amount as specified in the individual MCC based on the LRA release amount and shall be deducted prior to the annual LRA disbursement as outlined in the MCC.

## 2.2 Continuing Eligibility

1. Any member approved for participation in MPP must continue to meet the requirements listed in [Section 2.3](#) of this Guide, all other requirements in this Guide, and other Program Documents in order to maintain its eligibility.
2. If a Seller fails to maintain its eligibility, it must notify FHLBI. If a Seller reports to FHLBI that it has failed to maintain its eligibility, or if FHLBI determines that the Seller has failed to maintain its eligibility, FHLBI may decline to enter into any further MCCs or MDCs with such Seller.
3. Sellers will be subject to review on a periodic basis to ensure compliance with the Master Agreement, FHLBI Guidelines, this Guide, all other Program Documents, and established policies of FHLBI's Board of Directors to ensure maintenance of a satisfactory financial condition as determined by FHLBI. If a Seller does not sell loans for a period in excess of twelve (12) months, an update to this application process will be required.
4. Sellers must maintain industry standard mortgage servicing practices for all outstanding mortgages with delinquency rates that do not exceed the thresholds specified in [Section 16.2](#) of this Guide. Requests by a Seller to enter into new MCCs or MDCs may be limited or denied if the delinquency rates exceed those thresholds.
5. At all times the Seller must service the mortgages in accordance with the requirements of the Master Agreement, FHLBI Guidelines, this Guide, and all other Program Documents. The Seller may:
  - a) Subcontract with third parties for the performance of its servicing obligations only as provided in [Section 8](#) and [Section 10.2.7](#) hereof, or
  - b) Assign its servicing rights pursuant to [Section 8](#).

### 2.2.1 Notification of Changes

The Seller must send FHLBI written notice of any contemplated significant changes in its organization, including with its notice copies of any filings with, or approvals from, its regulators.

### **2.2.1.1 Changes to Corporate Authority**

If the Seller revokes in whole or in part any authority set forth in a certified Corporate Resolution delivered to FHLBI in accordance with [Section 2.3.1](#) of this Guide, the Seller must immediately deliver to FHLBI a completed Loan Acquisition System (LAS) request for User ID & Password form requesting deletion of the user's LAS user ID followed by an updated certified Corporate Resolution, as applicable. FHLBI shall not be bound by any such revocation until it receives such replacement documentation.

### **2.2.1.2 Other significant changes**

FHLBI requires written notice of, among other things, and without limitation, the following significant changes relating to the Seller:

1. The Seller must immediately notify FHLBI of each pending adverse Government Sponsored Enterprise (GSE) or other FHLBank action that affects the Seller, including any letter of reprimand, probation, suspension, withdrawal of Seller/Service approval, or fine.
2. The Seller also must disclose to FHLBI immediately if it or any of its principals become the subject of any proceedings for government debarment or HUD, Fannie Mae, Freddie Mac, or other FHLBank program exclusion.
3. Any mergers, consolidations, or reorganizations.
4. Any direct or indirect substantial change in ownership (an indirect change in ownership includes any change in the ownership of the Seller's parent, any owner of the parent, or any beneficial owner of the Seller that does not own a direct interest in the Seller).
5. Any change in corporate name.
6. Any change from a federal charter to a state charter (or vice versa).
7. A significant change in financial condition.
8. The sale of all, or substantially all, of the Seller's assets or a line of business.

If the Seller fails to perform its obligations under this section ([Section 2.2.1.2](#)), FHLBI may terminate any obligation that FHLBI may have under the Master Agreement or MCC.

### 2.2.2 Periodic Eligibility Review

The Seller must make available the following documentation as requested by FHLBI:

1. Annually, the Seller must make available its most recent financial statements (if available) to FHLBI, and, if the Seller has a parent corporation, the Seller must also deliver the parent corporation's most recent financial statements.
2. The Seller must make available a report summarizing its overall delinquency statistics for the prior year to FHLBI.
3. The Seller or its assigned Servicer or Subservicer will undergo periodic servicing audits performed by FHLBI's QCC.
4. The Seller or its assigned Document Custodian will undergo periodic document custodial audits performed by FHLBI's QCC or FHLBI staff.
5. The Seller must provide other documentation as may be necessary to satisfy FHLBI that the Seller meets, and will continue to meet, the eligibility requirements of this Guide.

## 2.3 Documentation Requirements

To be a Seller in FHLBI's MPP, each member must complete and submit the following to FHLBI unless otherwise waived:

1. Complete MPP Application.
2. QA procedures for conventional mortgages.
3. QA procedures for Federal Housing Administration (FHA) mortgages (if the member is applying to sell FHA loans to FHLBI).
4. Certificate of Insurance for each of the member's Fidelity Bond and Mortgage E&O insurance policies.
5. Servicing Questionnaire, if applicable.
6. Organizational chart showing the member and all affiliate relationships.
7. Resumes of key personnel who oversee the following functions:
  - Production
  - Underwriting
  - Secondary Market
  - Investor Delivery
  - Quality Assurance
  - Mortgage Loan Accounting
  - Mortgage Loan Servicing
8. Electronic file of a sample loan portfolio representing loans that would be submitted to FHLBI for purchase under the member's MCC, (if the member desires an MCC customized to their book of business).
9. Other information as may be requested by FHLBI.

### 2.3.1 **Additional Required Documents**

A duly authorized officer of the member must execute and submit the following documents, correct and complete in all material respects, to FHLBI:

1. Corporate Resolution(s)  
A copy of a corporate resolution in a form acceptable to FHLBI and, as applicable, an original, corporate resolution regarding change of name.
2. Master Agreement
3. Master Commitment Contract (MCC)
4. Custodial Agreement(s), as applicable
5. Consent and acknowledgement of servicing transfer, as applicable
6. Advances, Pledge, and Security Agreement, if not already on file at FHLBI
7. Representation and Warranty Agreement for acquired member assets

## 3. Commitment Process

---

### 3.1 Seller Approval Procedure

After a Seller is approved, in order to participate in MPP, a Master Agreement must be executed and, pursuant to the Master Agreement, also a Master Commitment Contract (MCC).

### 3.2 Program Documentation

#### 3.2.1 Master Agreement

The Seller must execute the Master Agreement as provided by FHLBI.

#### 3.2.2 Master Commitment Contract (MCC)

Pursuant to the Master Agreement, the Seller must execute an MCC, as provided by FHLBI. This contract establishes a best efforts agreement between FHLBI and the Seller for the Seller to sell mortgages to FHLBI. The MCC details the expected composition of the portfolio to be sold to FHLBI. This contract also includes the LRA rate (fixed or spread) and Supplemental Mortgage Insurance (SMI) rate, if any, for the mortgages to be sold.

#### 3.2.3 Mandatory Delivery Contract (MDC)

- a. Pursuant to the Master Agreement and the MCC, the Seller must execute an electronic transaction using FHLBI's Loan Acquisition System (LAS) in order to enter into an MDC. The MDC shall establish the following contract terms:
  - Contract commitment amount
  - Type of mortgage product
  - Note Rate delivery range (in 1/8% increments)
  - Purchase prices
  - Servicing spread
  - Delivery period deadline
- b. The Seller's offer to sell mortgages incorporating the contract terms identified above and FHLBI's agreement to purchase such mortgages at the applicable purchase prices established and accepted by FHLBI establishes the MDC.

### 3.3 Obtaining Prices

1. Each bond market business day, at 9:30 a.m. Eastern (EST) time, indicative pricing will be available to the Seller on FHLBI's LAS.
2. The indicative purchase prices will be quoted for mortgages with 15, 20, or 30 -year terms to maturity.
3. For each Settlement Date, the indicative purchase prices will be quoted for eligible Note Rates in 1/8% increments.
4. The Seller may select a range of Note Rates for delivery under an MDC. The range parameters will be specified by FHLBI on the MDC.
5. FHLBI may change indicative purchase prices and range parameters, or suspend accepting MDCs at any time, at its sole discretion.

#### 3.3.1 Hours during Which Contracts May Be Obtained

Purchase prices will generally be established at 9:30 a.m. Eastern (EST) time each bond market business day. MDCs for the sale of mortgages to FHLBI may be obtained during normal trading hours each bond market business day, or such other time as determined by FHLBI, at its sole discretion.

### 3.4 Delivery Contract

#### 3.4.1 Required Documentation

1. The following information must be provided by the Seller to FHLBI at the time each MDC is entered into. This information is provided to and verified through LAS:
  - a. MCC Number
  - b. Username and password information, which is tied to the Authorized Seller Representative's name, title, and telephone number in LAS
  - c. Mortgage product
  - d. Delivery period
  - e. Contract commitment amount
  - f. Note Rate range

#### 3.4.2 Mandatory Delivery Requirements

1. Prior to the Settlement Date, the Seller must electronically deliver to FHLBI mortgages that meet the requirements of the MCC, the MDC, this Guide, and documentation criteria in effect at the time the MDC was established.
2. The Seller must ensure that the mortgages are originated far enough in advance of the Settlement Date to permit any document corrections which may be necessary prior to FHLBI's purchase of the mortgages or, if allowed by FHLBI, substitution for any defective mortgages.

3. The aggregate UPB of such mortgages delivered for purchase by FHLBI may not vary from the contract commitment amount by more than the purchase variance, i.e., the greater of 1.0% of the contract commitment amount or \$10,000.
4. FHLBI reserves the right to extend or pair off any MDC not certified and delivered the day before the Settlement Date.

### 3.4.3 Defective Delivery

1. The Seller may obtain a Settlement Date extension as provided in [Section 3.4.4](#) of this Guide. If the Seller fails to deliver mortgages to FHLBI as and when required by the terms of the MDC and has not obtained an MDC extension, the Seller may pay a pair-off fee as provided in [Section 3.4.6](#) of this Guide.
2. If any mortgage received by FHLBI in connection with an MDC is not in purchasable form or does not conform to the MDC requirements, the mortgage will be deemed not to have been delivered for purposes of satisfying the Seller's obligations under the MDC. FHLBI may, at its sole and absolute discretion, reject any mortgage for purchase for any reason including, but not limited to the following:
  - a. The mortgage is a defective mortgage
  - b. Failure of the mortgage to satisfy all FHLBI Guidelines
  - c. Suspected fraud in the origination of the mortgage
  - d. A breach of any other representation, warranty, or covenant made with respect to the mortgage as stated in the Program Documents.
3. If the defects which cause the mortgage not to be purchasable are not cured on or before the applicable Settlement Date, the Seller may elect one of the following options:
  - a. Decrease the purchase proceeds, request extension of the Settlement Date, or cure the defects on or before the extended Settlement Date, all in accordance with [Section 3.4.4](#) of this Guide.
  - b. Pay a pair-off fee as provided in [Section 3.4.6](#) of this Guide.
  - c. Replace defective loan with a Mortgage loan that meets the terms of MDC.

### 3.4.4 Settlement Date Extension

1. The Seller may extend, at the option of FHLBI, the Settlement Date for an active MDC once the Seller has determined that it will not be able to deliver the mortgages necessary to satisfy the MDC prior to the applicable Settlement Date.
2. Extensions may be requested before the applicable Settlement Date by contacting FHLBI.
3. If an extension is granted, the purchase price, as established in the MDC, may be adjusted based upon current prices, except in the following circumstance:

If at the time the Seller requests an extension, FHLBI is no longer publishing a price for mortgages having a Note Rate the same as the Note Rate of mortgages provided in the MDC, the purchase price shall be the lower of:

- a. an offer price calculated by FHLBI with reference to the prices and rates that it is publishing in accordance with [Section 3.3](#) of this Guide for mortgages with the same characteristics on the bond market business day that Seller requests extension of the Settlement Date that results in the same yield to FHLBI as the purchase price initially established in the applicable MDC or
- b. the purchase price initially established in the applicable MDC reduced based upon current market prices.

Confirmation of the extension will be transmitted via email to the Seller.

4. FHLBI shall not be required to purchase mortgages not delivered prior to the Settlement Date; however, the Seller may pay FHLBI a pair-off fee as provided in [Section 3.4.6](#) of this Guide.

#### 3.4.5 Mandatory Delivery Contract Cancellation

1. Prior to the delivery of all of the mortgages that the Seller is required to sell under an MDC, the Seller may cancel an MDC by contacting FHLBI and indicating the specific reasons for cancellation.
2. FHLBI will calculate a pair-off fee based upon the amount of the MDC that is not filled.

#### 3.4.6 Pair-off Fees

1. The Seller may pay FHLBI a pair-off fee if the sum of the aggregate UPB of the mortgages delivered for sale to FHLBI prior to the Settlement Date is less than the sum of the aggregate UPB of mortgages required to be delivered to FHLBI under the applicable MDC, less the amount equal to the purchase variance under the applicable MDC.
2. A mortgage received by FHLBI will not be deemed to be delivered to FHLBI for purposes of this Guide if the mortgage meets any of the following conditions:
  - a. Not in purchasable form
  - b. Defective mortgage
  - c. Does not satisfy the terms or other requirements of the applicable MDC, this Guide, or any other Program Documents
  - d. Suspected of fraud in its origination
  - e. In breach of any representation, warranty, or covenant made with respect to the mortgage as stated in the Program Documents.
3. The pair-off date for an MDC is the earlier of:
  - a. Date of notification from Seller of MDC cancellation
  - b. MDC Expiration Date
4. The pair-off fee shall be debited from the Seller's Cash Management Services (CMS) account on the applicable Settlement Date.

5. Pair-off Fee Calculation example:

<b>Pair-Off Fee Calculation</b>	<b>Pair-Off Fee</b>
Lowest MDC Note Rate, current 7 day offer price	101.95784%
Pair-Off Adjustment (add 1/32)	0.03125%
Adjusted Pair-Off Price	101.98909%
Original MDC Amount	\$256,000.00
Variance allowance	\$10,000.00
Settlement balance of loans delivered	\$181,000.00
Amount to be paired-off (original amount – variance – loans delivered)	\$65,000.00
Lowest MDC Note Rate, price at Commitment	101.35761%
Price difference (adjusted Pair-Off Price – Commitment Price)	0.63148%
Pair-Off Fee due (Amount to be paired-off multiplied by the price difference)	\$410.46

### 3.4.7 Increasing the MDC Amount

The Seller may request an MDC increase to accommodate a loan change or loan substitution. FHLBI reserves the right to assess fees or impose price adjustments based on current market prices if the request is allowed.

## 4. Sale Requirements

---

### 4.1 General

#### 1. Compliance with Guidelines:

- a. After executing an MDC, the Seller assembles the mortgages that it has originated or acquired.
- b. The Seller must ensure that all mortgages are legal, valid, binding, and enforceable obligations of the respective mortgagors; that all mortgages the Seller originated or acquired are in compliance with FHLBI Guidelines, this Guide, the Master Agreement, and the other Program Documents.

#### 2. Custodians, Escrow Accounts, and Data Transmission

Before mortgages can be sold to FHLBI, the Seller must establish required custodial relationships and provide detailed loan data to FHLBI through LAS.

#### 3. Third Party Acquisitions

If the Seller sells mortgages to FHLBI which were acquired from third party lenders, the Seller must meet each of the following requirements:

- a. Make all of the representations, warranties, and covenants set forth in this Guide to the same extent as if the Seller were the originator of the mortgages.
- b. Own the third party originated mortgages as of the date such mortgages are delivered to FHLBI for purchase.
- c. Meet all requirements of [Section 6.3.6](#) for third party originated mortgages.

### 4.2 Underwriting

1. The Seller will be given delegated underwriting authority and will not be required to submit credit and loan documentation packages to FHLBI prior to purchase.
2. Mortgages must be underwritten in accordance with this Guide or the applicable GSE Guidelines to the extent set forth in [Section 6](#) of this Guide.

### 4.3 Loan Data Transmission to FHLBI

1. The Seller must electronically transmit loan data related to the mortgages delivered under an MDC to FHLBI via LAS prior to the Settlement Date.
2. The Seller shall provide transmitted loan data that includes the data fields and format specified by FHLBI; as such format may be amended from time to time.

## 4.4 Custodial Accounts

1. The Seller must establish separate custodial accounts with a Funds Custodian to hold Principal & Interest (P&I) funds and escrow payments for the mortgages.
2. The Seller or an affiliate of the Seller may act as the Funds Custodian provided it meets the applicable eligibility requirements specified by FHLBI as provided in [Section 11](#) of this Guide.
3. Each Funds Custodian must execute a P&I Custodial Agreement and an Escrow Custodial Agreement.

### 4.4.1 Document Custodian

The Document Custodian is responsible for the following, as more specifically detailed in the Document Custodian Manual (Appendix A):

1. The Seller must have a Document Custodian that has entered into a custodial agreement with FHLBI and is qualified.
2. The Seller shall deliver each Custody File to the Document Custodian.
3. The Document Custodian shall review the custody files against the Schedule of Mortgages prepared and delivered by the Seller as part of an.
4. The Document Custodian shall certify to FHLBI that the Custody Files accurately represent the mortgages described in the applicable Schedule of Mortgages and are in the Document Custodian's control. An Initial Certification will be performed by the Document Custodian on or before the applicable Settlement Date.
5. The Document Custodian shall maintain control of the Custody File at all times while the mortgage is owned by FHLBI.
6. The Seller or an affiliate of the Seller may act as the Document Custodian provided it meets the eligibility requirements and provided that it is approved as such by FHLBI.

### 4.4.2 Custody File

The Seller shall deliver to the Document Custodian by the applicable date all documents required by Appendix A for inclusion in a Custody File for each mortgage. Upon receipt and following review of all Custody Files, the Document Custodian will make the following certification:

1. Initial certification  
On or before the applicable Settlement Date, the Document Custodian shall certify that the Custody File contains all the documents required for Initial Certification as outlined in Appendix A.
2. Document Custodian Certification Process  
In accordance with the Custodial Agreement and the Document Custodian Manual, the Document Custodian must review and examine all documents that the Seller delivers to ensure that all required documentation is received and conforms to FHLBI requirements.

If the documentation is complete and acceptable as required for Initial Certification, the Document Custodian shall certify the documentation in LAS or provide the applicable Certification Form (Exhibit A of the Custodial Agreement) for Initial Certification.

#### 4.5 Settlement with FHLBI

1. Following Initial Certification, the Funding Schedule will be available in LAS.
2. On the Settlement Date, FHLBI will purchase a 100% ownership interest in each mortgage transmitted to FHLBI and listed on the Funding Schedule.
3. FHLBI will pay the purchase proceeds for the mortgages on the applicable Settlement Date by crediting the Seller's CMS account.
4. Unless otherwise provided for in [Section 8](#) or [Section 10](#) of this Guide or other Program Documents, the Seller will retain the servicing responsibility for the mortgages while the mortgages are owned by FHLBI.
5. Pursuant to [Section 19](#), a third party whose participation interest has been notified to the Seller via an MCC, MDC, or separately, the settlement contemplated by this section ([Section 4.5](#)) shall be deemed to take effect as a sale by the Seller, and a purchase by each of FHLBI and such third party or third parties (for these purposes, the participants), of a participation interest in each mortgage listed on the Funding Schedule in the percentages so notified to the Seller.

The sum of all participation interest percentages in each mortgage will be 100%. The Seller shall also be deemed to have assigned the bare legal title to each such mortgage to FHLBI for itself and on behalf of each other participant in accordance with their respective interests, automatically and immediately after the sale of such participations.

For all purposes of the Master Agreement, where such a sale and purchase of participations has occurred, the Seller shall continue to conduct business with FHLBI, however all rights of FHLBI will be held by it for the benefit of FHLBI and each other participant in accordance with their respective interests.

## 5. Mortgage Purchase

---

### 5.1 Mortgage Criteria

1. FHLBI will purchase mortgages underwritten to this Guide as specified in [Section 6](#) subject to the limitations specified in this section ([Section 5.1](#)) and the applicable MCC.
2. **Mortgage Amount**

FHLBI will purchase conventional mortgages, the maximum original principal amounts of which do not exceed the standard maximum original principal amount allowed by GSEs for the area in which the property is located.
3. **Mortgage Term**

The maximum mortgage term is 30 years beyond the date of the first monthly payment. The minimum mortgage term is five years.
4. **Loan to Value (LTV) Ratios**

The maximum LTV and combined LTV ratio for a mortgage is 95/90%, subject to the limitations described in [Section 6](#).
5. **Date of First Payment**

The date of the first scheduled monthly payment of principal and interest must be no more than 120 days from the Note Date to the Settlement Date, unless specifically authorized by FHLBI.
6. **Amortization**

Each mortgage must commence principal amortization no later than the month immediately following the month in which the mortgage is purchased by FHLBI.
7. **Delinquency Status**

If either of the following occur as of the Settlement Date, FHLBI shall not purchase the mortgage:

  - a. the mortgagor has failed to make a payment due under the mortgage within 30 days after such payment is due during the twelve (12) months prior to the Settlement Date
  - b. if any payments are past due on the Settlement Date

Any such mortgage shall be deemed a defective mortgage.

## 8. Repurchases

FHLBI has the right to require the Seller to repurchase any mortgage under the following circumstances:

- a. The Custody File is deficient with respect to the parameters set forth in the Document Custodian Manual.
- b. A claim with respect to a mortgage under the Private Mortgage Insurance (PMI) or SMI policy has been denied resulting from a breach by the Seller or the Servicer, as applicable, of any representation, warranty, or covenant made in this Guide or any other program document. A Repurchase Demand will be made to the Seller for any loan which the SMI Provider has rescinded SMI coverage.
- c. Any circumstance occurs that constitutes a breach of any of the representations, warranties, or covenants made with respect to the mortgage as stated in the Program Documents.

## 5.2 Purchase Proceeds

1. Following Initial Certification, the Funding Schedule will be available in LAS, which discloses the allocation of the Purchase Proceeds to principal, interest, and fees for each mortgage sold to FHLBI. The Seller must verify the accuracy of the data contained in such Funding Schedule and promptly report any discrepancies to FHLBI.
2. The Purchase Proceeds remitted by FHLBI to the Seller in connection with the purchase of a mortgage will equal the product of the applicable purchase price stated in the MDC and the scheduled UPB on the cut-off date immediately prior to the Settlement Date, increased or decreased by accrued interest on the mortgage during the month of purchase, as described directly below.

The following paragraphs describe the calculation of purchase proceeds for mortgages sold to FHLBI minus any applicable fees:

### a. UPB Purchased

- i. The scheduled UPB against which the purchase price is applied will be the scheduled UPB of the mortgage at the close of business on the first day of the calendar month in which the Settlement Date occurs.
- ii. The Seller shall be entitled to retain all scheduled principal and interest payments due on the mortgage on or before the Settlement Date.
- iii. Payoffs, curtailments, and other unscheduled payments made by mortgagors after the cut-off date immediately prior to the Settlement Date will be the property of FHLBI.

**b. Accrued Interest**

- i. FHLBI is entitled to receive the principal and interest payment scheduled to be received on the first day of the month in the month immediately following the Settlement Date.
- ii. FHLBI will pay the Seller accrued interest at the Pass-Through Rate from and including the first day of the calendar month following the cut-off date through and including the day prior to the Settlement Date. All calculations of accrued interest shall be made on the basis of actual days elapsed in a 360-day year.

For Example:

Cut-Off Date	January 31
Settlement Date	February 25

Seller will pay FHLBI accrued interest if the first payment due date on the loan is the month after the month immediately following the Settlement Date.

- a. Purchase price is calculated on scheduled UPB at close of business on February 1; FHLBI will pay accrued interest at the Pass-Through rate from and including February 1 through and including February 24.
- b. Seller retains all scheduled payments of principal and interest due on or before January 31; all payoffs, curtailments, and unscheduled payments received after January 31 are property of FHLBI.

## 6. FHLBI Underwriting Guidelines

---

**Attention:** FHLBI will accept any loan that has been underwritten in accordance with FHLBI’s underwriting guidelines contained in this section ([Section 6](#)) provided that the loan also meets criteria established in the applicable MCC.

### 6.1 Limitations & Restrictions

In addition to the underwriting guidelines provided in this section ([Section 6](#)), the following limitations and restrictions are highlighted:

#### 6.1.1 Partnerships and Corporations

Mortgages to general partnerships, limited partnerships, and corporations are not eligible for FHLBI purchase.

#### 6.1.2 Manufactured and Mobile Homes

FHLBI will not purchase manufactured or mobile home loans. Refer to [Section 6.5.5](#) for a detailed definition of manufactured and mobile home properties.

#### 6.1.3 Borrower Eligibility

FHLBI will not accept loans made to a borrower(s) that is a director, officer, employee, attorney or agent of the Seller or FHLBI, provided they are personally liable for the obligation.

#### 6.1.4 Other Eligibility Requirements

FHLBI will not accept Life Estates.

Rate Concessions and Buy Downs are not eligible for purchase.

Escrow Holdbacks are generally not permitted (except grade and seed), unless approved by FHLBI.

### 6.2 Maximum Age of Documentation

Maximum age of documentation (the Note Date for existing homes and the Effective Date of Permanent Financing/Conversion to Permanent Financing for New Construction) should follow Agency Guidelines. See [Section 6.6.1](#) of this Guide for further clarification of age of appraisal guidelines.

Property Type	Maximum Age of Appraisal Report	All Other Documentation (including Credit Reports)
Existing Home	120 Days	120 Days
New Construction	120 Days	120 Days

**Note:** The exception to the above table is as follows:



Single-closing transactions with credit and appraisal documents dated more than 4 months but not exceeding 18 months old at the time of the conversion to permanent financing are eligible for delivery if all of the following conditions were met at the time of the original closing of the construction loan:

- The documents were dated within 120 days of the original closing date of the construction loan.
- The LTV, CLTV, and HCLTV ratios do not exceed 70%.
- The borrower has a minimum credit score of 700.
- The loan was underwritten through DU and received an Approve/Eligible recommendation. Manual underwriting is not permitted.

### 6.3 Eligible Loans

In addition, FHLBI requires all loans sold into MPP to meet the definition of QM loans, as defined in applicable CFPB regulations, and to meet the CFPB's Safe Harbor QM requirements. FHLBI requires all loans to meet the Ability-to-Repay (ATR) rules established by the (CFPB). The ATR rule requires that a reasonable, good faith determination is made before or when the loan is consummated, and that the borrower has a reasonable ability to repay the loan.

The eight underwriting factors established by the CFPB must be considered, and the loan must be documented accordingly. These factors include analysis and review of the borrower's:

1. Current or reasonably expected income or assets
2. Current employment status
3. Monthly payment on the covered transaction
4. Monthly payment on any simultaneous loan
5. Monthly payment for mortgage-related obligations
6. Current debt obligations, alimony, and child support
7. Monthly debt-to-income ratio or residual income
8. Credit history

All mortgages are eligible for property types listed in this section ([Section 6.3](#)).

#### 1. Property Types

- Single family, detached residences (including modular housing). Properties with acreage above 5 acres and no more than 40 acres must meet requirements outlined in [Section 6.6.3](#) of this Guide. Acreage in excess of 40 acres requires prior approval by FHLBI.
- Two, three, and four-family residences
- Planned Unit Developments (PUDs)
- Low-rise and high-rise condominiums

#### 2. Occupancy Types

- Owner occupied
- Second homes

### 3. Maximum Original Loan Amounts

The maximum loan amounts eligible for purchase by FHLBI are based upon the conforming loan limits listed below, subject to periodic review. In addition, FHLBI will allow High Balance loans as designated by maximum loan amounts allowed per county.

The MPP Department will follow the loan amounts published in accordance with the terms of the Housing and Economic Recovery Act of 2008 per county.

Number of Units	Maximum Original Loan Amount	Properties in Alaska and Hawaii
1	\$417,000	\$625,500
2	\$533,850	\$800,775
3	\$645,300	\$967,950
4	\$801,950	\$1,202,925

#### 6.3.1 Maximum Loan to Value (LTV)

1. LTV is calculated using the lesser of the sales price (total acquisition cost for new construction) or appraised value of the property.

Property Type	Maximum LTV
1 Unit	95%
2 Units	85%
3-4 Units	75%

2. For loans with financed PMI premiums, the base loan amount plus the financed PMI premium may not exceed 95% of the property value.

#### 6.3.2 Maximum Combined Loan to Value (CLTV)

1. CLTV is the ratio of the UPB of all liens secured by the property—including the first mortgage, junior liens (including soft seconds), and financed PMI premium (if applicable)—to the lesser of the sales price or appraised value of the property.
2. The maximum CLTV for all mortgages with secondary financing is 90%.
3. If secondary financing includes a Home Equity Line of Credit (HELOC), the disbursed and outstanding portion of the HELOC must be used in determining the CLTV. In addition, the total of the first mortgage balance plus the full HELOC limit may not exceed 90% of the property value.

#### 6.3.3 Escrow Accounts

All mortgages with an LTV greater than 80% are required to have escrow accounts, and should be held in accordance with [Section 11.3.3](#) of this Guide (with the exception of properties in California, where escrow waivers are permitted up to 89.99% LTV).

#### 6.3.4 Loan Amortization Period

Mortgage payments must fully amortize the principal balance of the mortgage over five years to a maximum of 30 years.

#### 6.3.5 Fixed Rate, Level-Payment Mortgages

Mortgage loans must provide for fixed rate, level-payment principal and interest payments that do not change for the life of the loan and must:

- Fully amortize over the remaining term to maturity, with the original maturity not to extend more than 30 years, and
- Have no potential negative amortization, rate concessions (buy-downs), or graduated-payment mortgage (GPM) features.

#### 6.3.6 Third Party Origination (TPO)

Sellers that acquire loans from unaffiliated TPOs for sale to FHLBI must have prior approval and meet the following requirements:

1. Seller must have established policies and procedures regarding the seller's due diligence evaluation of the TPO that includes:
  - Most recent financial statements
  - Current licenses
  - Resumes of principal officers and underwriting personnel
  - TPO's Quality Control procedures which allow Seller to determine if the party and its originations comply with the Seller's standards for quality.
  - Results of background checks for principal officers and the TPO's hiring procedure for checking all employees, including management, involved in the origination of mortgage loans against the following:
    - U.S. General Services Administration (GSA) Excluded Parties List
    - HUD Limited Denial of Participation List (LDP List)
    - Federal Housing Finance Agency (FHFA) Suspended Counterparty Program (SCP) List
2. Seller must perform oversight and monitoring of TPO loans for verification that the TPO loans meet the Seller's and MPP's underwriting standards and compliance with applicable laws and regulations.
3. Seller must specify the loan is originated by a TPO in LAS when delivered to FHLBI.
4. All TPO loans must have most recent 24 month executed 4506-T tax transcripts. Transcripts must be obtained for all income types used in the underwriting process (personal and business, if applicable). If tax returns were required in the underwriting of the loan, the lender must obtain transcripts for the same tax years as documented by the borrower's tax returns. The Seller must reconcile the transcript information received from the IRS with the income documents in the loan file.

- All TPO loans with LTVs/CLTVs greater than 80%, a minimum of 5% of the funds invested in the transaction must be from the borrower's own funds.

### 6.3.7 Private Mortgage Insurance (PMI) Requirements

- All mortgages with an LTV greater than 80% are required to have PMI issued by a private mortgage insurer that, as of the delivery date, is at least AA- rated by a Nationally Recognized Statistical Rating Organization (NRSRO) or is an acceptable or approved insurer for Fannie Mae and/or Freddie Mac. If the PMI provider is suspended or removed from Fannie Mae and/or Freddie Mac's approved lists, the PMI provider will no longer be approved for FHLBI.
- The PMI must be in full force and effect as of the delivery date. PMI coverage must not be subject to any exclusion besides those exclusions stated in the PMI's master policy. Coverage must run to the benefit of FHLBI.
- The PMI must remain in force until canceled in accordance with the requirements of [Section 10](#) of this Guide or pursuant to applicable law. The Seller must warrant that the mortgagor has been given all disclosures required by law, including, but not limited to, the Homeowners Protection Act of 1998 (HPA), relating to the terms on which mortgagor-paid PMI may be canceled.
- PMI coverage must continue to be carried with the PMI provider that insured the mortgage when it was delivered to FHLBI.

FHLBI's PMI minimum coverage level requirements are as follows:

LTV	Loan Term Greater Than 20 Years	Loan Term Less Than or Equal to 20 Years
90.01%-95.00%	30%	25%
85.01%-90.00%	25%	12%
80.01-85.00%	12%	6%

FHLBI will only accept reduced PMI upon automated underwriting recommendation by either Fannie Mae's Desktop Underwriter (DU) or Freddie Mac's Loan Prospector (LP) and LTV's of 90% and below.

- For a Conventional mortgage, the Seller normally must have possession of the PMI Certificate at the time the mortgage is delivered to FHLBI. However, some MIs issue original PMI Certificates by facsimile or email transmissions.
- FHLBI accepts lender paid PMI, provided that the premium is paid at the time of the loan closing and not from the monthly remittance.

#### 6.3.7.1 PMI Cancellations

PMI cancellations are permitted in accordance with GSE Guidelines. Cancellation and termination provisions apply only to residential mortgage transactions for which the borrower pays the PMI.

**Note:** The provisions do not apply to loans for which someone other than the borrower makes the payments.

#### Automatic Terminations

A Servicer must automatically terminate PMI for residential mortgage transactions on the earliest date that both:

1. The principal balance of the mortgage is first scheduled to reach 78% of the original value of the secured property (based solely on the initial amortization schedule, in the case of a fixed-rate loan, or on the amortization schedules, in the case of an adjustable-rate loan, regardless of the outstanding balance); and
2. The borrower is current on mortgage payments.

#### Borrower Requested-Original Property Value

A borrower may initiate cancellation of PMI coverage by submitting a written request to the Servicer. The borrower must have an acceptable mortgage payment record which is current when termination is requested, no payment which is 30 or more days past due in the last twelve (12) months, and no payment which is 60 or more days past due in the last 24 months.

Servicer actions are required when any of the following applies:

1. The principal balance of the loan:
  - Is first scheduled to reach 80% of the original value (regardless of the outstanding balance), based on:
    - The initial amortization schedule (in the case of a fixed-rate loan).
  - Reaches 80% of the original value based on actual payments.
2. The borrower has good payment history.
3. The borrower satisfies any requirement of the mortgage holder for
  - a. Evidence of a type established in advance that the value of the property has not declined below the original value and
  - b. Certification that the borrower's equity in the property is not subject to a subordinate lien.

#### Borrower Requested-Current Property Value

A borrower may initiate cancellation of PMI coverage by submitting a written request to the Servicer. The borrower must have an acceptable mortgage payment record which is current when termination is requested, no payment 30 or more days past due in the last twelve (12) months, and no payment 60 or more days past due in the last 24 months.

1. Cancellations using current appraised value that are seasoned less than 2 years must be documented with a new interior/exterior appraisal, proof improvements have been made to the property that resulted in an increase in property value, and the mortgage balance must reach 75% of the current property value.

2. Cancellations using current appraised value that are seasoned 2 to 5 years must be documented with a new interior/exterior appraisal and the mortgage balance must reach 75% of the current property value.
3. Cancellations using current appraised value that are seasoned greater than 5 years must be documented with a new interior/exterior appraisal and the mortgage balance must reach 80% of the current property value.

### 6.3.8 Rate-and-Term Refinance Mortgages

1. Rate-and term refinance mortgages are mortgages that use all proceeds to pay off the existing first mortgage on the subject property. When the mortgage being refinanced was a short term refinance mortgage loan that combines a first mortgage and a non-purchase money subordinate mortgage into a new first mortgage or any cash out refinance within the last six (6) months, it must be seasoned for at least 180 days (the Note Date of the mortgage being refinanced must be at least 180 days prior to the Note Date of the 'no cash-out' refinance mortgage).
2. Closing costs, including pre-pays, may be included in the new loan balance, provided they are reasonable and customary for the market.
3. Cash back to the mortgagor(s) or any other payee may not exceed the lesser of either 2% of the new refinance Mortgage or \$2,000.
4. To be eligible for purchase, refinance mortgages must meet FHLBI's LTV and loan amount limits and FHLBI's CLTV limits outlined in this section ([Section 6](#)).
5. Proceeds of refinances that are being used to pay off a junior lien (home equity line of credit, second mortgage, etc.) are eligible for FHLBI purchase as a rate and term refinance, provided:
  - a. The LTV and CLTV are based on a current Uniform Residential Appraisal Report (URAR) appraisal or other acceptable alternative.
  - b. The note amount of loans with financed PMI premiums does not exceed 95% of the property value.
  - c. Payoff of a Junior Lien is acceptable under the following scenario:
    - i. The Junior Lien was originated as a Purchase Money Second Mortgage (seller or institutional financing) with the first and second lien recorded simultaneously.

### 6.3.9 Cash Out Refinances

A Cash out Refinance is a loan with proceeds that exceed the outstanding principal balance of the existing liens plus reasonable and customary closing costs. Maximum CLTV for Cash out Refinances is 80% unless otherwise indicated in the MCC into which the loan will be delivered. Each Cash out Refinance must be underwritten to meet the following requirements and will be assessed the appropriate fees as outlined in Appendix B, which will be deducted from the purchase price:

- If the property has been owned by the borrower for less than twelve (12) months, the LTV is based on the lesser of the original purchase price plus the documented cost of improvements or the current appraised value.



### 1. Occupancy:

The property must be occupied by the borrower as his or her primary residence or a second home as provided in [Section 6.5.7](#). Non-occupant co-borrowers are not allowed for cash out refinances.

### 2. Property:

Must be single family detached or attached one-unit (Max 75% LTV for 2 to 4 unit properties). No manufactured homes, co-ops, or investment properties can be sold to FHLBI as Cash out Refinances. Properties that have been listed for sale within the last twelve (12) months are not eligible.

### 3. At least one borrower must have been on the title to the subject property for at least six (6) months prior to the Note Date with the following exceptions:

- a. The seller documents that the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership).
- b. All of the delayed financing requirements listed below are met. Borrowers who purchased the subject property within the past six (6) months (measured from the date on which the property was purchased to the disbursement date of the new mortgage loan):
  - i. The original purchase transaction was an arms-length transaction.
  - ii. The borrower(s) must meet borrower eligibility requirements as defined in [Section 6.4](#) of this Guide.
  - iii. The original purchase transaction is documented by a HUD-1 Settlement Statement/Closing Disclosure CD) statement, which confirms that no mortgage financing was used to obtain the subject property. (A recorded trustee's deed [or similar alternative] confirming the amount paid by the grantee to trustee may be substituted for a HUD-1/CD if a HUD-1/CD was not provided to the purchaser at time of sale.) The preliminary title search or report must confirm that there are no existing liens on the subject property.
  - iv. The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).
  - v. If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the HUD-1/CD for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property.

Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction (Funds received as gifts and used to purchase the property may not be reimbursed with proceeds on the new mortgage loan).

- vi. The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV/CLTV ratios for the cash-out transaction based on the current appraised value).
- vii. All other cash-out refinance eligibility requirements are met and cash-out fee is applicable.
- viii. Must be primary owner occupied. Second homes are not eligible for this exception.
- ix. Maximum CLTV for Cash Out Refinances is 80% (75% max for High Balance loans with AUS approval. AUS ineligible or manual underwrite not allowed for cash out on high balance loans) unless otherwise indicated in the MCC into which the loan will be delivered.

#### **4. Credit:**

In addition to credit score requirements, credit history must include:

- a. A Qualifying Indicator Score as defined in [Section 6.4.2](#) of this Guide.
- b. No bankruptcy, foreclosure, Short Sale, restructured mortgage loans or Deed-in-Lieu in the last seven years.

#### **6.3.10 Purchase Money Mortgages**

1. Purchase money mortgages are those that use the proceeds to pay the property seller.
2. For purchase money mortgages, the value of the property is the lesser of the current appraised value or sales price.

#### **6.3.11 Pay Off Land Contract**

1. When the proceeds of a mortgage loan are used to pay off the outstanding balance on an Installment Land Contract (also known as contract or bond for deed) that was executed within the twelve (12) months preceding the date of the loan application, FHLBI will consider the mortgage loan to be a purchase money mortgage loan.
2. The LTV ratio for the mortgage loan must be determined by dividing the original loan amount by the lesser of the total acquisition cost (defined as the purchase price indicated in the land contract, plus any costs the purchaser incurs for rehabilitation, renovation, or energy conservation improvements) or the appraised value of the property at the time the new mortgage loan is closed. The expenditures included in the total acquisition cost must be fully documented by the borrower.
3. When the installment land contract was executed more than twelve (12) months before the date of the loan application, FHLBI will consider the mortgage loan to be a Rate/Term Refinance. In this case, the LTV ratio for the mortgage loan must be determined by dividing the original loan amount by the appraised value of the property at the time the new mortgage loan is closed.
4. Cash-out refinance transactions involving installment land contracts are not eligible for delivery.

## 6.4 Borrower Eligibility

Borrower eligibility is established by meeting the following criteria below:

1. Only loans to natural persons and certain trusts are eligible for purchase by FHLBI.
2. Borrowers must meet the minimum state age requirements governing ownership of real estate and must have the legal capacity to contract for a mortgage.
3. Intervivos revocable trust
  - a. FHLBI will purchase mortgages where the borrower is an inter vivos revocable trust.
  - b. To be eligible for an inter vivos revocable trust, the following criteria, among others, must be met:
    - i. The primary beneficiary(ies) of the trust must be a natural person(s) who established the trust.
    - ii. The income and assets of at least one primary beneficiary will be used to qualify for the mortgage. That beneficiary will occupy the property and become personally liable on the note as Cosigner or Guarantor and acknowledge the mortgage.
    - iii. The trust must be established by a written document. The Seller must review:
      - The trust agreement for the inter vivos revocable trust and the Seller must determine that the beneficiary(ies) has retained the power to revoke or amend the trust. There is specific authorization for the trustee(s) to borrow money and to purchase, construct, or encumber realty.
      - There is no unusual risk or impairment of lenders' rights (such as distributions required to be made in specified amounts from other than net income).
      - The beneficiary need not grant written consent for the trust to borrow money or, if such consent is required, it has been granted in writing for purposes of the Mortgage.
      - If the trust agreement requires more than one trustee to borrow money or to purchase, construct or encumber realty, that the requisite number of trustees have signed the loan documents.
      - In addition, the Seller must review the deed conveying the Mortgaged Premises to the trustee or trust to verify that title is vested in the trustee(s) on behalf of the inter vivos revocable trust (or is vested in such other manner as is customary in the jurisdiction for inter vivos revocable trusts).
    - iv. A first lien on the property must be created by the trust. The Seller must verify that title vested in the trustee(s) on behalf of the trust (or in such other manner as is customary in the jurisdiction for inter vivos revocable trusts) does not lessen

in any way FHLBI's interest and the ability to obtain clear and marketable title to the Mortgage Premises in the event of a foreclosure of the Mortgage.

4. FHLBI will not accept loans made to a borrower(s) that is a director, officer, employee, attorney or agent of the Seller or FHLBI, provided they are personally liable for the obligation.
5. FHLBI will not accept Life Estates.

#### 6.4.1 Loans to Foreign Borrowers

##### 1. Permanent Resident Aliens:

Loans on primary residences to aliens who are lawful permanent residents of the U.S. require an Alien Registration Receipt Card 1551 (green card) or comparable documentation, and are subject to FHLBI's general loan and borrower guidelines.

##### 2. Non-Permanent Resident Aliens:

Loans on primary residences to non-permanent resident aliens are eligible for purchase by FHLBI under the following conditions:

- a. The borrower has lived and been employed in the U.S. for at least two years.
- b. The borrower has established a credit history in the U.S with a credit score supported by a minimum of three open tradelines.
- c. Loans to non-permanent resident aliens are subject to FHLBI's general loan and borrower guidelines.
- d. Funds for the down payment and closing costs must be verified through a United States banking institution and must be in US Currency.
- e. A non-permanent resident alien who does not meet the preceding criteria may be a co-borrower on a mortgage, provided the other co-borrower is either a U.S. citizen or a permanent resident alien.

#### 6.4.2 Qualifying Indicator Score – Calculation

The minimum Qualifying Indicator Score for MPP is 680. Scores below 680 require prior approval from FHLBI and must show strong compensating factors. In addition, scores below 680 may be subject to a fee.

Validating credit scores is subjective, and typically requires 3 or more tradelines to validate a credit score depending on depth of credit history and the length of time established. Although Fair Isaac Cooperation (FICO®) scores may be generated if a repository's file includes only 1 tradeline, the Seller must not use any FICO score based on fewer than 3 tradelines.

A valid credit score requires 3 tradelines that are evaluated for a minimum of twelve (12) months. Evaluated means that the credit report showed the tradeline open and active for at least a twelve (12) month period regardless of when it was open and active. The tradeline does not have to be currently open or active. Authorized user accounts are not eligible tradelines.

The method outlined below is to be used to determine the appropriate credit score for qualification and delivery fees (if applicable):

1. The score for each borrower is collected from each of the three credit repositories. The middle score is then selected for each borrower. The lower of the two middle scores is the score used to determine qualification.
2. If one borrower has only two scores and the other borrower has three scores, the lower of the two scores and the middle of the three scores should be selected. Then the lower of this pair would be the score used to determine qualification.
3. Likewise, if one of the borrowers has only one score available from the three repositories, that score would be used. For the other borrower, the rules above apply.
4. If there are more than two borrowers, the lowest score (as determined above) among the borrowers should be used for qualification.

### 6.4.3 Down Payment Sources

#### 1. Minimum Funds Investment:

- a. LTVs/CLTVs 80% or less, one-to four-unit principal residence or second home, a minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.
- b. LTVs/CLTVs Greater than 80%, one-unit principal residence, a minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.
- c. LTVs/CLTVs Greater than 80%, two-unit principal residence or second home and all third party originated loans; [Section 6.3.6](#) of this Guide. The borrower must make a 5% minimum borrower contribution from his or her own funds. After the minimum borrower contribution has been met, gifts can be used to supplement the down payment closing costs, and reserves.

#### 2. Gifts:

- a. Gifts to the borrower from an acceptable donor to be used toward the transaction are acceptable within the following parameters:
  - i. Gift funds may fund all or part of the down payment, closing costs, or financial reserves subject to the minimum borrower contribution requirements outlined above.
  - ii. Gifts from a family member who has resided with the borrower for at least the last twelve (12) months and who intends to continue to do so may be considered the same as borrower funds.
  - iii. Gift funds must be provided by a relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or a fiancé, fiancée, or domestic partner.

- iv. The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.
  - v. A gift letter with donor name, address, telephone number, and relationship to the borrower is provided from the donor stating that no repayment is required, specifies the dollar amount of the gift, and specifies the date the funds were transferred.
  - vi. Verification that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account by acceptable documentation that includes a copy of the donor's check and the borrower's deposit slip, a copy of the donor's withdrawal slip and the borrower's deposit slip, a copy of the donor's check to the closing agent, or a settlement statement showing receipt of the donor's check. When the funds are not transferred prior to settlement, the seller must document that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, or other official check.
- b. Gifts of equity to the borrower transactions are not acceptable.

**3. Pooled Savings Arrangement:**

Funds toward a down payment that come from pooled savings are acceptable if the borrower can furnish documented evidence of participation, i.e., information confirming the arrangement from the person managing the pooled savings and the depository where the funds are kept. For purposes of calculating the debt ratio, ongoing contributions by the borrower to a pooled savings arrangement should be considered debt payment.

**4. Trade-In Equity:**

Trade-in equity from any borrower-owned assets may be considered if the trade value is verified by a current appraisal or other acceptable alternative.

**5. Secondary Financing:**

Funds toward the transaction that come from secondary financing against the subject property are acceptable, provided:

- a. A minimum contribution of 5% of the funds invested in the transaction comes from the borrower's own funds, and
- b. The monthly payments on the secondary loan are included in calculating the borrower's monthly housing expense ratio; and
- c. CLTV does not exceed 90%.

**6. Borrowed Funds:**

- a. Funds invested in the transaction that come from a loan secured by a verified borrower asset other than a loan secured by the subject property are acceptable, provided the value of the asset is commensurate with the borrower's equity in the asset.

- b. The Seller should include the borrower's monthly payments on such a loan in calculating the borrower's monthly total debt ratio.
- c. Unsecured loans are not acceptable.

**7. Lease with Option to Buy payments:**

- a. In a Lease with Option to Buy situation, only the portion of the lease/rent payment in excess of market rent is acceptable as borrower down payment. The arrangement must be part of a documented pre-existing agreement.
- b. The Seller should verify the market rent and include evidence in the loan file.

**6.4.4 Interested Party Contribution Limitations**

- 1. Funds toward the transaction that come from the seller, builder, or other interested parties are acceptable within the following limits:

<b>Owner-Occupied</b>	<b>Maximum Interested Party Contribution (in excess of normal and customary costs paid by Seller)</b>
90.01%-95% LTV	3% of property value
90% LTV and below	6% of property value

- 2. Interested party contributions may be used only for normal and customary closing costs including pre-pays such as origination, commitment or discount fees, appraisal fees, title fees, etc.
- 3. Interested party contributions may not be used as part of the mortgagor’s down payment.
- 4. Sales concessions (non-realty incentives) such as furniture, automobiles and decorator allowances are acceptable; however, the value of such concessions must be deducted from the sales price when calculating the LTV and CLTV ratios for underwriting and eligibility purposes.
- 5. Loans which involve interested party contributions that exceed the maximum contribution limits must have the excess concessions deducted from the sales price when calculating the LTV and CLTV ratios for underwriting and eligibility purposes.

**6.5 Property Types**

**6.5.1 Primary Residence**

FHLBI will consider a property to be the borrower’s primary residence provided each of the following conditions are met:

- The borrower(s) intends to occupy the residence for at least six (6) months during the year.
- The property will be physically occupied by the borrower(s) within 60 days of Closing.
- The property is within a reasonable commuting distance of the applicant’s place of employment.
- The maximum LTV is 90% with a non-occupant co-borrower. The occupant borrower is required to meet the down payment requirements.

## 6.5.2 Condominium Projects

Condominium units in completed, established projects will be acceptable collateral for this program. The maximum LTV is 90%. The Seller is responsible for determining that the project is agency (FHA, Fannie Mae, or Freddie Mac) approved or meets the eligibility requirements as described in this section ([Section 6.5.2](#)).

### 6.5.2.1 Condominiums

#### 1. Established Project Review:

Established projects should meet the following criteria and are also subject to small project criteria, as applicable:

- a. The units, facilities, and common areas must be complete (including those that are part of a master association).
- b. The project is not subject to additional phasing or annexation.
- c. At least 90% of the total units have been conveyed.
- d. At least 70% of the total units are occupied as primary residences or second homes.
- e. No entity owns more than 10% of the total units.
- f. The unit owners have been in control of the homeowner's association for at least one year.
- g. The units in the project are owned fee simple.
- h. The unit owners have the sole ownership and rights to all common elements and facilities.
- i. The project is covered by the appropriate kinds of insurance as required for a condominium project (including, but not limited to, earthquake insurance as required in California).

#### 2. Limited Project Review:

Projects meeting the following criteria do not have a specified time that the unit owners have been in control of the homeowner's association, but they should meet the following criteria, as applicable:

- a. Maximum 75% LTV.
- b. 70% owner occupancy rate.
- c. Subject property is owner occupied.
- d. The loan is not subject to subordinate financing.
- e. All units and common areas are complete.

### **3. Site Condominiums:**

A detached condo is not necessarily a site condo. Site condominiums are defined as meeting all of the conditions below:

- a. Single family totally detached dwellings (no shared garages or any other attached buildings such as archways or breezeways).
- b. Encumbered by a declaration of condominium covenants or condominium form of ownership.
- c. The condominium unit consists of the entire structure as well as the site and air space, and is not considered to be common areas or limited common areas.
- d. Insurance and maintenance costs are the sole responsibility of the unit owner.
- e. Any common assessments collected will be for amenities outside of the footprint of the individual site.

While project approval is not required for site condominiums, a condo that does not meet the definition of site condo above (including detached condominiums) will require full project approval.

The URAR will be required. The Individual Condominium Unit Appraisal Report (Form 1073) is no longer required and the Condominium Rider to the Mortgage/Deed of Trust must be fully executed at Closing. Site Condominium comparable sales should be used in completing the appraisal report. If the appraiser uses comparable sales other than site condos, they must provide an explanation in the appraisal report.

### **4. Small Project Criteria:**

- a. Projects with 2, 3, or 4 units require an additional review to assure the viability and success of the project. The following areas require review:
- b. There must be a demonstrated market for projects of this size in the subject's market area.
- c. All units, common areas, and facilities (subject and any master association) must be complete
- d. All units must have separate metering
- e. No single entity may own more than one unit
- f. Arbitration controls must be in place
- g. Architectural controls must be in place
- h. The owners must pay a proportionate share of maintenance or repair costs on the common elements.
- i. No more than one unit in the project may be occupied as other than a primary residence.
- j. Minimum liability insurance coverage of \$500,000 is required.

## 5. Ineligible project types:

- a. Any project that is operated as a hotel
- b. Timeshare or segmented ownership projects
- c. Projects that permit an owner to hold title to more than one unit under only one deed or mortgage.
- d. Projects with legal non-conforming use of the land if zoning does not allow rebuilding to current density in the event of full or partial destruction.
- e. Houseboat projects
- f. Projects consisting of manufactured housing
- g. Cooperatives

### 6.5.3 Planned Unit Developments (PUDs)

1. A PUD is a development that meets all of the following characteristics:
  - a. The individual unit owners own a parcel of land improved with a dwelling. This ownership is not in common with the other unit owners;
  - b. The development is administered by a homeowner's association that owns and is obligated to maintain property improvements within the development;
  - c. Membership in the homeowner's association is automatic and non-severable; and
  - d. Payment of homeowner's assessments (dues) is mandatory.
2. Sellers are responsible for determining that the projects meet eligibility requirements as noted below:
  - c. Type E

Subject unit must be detached (project may be established or new construction) and the homeowner's association has been turned over to the unit owners.

- d. Type F

Units still under the control of the developer must meet all of the following criteria:

1. The project cannot have been created by the conversion of existing buildings
2. The project must not include any multi-dwelling units that represent the security for a single mortgage
3. All common areas must be complete
4. 50% of the total units in the project must have been conveyed or be under contract to be sold. In addition, the project must contain enough sold units to support the responsibilities of the homeowner's association. (Sales to the developer or a party with an ongoing relationship with the developer may not be counted)
5. The units in the project must be owned in fee simple
6. The unit owners must have sole ownership and the right to the use of the project facilities once control of the homeowner's association has been turned over to them
7. The project's budget must provide for replacement reserve funds

8. The project must be covered by all appropriate kinds of insurance required for a PUD project.

#### 6.5.4 Modular or Prefabricated Homes

A unit in which components are constructed entirely in an indoor controlled factory environment using conventional home floor joists, and assembled in three dimensions prior to shipment to the building site, is a modular or prefabricated home. Sections of the home conform to the same state and local Uniform Building Codes as site-framed homes and are inspected by licensed and certified third party inspectors in the factory.

Electrical wiring and plumbing may be factory-built into the walls and fully operational at the time of shipment, or may be completed on site. Two or more sections, ranging from 12-16 feet wide and up to 60 feet long, are typically combined to create a finished building. Modules, which are usually 90-95% complete when shipped to the building site, may be stacked to make two or three story single-family homes. Sections are towed to the site on flat bed trailers, placed onto the foundation, secured, and sealed. Modular or prefabricated homes should be treated as single family residences.

#### 6.5.5 Manufactured and Mobile Homes

FHLBI will not purchase Manufactured and/or Mobile home loans.

#### 6.5.6 Investment Properties

Investment Properties are ineligible and FHLBI will not purchase loans on Investment Properties.

#### 6.5.7 Second/Vacation Homes

If approved for purchase in the MCC, loans for second/vacation homes are eligible for MPP if the borrower meets all of the following conditions:

1. Owns only one unit in a project
2. Must be secured by a 1-unit property owned by an individual who is also the borrower. Must be occupied by the borrower for some portion of the year and the property must be:
  - a. In such a location as to function reasonably as a second home (i.e., remote in distance from the borrower's primary residence).
  - b. Suitable for year-round occupancy
  - c. Intended and available for the borrower's exclusive use and enjoyment
3. Is limited to one unit single family and condo properties only
4. Has at least 5% of personal funds invested in the transaction
5. Each borrower individually and all borrowers collectively must not own and/or be obligated on more than four 1 to 4 unit financed properties, including the subject property.
6. Has a minimum of two (2) months of reserves Principal, Interest, Taxes, Insurance (PITI) for the Mortgaged Premises and reserves equal to two (2) months PITI for each other financed second

- home and 1 to 4 unit investment property in which the Borrower has an ownership interest or on which the borrower is obligated; and
7. Is a U.S. citizen, permanent resident alien, or non-permanent resident alien.
  8. Purchase and Limited cash-out/no cash-out refinances max 90% LTV/CLTV (with AUS approval or manual underwrite without AUS approval). Cash out refinances are allowed up to 70% LTV with a minimum credit score of 720.
  9. Non-occupant co-borrowers are not allowed on second homes.

## 6.6 Property Appraisal Requirements

### 6.6.1 Maximum Age of Appraisal

Properties must be appraised or inspected within the twelve (12) months that precede the date of the note and mortgage. If appraisals are more than 120 days old from Note Date, regardless of whether the property was appraised as proposed or existing construction, then appraisers must perform an appraisal update which includes inspection of the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal. If the appraiser indicates the property value has declined, the lender must obtain a new appraisal for the property.

If the appraiser indicates the property has not declined in value, the lender should request the appraiser to provide an update to the appraisal, based on the appraiser's exterior inspection of the property and knowledge of current market conditions. The inspection and the appraisal update must occur within the four (4) months that precede the date of the note and mortgage. Appraisal updates can be reported via Appraisal Update and/or Completion Report (Form 1004D) or URAR.

### 6.6.2 Appraisal Requirements

The Seller represents and warrants that any appraisal conducted in connection with a single-family mortgage loan conforms to the Appraiser Independence Requirements. Seller is responsible for the accuracy and reasonableness of the appraisal report. The Appraisal must be in the Seller's name (Appraisal transfers are not allowed). A thorough review of the report should be conducted to verify that the appraiser has appropriately validated the market value and made comments and adjustments as needed.

FHLBI has adopted the Uniform Appraisal Dataset (UAD). The UAD is intended to establish a standardized response or, in some cases, more data points. Sellers are responsible for using appraisers and appraisal vendors that utilize the UAD appraisal report forms and ensure all applicable appraisals have been completed in compliance with Appendix D of the UAD Specification.

### 6.6.2.1 *Appraisal Reports*

The following URAR Reports are used to in the appraisal process:

**Uniform Residential Appraisal Report (URAR)** is used for an appraisal of a one-unit property (including an individual unit in a PUD project and an individual unit in a detached condominium project) based upon an interior and exterior property inspection. This form is not to be used to report manufactured housing or an attached condominium unit. FHLBI will not purchase manufactured housing.

**Individual Condominium Unit Appraisal Report 1073** is used for an individual condominium unit based upon an interior and exterior property inspection.

**Small Residential Income Property Appraisal Report** is used for an appraisal of a two-unit to four-unit property (including a two-unit to four-unit property in a PUD, condominium, or cooperative project) based upon an interior and exterior property inspection.

**Appraisal Update and/or Completion Report** is used for appraisal updates and/or completion reports for all one-unit to four-unit appraisal reports.

**One-Unit Residential Appraisal Field Review Report** is used for appraisal field reviews for one-unit appraisal reports.

**Two to Four Unit Residential Appraisal Field Review Report** is used for appraisal field reviews for two-unit to four-unit appraisal reports.

#### 1. **Estimated Market Value:**

The appraiser must establish the estimated market value of the property (i.e., the most probable price the property would sell for within a reasonable period of time on the open market under normal market conditions).

The method of property valuation will depend on the overall risk of the loan. In most situations, the industry's standard Fannie Mae/Freddie Mac Appraisal Forms and any required addendums, which are designed for specific property types, provide a concise format for the description and analysis of the subject property as well as an estimate of the subject's market value.

#### 2. **URAR Subject/Neighborhood Section:**

##### a. **Property Rights**

If the land is subject to a leasehold interest, the terms must be typical and customary for the market. If the terms are not typical for the market, the effect on marketability must be fully explained.

##### b. **Property Location**

Rural properties may require additional analysis due to lack of available comparables and limited utilities and services.

**c. Property Value**

A property located in a neighborhood or general market area with declining property values represents a higher risk because of the potential for a loss in borrower equity. The rate of decline is a key factor and should be included in the URAR.

**d. Demand/Supply (marketability)**

A neighborhood with an oversupply of housing units may reflect problems with marketability. This oversupply may be a neighborhood or citywide problem. The appraiser must comment on the reason for the oversupply and its effect on the value of the property.

**e. Marketing Time**

The marketing time for similar properties should be less than six (6) months. If the marketing time is longer than six (6) months, this extended marketing time requires additional comments or information.

**f. Occupancy**

High vacancy rates or an abundance of tenant occupants indicates that the neighborhood may be oriented to rental rather than owner-occupied housing.

**g. Predominant Value**

Homes that fall outside the neighborhood price range or that are in the extreme high or low end of the range (which may be higher-risk properties) must be thoroughly explained by the appraiser.

**h. Determining Market Value**

There are three methods for determining market value: the cost approach, the income approach, and the sales comparison analysis. The appraiser must reconcile the valuation methods on the report, stating the approach relied upon most heavily and the rationale for the value conclusion.

1. Sales comparison. Does the information match that on the front of the form?
2. Are the comparable properties within the subject's market?
3. Are these comparables similar to the subject in design and utility—for example, style, room count, square footage?

**i. Land Use and Land Use Change**

*Non Compatible Land Use*

A high percentage of commercial or industrial land usage for example; could negatively affect marketability. A strong residential base is important to overall neighborhood desirability. Change in land use can have a significant effect; positively or negatively on the long range value of the property. Any change in land use must be explained by the appraiser.

**j. Neighborhood Comments**

Factors that affect the marketability of the properties in the neighborhood (proximity to employment and amenities, employment stability, appeal to market, etc.) should be described. Analysis could include economic trends, location influences, and neighborhood amenities.

**k. Market Conditions**

Trends should be supported by statistical information.

**3. URAR Site Section:**

**a. Zoning compliance**

The property should be zoned as residential. *Highest and best use as improved* should be the present use. Non-residential zoning may indicate adverse influences requiring explanation. Present improvements should conform to zoning regulations. If the property is not subject to zoning or is located in a rural area, the surrounding property use needs to be compatible with residential usage.

**b. Utilities**

The source and type of all utilities should be identified. Utilities that are not typical for the area may cause the property to be high risk.

**c. Off-Site Improvements**

Private road maintenance should be identified. Further explanation may be necessary if the condition or adequacy of a private road is not typical.

**d. Drainage/Flood Hazard**

Drainage problems or the existence of a flood hazard condition should be addressed by the appraiser. Such conditions or major problems may require physical correction or flood hazard insurance.

**e. Site Comments**

Adverse site conditions that may affect the value or marketability of the property can be cause for concern. These include influences such as adverse easements, encroachments, or special assessments.

#### **4. URAR Improvements/Comments Section:**

##### **a. General**

In this section of the appraisal report or other acceptable alternative, the Seller should look for those physical features most like other similarly sized dwellings in the market area. If the characteristics are not similar, for example, a room list that is not typical for the market, or heating that is unusual or not in good condition may affect market appeal.

The appraiser must comment on the effects the nonconformity has on value and marketability. Construction components and special features should be similar to other properties in the marketplace. Amenities that do not meet market expectations may also negatively affect market appeal.

##### **b. Condition of Improvements**

The property improvements should be at least in average condition and not negatively affect either the livability or marketability of the property. Minor cosmetic deficiencies are not a major concern. The condition of the major components; for example a roof that is at the end of its usable life and in need of replacement may be an issue.

Other major components include the foundation, plumbing, electrical system, and heating system. Incurable structural factors that are not typical for the market, for example, a room list that is unusual or location of room that is not typical; may decrease the value and market acceptance of the property. Curable structural factors may be acceptable under certain conditions when properly justified. Mortgaged Premises with a URAR overall quality rating of Q6 or a condition rating of C5 or C6 are not acceptable collateral for FHLBI.

#### **5. URAR Cost Approach Section:**

##### **a. Site Value**

The Site Value should not be higher than the area norm. The proportion of site value to the value of the residence must be in line with other values in the neighborhood. A property with a site value higher than the area norm may be considered a higher-risk property.

##### **b. Estimated Reproduction Cost**

Cost per square foot should not be higher than the area norm.

##### **c. Depreciation**

The appraiser must make adjustments for physical, functional, and external depreciation when appropriate.

## **6. URAR Sales Comparison Analysis Section:**

### **a. Comparable Sales**

A minimum of three comparables are required for the market value analysis. Comparables should be similar to the subject property in size, room count, location, condition, etc. Comparable sales should generally have closed within twelve (12) months of the appraisal and comps over six (6) months must be appropriately explained by the appraiser in the report.

### **b. Location of Comparables**

The comparables must be similar to and located near the subject property, preferably within the same subdivision if resale activity is available. Comparables used outside the same subdivision must be fully explained in the appraisal analysis to show that the neighborhoods are comparable and attract the same type of borrower. The appraiser must also establish why they are a better indication of current market values in the area.

### **c. Source of Comparables**

The three comparables must be closed sales, not listings. As alternatives; listings, offers, and contracts can help support value. However, they may not accurately reflect market value, since the details of the transaction could change prior to Closing.

### **d. Adjustments**

Adjustments must be logical. The size of the adjustments indicates the extent of differences between the comparables and the subject property. Large adjustments that exceed the guidelines below must be fully explained. Large adjustments for site/view, design and appeal, quality of construction, age, or condition may be an indication that the comparables are not truly comparable. Adjustments must be consistent for all comparables.

Total gross adjustments for two of the three comparables should not exceed 25% of the sales price and total net adjustments should not exceed 15%. Individual line adjustments for two of the three comparables should not exceed 10% of the sales price. One-directional adjustments need further explanation. Property value may be inflated when all of the comparables are significantly superior or inferior to the subject property. When all of the adjustments are positive or all are negative, the valuation may be questionable.

### **e. Sales and Financing Concessions**

Sales concessions are considered as part of the seller/builder contribution. The Seller should evaluate sales concessions for their effect on the marketability of the property. Funds used toward the transaction that come from sales concessions and seller contributions in excess of the limits set forth above must be deducted from both the purchase price and appraised value.

### **f. Personal Property/Options**

Furniture, fixtures, and other personal property cannot be included in the market value of a property. Additional builder options on newly constructed properties should be reviewed carefully. For example, if the subject has \$5,000 in options, such as upgraded wall coverings,

carpeting, and built-ins, the appraiser must be careful that the costs of these items are truly reflected in the resale market. Often the options do not recapture dollar-for-dollar cost in market value. At least one comparable sale should have options or extras similar to the subject's property.

**g. Prior Sales Activity**

The appraiser must identify and describe prior sales activity for the last 36 months for the subject and the comparables. Adverse value trends need to be identified and explained.

**7. URAR Reconciliation Section:**

**a. Certification of Appraisal and Final Value**

Appraisals more than 120 days old from the Note Date for both proposed and existing construction, appraisers must perform an appraisal update which includes inspection of the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal. See [Section 6.6.2](#) for more information. The final value must reflect the most reliable sales data, not an average of the three comparables.

**b. Appraiser**

The name of the appraiser and the appraisal firm, along with the appraiser's state license or certification number, must appear legibly on the appraisal.

**6.6.3 Rural Properties**

FHLBI will accept properties up to 40 acres. The following rural properties are ineligible regardless of acreage:

- Non-residential in nature:
  - Working farms, orchards, ranches
  - Undeveloped land
  - Land development-type properties
  - Properties that are not suitable for year-round occupancy regardless of location
  - Properties that are not readily accessible by roads that meet local standards, etc.)

Properties must be residential in nature-based on characteristics of the subject property, zoning, and the present land use. In addition, for properties that exceed 5 acres, FHLBI requires:

- a. Accessible directly from public highways or via private roads that have recorded easements and shared maintenance agreements.
- b. A sufficient distance from undesirable influences that may affect value.
- c. Maximum 40 acres.
- d. Single family residential properties only. Properties with multiple houses or multiple living units are prohibited.

- e. Highest and best use must be residential single family.
- f. Refinances: Any schedule F farm income must be less than \$2,500 gross per year from activities on the subject property.
- g. No commercial agricultural land uses, such as livestock and field crops. Other traditional agricultural uses must be reasonable individual purposes only and not for sale, co-op or any other non-individual personal use.
- h. No commercial land use is permitted such as on-site businesses, repair shops, plant nursery, etc.
- i. The primary water source cannot be a stream, dug well or private pond.
- j. Properties having a land to value ratio exceeding 50% are prohibited.
- k. The subject, or any included parcel, must not have an agricultural tax abatement/reduction.
- l. The appraisal report must include comps that bracket the subject's acreage, with at least one comp within 20% of subject's acreage.
- m. Appraisal report must include an opinion of site value for the subject (point value) and must include summary support for the site value (i.e. a summary of comparable land sales or a summary of the extraction or allocation method).
- n. The site size must be typical for the area and readily marketable. Appraisal report must comment on whether the subject's acreage is typical for the area.
- o. If multiple parcels are included on one appraisal report, the following requirements must be met:
  - I. Must be contiguous.
  - II. Must have legal ingress/egress between the improved parcels.
  - III. Must be on the same deed.
  - IV. None can have a separate highest and best use (excess land).
  - V. Appraisal report must include the rationale/justification for including multiple parcels.
  - VI. Across-the-board adjustments in the same direction to all the comps for site or outbuilding/barns/other site improvements/living area/and any other valuable features must be supported by market data, which includes a summary of the supporting data and the analysis supporting the adjustments.

Appraiser must comment on whether the property is being used for agricultural purposes.

## 6.7 Automated Underwriting System (AUS) Underwriting

FHLBI will accept any loan that has been processed through Fannie Mae's Desktop Underwriter (DU) or Freddie Mac's Loan Prospector (LP) which receives a risk classification of Approve (DU) or Accept (LP) and a purchase eligibility rating of Eligible for purchase provided that, in any event:

1. The mortgagor has a credit score of not less than 680 at the time the loan is underwritten.
2. Waiting Period Requirements with re-established credit (from the completion and/or Execution Date):

Adverse Credit Item	Waiting Period Requirement
Foreclosure	7 Years
Deed-in-Lieu of Foreclosure and Pre-Foreclosure (Short Sale)	4 Years
Bankruptcy (other than Chapter 13)	4 Years from Dismissal or Discharge Date
Chapter 13 Bankruptcy	2 Years from Discharge Date OR 4 Years from Dismissal Date
Multiple Bankruptcy Filings	Not Eligible
Other significant adverse or derogatory credit information	4 Years

Restructured Mortgage Loans-24 months if the borrower(s) made a minimum of 24 consecutive months of timely mortgage payments on the restructured loan before closing on the refinance mortgage loan.

3. The housing/mortgage payments have been deemed acceptable per the AUS.
4. The loan conforms to the criteria outlined in the above sections and this section ([Section 6.7](#)).
5. The loan is eligible for purchase under the MCC it is being delivered into.
6. The loan meets the appraisal requirements set forth in [Section 6.6](#).
7. The loan is not a No Income, No Asset verification loan (NINA), a No Ratio loan, a No Doc loan, or a Stated Income loan, and the loan has been documented according to DU or LP requirements.

The loan must follow GSE/QM/[Appendix Q to Part 1026-Standards for Determining Monthly Debt and Income](#) guidelines for sources of income and documented history with a likelihood to continue for three years.

8. Borrower(s) income must be verified and validated 24 months or more. If tax returns were required in the underwriting of the loan, the seller must obtain transcripts for the same tax years as documented by the borrower's tax returns in the origination file.

A verbal or written Verification of Employment (VOE) dated within 10 business days prior to Closing will be required. A signed 4506-T form will be required at Closing.

9. The borrower's Debt To Income (DTI) ratio may not exceed 43% and must adhere to [Appendix Q to Part 1026-Standards for Determining Monthly Debt and Income](#). DTI in excess of 43% requires FHLBI approval and must have either DU/LP approve/eligible.
10. Borrower(s) must meet reserve requirements per the AUS.
11. All data pertaining to the mortgage is completed and accurate, and all data on which the underwriting decision recommended by DU or LP was based remain unchanged as of the Closing Date of such mortgage.
12. Such mortgages must be documented and closed in accordance with the requirements of DU or LP. Verification of all such data is provided with the delivered mortgage loan file and such verification complies with the requirements of DU or LP. Seller must take all appropriate action in response to the verification messages/approval conditions that appear in the Findings Report that the AUS produces with respect to the related mortgage loan application prior to the closing of the mortgage, with proper documentation in the loan file. A copy of the approval generated by LP or DU must be included in the loan file.
13. With the exception of mortgages that are otherwise eligible for delivery under the Seller's Master Agreement, mortgages receiving a recommendation from DU or LP that include as a condition to approval or acceptance any additional fees paid to Freddie Mac or Fannie Mae, credit enhancements, or other special conditions are not eligible for delivery.
14. The DU or LP decision should be entered into or transmitted through LAS, and the documentation information should be either entered into or transmitted through LAS.
  - a. Preliminary Desktop Originator (DO) findings are acceptable as long as they match the final loan terms (for borrower's with debt ratios that exceed 43%, a final DU or LP is required for an exception to be granted). Sellers using DU/LP must have final findings in the file that match the final loan terms.
  - b. The guidelines for rate/term refinances remain the same for loans utilizing both manual and automated underwriting. When using automated underwriting, loans entered in the AUS as No Cash-Out refinance (LP) or Limited Cash-Out Refinance (DU) should be coded in LAS as a rate/term refinance under the Underwriting tab, Loan Purpose.

## 6.8 Manual Underwriting

### 6.8.1 Credit Guidelines

#### 6.8.1.1 Credit Scores

1. Credit scores are one of many factors that will be utilized in loan underwriting. These scores give an indication of a borrower's credit worthiness based on their credit history and current credit accounts. A Qualifying Indicator Score is required as defined in [Section 6.4.2](#) of this Guide.
2. Borrower Credit Score Requirements:
  - All borrowers must have a valid credit score

- At least two valid scores should be obtained for each borrower
  - All borrowers must meet a minimum credit score requirement of 680. See [Section 6.7](#) of this Guide for additional clarification on the minimum credit score requirement.
3. Credit scores may be obtained from the following major credit bureaus:
- Equifax BEACON
  - Trans Union EMPIRICA
  - Experian/Fair Isaac (FICO)

### 6.8.1.2 *Credit Reports/References*

#### 1. **Traditional Credit Reports**

One of these traditional credit reports must be included in the mortgage file:

- Residential Mortgage Credit Report (RMCR) from an independent credit reporting agency.
- Minimum two-repository, in-file, merge/purge credit report.

#### 2. **Payment History**

- a. A borrower's 12-month mortgage payment history for any property owned or rental payment history for the last twelve (12) months must be verified.
- b. Validating credit scores is subjective and typically requires 3 or more tradelines to validate a credit score depending on depth of credit history and the length of time established.
  - i. **Note:** Evaluated means that the credit report showed the tradeline open and active for at least a 12 month period regardless of when it was open and active.
- c. Although FICO scores may be generated if a repository's file includes only 1 tradeline, the Seller must not use any FICO score based on fewer than 3 tradelines. A valid credit score requires 3 tradelines that are evaluated for a minimum of twelve (12) months. The tradeline does not have to be currently open or active. Authorized user accounts are not eligible tradelines.
- d. If this information is not included in the RMCR or in-file credit report, alternative credit references should be submitted with the traditional credit report.

### 6.8.1.3 *Multiple Borrowers*

In situations with multiple borrowers, evidence of established credit should be provided for each borrower whose income is being relied upon for qualification. A minimum of three open tradelines for each borrower is required consistent with FHLBI's valid credit score requirements.

#### 6.8.1.4 *Late Payments*

1. The Seller must review the number and severity of late payments to determine the borrower's ability to manage debt and regard for obligations.
2. In general, isolated instances of a late payment, particularly if not recent, will not adversely affect the underwriting decision. In such instances, underwriting judgment is required to determine whether late payments were due to a lack of borrower regard for financial obligations or outside factors beyond the control of the borrower.
3. Since the borrower's intent cannot be directly measured, the frequency and timing of late payments, why they occurred, their severity, and the size of the account balance(s) must be analyzed as indicators of borrower intent. The borrower's reasons for failure to pay as agreed must be reasonable, corrected, and unlikely to recur.

#### 6.8.1.5 *Number and Frequency of Late Payments*

FHLBI generally defines the acceptable number and frequency of late payments as follows:

<b>Obligation Type</b>	<b>Last 3 Months</b>	<b>Last 12 Months</b>	<b>Last 24 Months</b>
Housing: (Mortgage or Rent)	No lates	No lates	1 x 30 day No 60 day or beyond
Installment	No lates	1 x 30 day No 60 day or beyond	2 x 30 day 1 x 60 day No 90 day or beyond
Revolving	No lates	2 x 30 day No 60 day or beyond	2 x 30 day 1 x 60 day No 90 day or beyond

#### 6.8.1.6 *Timeliness of Payment Obligations*

1. All obligations need to be current at the time of the application.
2. These obligations must be reviewed by the Seller to determine if they have been paid on a timely basis.
3. In the event the borrower has failed to make payments as agreed, the borrower's reasons for failure to pay must be reasonable, corrected, and unlikely to recur. These reasons should be contained in a credit explanation letter and placed in the mortgage file.

#### 6.8.1.7 *Acceptable Reestablished Credit*

1. FHLBI defines acceptable re-established credit as a minimum of two accounts, documented by a traditional credit report.
2. The accounts must be open and active for the most recent 24 months and have no late payments during this period. Type and balance of the accounts will be taken into consideration.
3. Additional consideration will be given to borrowers demonstrating stable income and a savings history.

4. For borrowers who have been through credit counseling, FHLBI requires twelve (12) months of re-established credit from the conclusion of the counseling.
5. Examples of circumstances beyond the borrower's control include loss of employment, serious long-term illness, and medical bills that are not covered by insurance.

#### **6.8.1.8 Adverse Credit History**

1. The Seller should review the borrower's past credit history for the following events:
  - a. **Judgments, Tax Liens, Collections, Charge-Offs, and Repossessions**  
Generally, a single event of a past Judgment, Tax Lien, Collection, Charge-Off, Repossession, or multiple events with more than \$500 past due must be paid in full.
  - b. **Bankruptcies**  
Bankruptcies need to have been discharged at least 4 years prior to the loan application date. If bankruptcy was due to extenuating circumstances, such as medical, discharge must be two years prior to loan application.
  - c. **Foreclosures**  
Foreclosures need to have occurred at least 7 years prior to the loan application date.
  - d. **Short Sales/Deeds In Lieu**  
A Short Sale occurs when a borrower and the lender who holds the mortgage on the property agree to transfer title for less than the current mortgage obligation (including any missing payments, late fees, penalties, and advances for taxes and the like). FHLBI views short sales as similar to foreclosures, and they must have occurred at least 5 years prior to the loan application date.
2. Borrowers must provide a satisfactory written explanation for any of these credit events. The explanation should include a time-frame that matches the time of the delinquency.
3. In reaching an underwriting decision for loan files with adverse credit issues, the Seller should consider the frequency and severity of the circumstances.
4. The events should not reflect a disregard for, or mismanagement of, financial obligations.
5. Circumstances should be evaluated to determine whether the borrower has re-established acceptable credit and if the situation was beyond the borrower's control.

6. Credit Summary Documentation Requirements:

<b>Borrower</b>	<b>History/Documentation Requirements</b>
<b>All Files</b>	Borrower file must contain: <ul style="list-style-type: none"> <li>• Residential mortgage credit report (RMCR), or</li> <li>• Two-repository, in-file, merged/purged credit report, and</li> <li>• Mortgage/rental history for twelve (12) months must be verified.</li> <li>• Minimum credit score of 680</li> </ul>
<b>Borrowers with Established Credit</b>	<ul style="list-style-type: none"> <li>• Minimum three credit references</li> <li>• Three tradelines that have been evaluated for a minimum of twelve (12) months.</li> </ul>
<b>Borrowers with Non-Established Credit</b>	If four credit references cannot be documented through the RMCR or a two-repository, in-file, merged/purged credit report, FHLBI requires alternative credit sources for a total of four references. Each alternative credit source must have been open and active in the last twelve (12) months.
<b>Files with Adverse Credit Issues</b>	Cure and/or explain as appropriate.
<b>Judgements, Tax Liens, Collections, Charge-Offs, or Repossessions</b>	Must be paid in full.
<b>Bankruptcies</b>	Must be discharged four years prior to loan application or seven years for cash-out refinance. If bankruptcy was due to extenuating circumstances, such as medical, discharge must be two years prior to loan application.
<b>Foreclosures/Deed-in-Lieu/Short Sales</b>	Seven years must have passed prior to loan closing for a foreclosure and five years for Short Sale or Deed-in-Lieu. A 10% down payment is required between five and seven years since completion.

**6.8.1.1 Borrower Income Calculations**

Borrowers are required to show proof of income stability for the past two years and that the income is likely to continue for at least three years. The borrower’s debt to income ratio may not exceed 33%/43% and adhere to [Appendix Q to Part 1026-Standards for Determining Monthly Debt and Income](#).

## 6.8.2 Qualification Ratios

### 6.8.2.1 Calculations

#### 1. Monthly Housing Expense Ratio

The monthly housing expense ratio compares the borrower's projected total monthly housing expense with the borrower's total monthly income. Monthly housing expense includes the PITI payment and, if applicable, other financing and homeowners' association dues. The ratio should be calculated as follows:

<b>Monthly Housing Expense Ratio:</b>			
Total monthly housing expense	÷	Total Income	= Monthly housing expense ratio

#### 2. Total Debt Ratio

The total monthly debt ratio compares the borrower's total monthly debt with total monthly income and should be calculated as follows:

<b>Total Debt Ratio:</b>			
Total monthly debt	÷	Total Income	= Total debt Ratio

### 6.8.2.2 Total Monthly Debt Includes

1. Recurring Obligations Include:
  - All installment loans
  - Revolving charge accounts
  - Real estate loans
  - Alimony
  - Child support
  - Other continuing obligations

## 2. Debt to income Ratio Computation for Recurring Obligations

- i. The seller must include the following when computing the debt to income ratios for recurring obligations:
  - a. Monthly housing expense
  - b. Additional recurring charges extending ten (10) months or more, such as:
    - i. Payments on installment accounts
    - ii. Child support or separate maintenance payments
    - iii. Revolving accounts
    - iv. Alimony
    - v. Debts lasting less than ten (10) months must be included if the amount of the debt affects the borrower's ability to pay the mortgage during the months immediately after loan closing, especially if the borrower will have limited or no cash assets after loan closing.

**Note:** Monthly payments on revolving or open-ended accounts, regardless of balance, are counted as a liability for qualifying purposes even if the account appears likely to be paid off within ten (10) months or less.

## 3. Revolving Account Monthly Payment Calculation

If the credit report shows any revolving accounts with an outstanding balance but no specific minimum monthly payment, the payment must be calculated as the greater of:

- 5 percent of the balance; or
- \$10.00

**Note:** If the actual monthly payment is documented from the seller or the seller obtains a copy of the current statement reflecting the monthly payment, that amount may be used for qualifying purposes.

## 4. Reduction of Alimony Payment for Qualifying Ratio Calculation

Since there are tax consequences of alimony payments, the seller may choose to treat the monthly alimony obligation as a reduction from the borrower's gross income when calculating qualifying ratios, rather than treating it as a monthly obligation.

5. Borrower Liabilities: Contingent Liability
  - ii. A contingent Liability exists when an individual is held responsible for payment of a debt if another party, jointly or serially obligated, defaults on the payment.
  - iii. Application of Contingent Liability Policies
    - a. The contingent liability policies described in this topic apply unless the borrower can provide conclusive evidence from the debt holder that there is no possibility that the debt holder will pursue debt collection against him/her should the other party default.
6. Contingent Liability on Mortgage Assumptions
7. Contingent liability must be considered when the borrower remains obligated on an outstanding FHA-insured, VA-guaranteed, or convention mortgage secured by property that:
  - iv. Has been sold or traded within the last twelve (12) months without a release of liability, or
  - v. Is to be sold on assumption without release of liability being obtained.
8. Exemption from Contingent Liability Policy on Mortgage Assumptions
9. When a mortgage is assumed, contingent liabilities need not be considered if the:
  - vi. Originating seller of the mortgage being underwritten obtains, from the servicer of the assumed loan, a payment history showing that the mortgage has been current during the previous twelve (12) months, or
  - vii. Value of the property, as established by an appraisal or the sales price on the HUD-1 Settlement Statement/CD from the sale of the property, results in a loan-to-value (LTV) ratio of 75 percent or less.
10. Contingent Liability on Cosigned Obligations
  - viii. Contingent liability applies, and the debt must be included in the underwriting analysis, if an individual applying for a mortgage is a cosigner/co-obligor for any of the following:
    - Auto loan
    - Student loan
    - Mortgage loan
    - Any other obligation
  - ix. If the seller obtains documented proof that the primary obligor has been making regular payments during the previous twelve (12) months, and does not have a history of delinquent payments on the loan during that time, the payment does not have to be included in the borrower's monthly obligations.
11. Borrower Liabilities: Projected Obligations and Obligations Not Considered Debt
  - x. Projected Obligations
    - a. Debt payments, such as a student loan or balloon-payment note scheduled to begin or come due within twelve (12) months of the mortgage loan closing, must be included by the seller as anticipated monthly obligations during the underwriting analysis.

- b. Debt payments do not have to be classified as projected obligations if the borrower provides written evidence that the debt will be deferred to a period outside the 12-month timeframe.
  - xi. Balloon-payment notes that come due within one year of loan closing must be considered in the underwriting analysis.
12. Obligations Not Considered Debt
13. Obligations not considered debt, and therefore not subtracted from gross income, include all of the following:
- Federal, State, and local taxes
  - Federal Insurance Contributions Act (FICA) or other retirement contributions, such as 401 (k) accounts (including repayment of debt secured by these funds)
  - Commuting costs
  - Union dues
  - Open accounts with zero balances
  - Automatic deductions to savings accounts
  - Child care
  - Voluntary deductions

### 6.8.3 Documentation Requirements

#### 6.8.3.1 Residential Loan Application

An initial fully completed Fannie Mae 1003/Freddie Mac 65 form or other approved equivalent (hand written or typed) is used to begin the process of determining the Borrower's credit reputation. The final Form 1003/65 must be complete, legible, dated and signed at Closing by the Borrowers signing the Note.

If there is a material discrepancy between the initial and final application, the Seller must prepare a written statement explaining the discrepancy. The final application must match the verified documents.

#### 6.8.3.2 Credit Report

The Seller must obtain a written report from an independent credit reporting agency for each borrower where available. All loans require a residential mortgage credit report or a two-repository, in-file, merged/purged credit report.

The Credit Report should also include all of the following:

- Credit score
- All supplements, including public records examination
- Status of all open credit accounts listed on the loan application

### **6.8.3.3 Verification of Mortgage or Rental (VOM/R) Options**

One of the following must be included:

- A reference on a credit report
- A 12-month mortgage rating (or an acceptable alternative) required for any currently owned property and for properties owned in the past twelve (12) months
- A copy of all canceled checks for the most recent twelve (12) month period
- A 12-month rental payment history if the borrower has not had a mortgage

### **6.8.3.4 Additional Credit Information**

1. Direct verification should be included for any accounts not listed on the credit report.
2. A letter of explanation detailing significant adverse credit items should be included.
3. When the credit report indicates that recent inquiries took place, the lender must confirm that the borrower has not obtained any additional credit that is not reflected in the credit report or the mortgage application. If additional credit was obtained, a verification of that debt must be provided and the borrower must be qualified with the monthly payment.

### **6.8.3.5 Verification of Employment (VOE)**

The following must be performed as part of VOE:

1. VOEs covering the past two years work history should also include earnings for the year to date and for the prior year. Borrower(s) income must be verified and validated for a minimum of 24 months or more. A verbal or written VOE dated within 10 business days prior to Closing will be required. A signed 4506-T form will be required at Closing.
  - a. If tax returns were required in the underwriting of the loan, the seller must obtain transcripts for the same tax years as documented by the borrower's tax returns in the origination file.
2. The amount of commissions, bonus and overtime earnings, and likelihood of continuance should be verified on the VOE. A two-year average, less expenses, may be used if income has been stable and is likely to continue. If 25% or more of commissions, bonus, and overtime income is used to qualify, two years of signed tax returns and schedules are required.
3. Income from employment by a family member or by a closely held family business is acceptable as long as the borrower submits the previous two years of signed tax returns and all applicable schedules.
4. A 24-month history, verified by the employer, is required to confirm second-job income.
5. Tax returns or other independent documentation is required to confirm military entitlement income.
6. All employment gaps within the last two years should be explained satisfactorily.
7. All income must be verified in accordance with [Appendix Q to Part 1026-Standards for Determining Monthly Debt and Income](#).

#### **6.8.3.6 Verification of Deposit (VOD)**

1. Verification of funds sufficient for closing, including the borrower's minimum down payment and a minimum of two (2) months PITI cash reserves.
2. Average balance for past two (2) months listed; if not, Seller should attach the last two monthly statements.
3. The borrower should provide explanations of any significant changes in account balances or any recently opened accounts.

#### **6.8.3.7 VOD Alternative**

1. Two (2) consecutive months' depository institution statements.
2. These must, at a minimum, report the ending balances and all deposits and withdrawals.

#### **6.8.3.8 Gift Letters (if applicable)**

Gift letters must be completed in full with the following:

- Donor Name
- Address
- Relationship to borrower(s)
- Statement that no repayment is necessary
- Donor Signature

#### **6.8.3.9 Sales Contract and/or Escrow Instructions**

1. Copies of all agreements between the buyer and seller related to the property should be included.
2. All addenda should be signed by all parties.
3. Borrower should provide proof (canceled checks, deposit receipt, etc.) of earnest money payment.

#### **6.8.3.10 Cost Verification**

The Seller should verify costs for construction and home improvements with copies of contracts, paid receipts, canceled checks, etc.

#### **6.8.3.11 Appraisal**

1. FHLBI requires the Fannie Mae/Freddie Mac URAR or other acceptable alternative as described in [Section 6.6](#).
2. The appraisal report should include all of the following:
  - a. Photos of subject property, street scene, and comparables
  - b. Review appraisal (if available)
  - c. All addenda and explanations

### 6.8.3.12 Additional Documents

1. FHLBI may require additional documentation under certain circumstances.
2. Divorce Decree/Separation Agreement or Property Settlement Agreement (if applicable) to provide verification of the amount of alimony or support payments is required if the borrower is relying on the alimony or support payments as a source of income for repaying the loan, or is obligated to make the alimony or support payments.
3. Verification of the amount of child support/alimony that has been paid is required, if such income is being relied on to qualify or if borrower is obligated to pay support or alimony.
4. Seller must follow [Appendix Q to Part 1026-Standards for Determining Monthly Debt and Income](#).

## 6.9 Power of Attorney (POA)

### 1. POA Closing Documents:

May be executed via a POA provided the following conditions are met:

- a. The POA can be used for closing documents only and is not acceptable for application or credit verification documents.
- b. At least one borrower must be present at Closing, unless a face-to-face interview has been conducted with all applicants.
- c. A separate, executed POA must exist for each borrower not present at Closing.
- d. The Attorney-in-Fact must execute all closing documents at Settlement.
- e. The title company must ensure the lender is the first lien position without exception to the POA.
- f. The title company must ensure the POA has been recorded or will be recorded along with but immediately prior to the closing documents through the closing instructions.

## 2. POA Documentation Requirements:

A POA must contain the following:

- a. Authorization for the Attorney-in-Fact to perform specific functions related to real estate financing, or is specific to the subject property.
- b. A statement that the POA is in full force and effect on the Closing Date, survives subsequent disability (durable), and has to be revoked in writing, or gives a specific expiration date which survives the Closing Date.
- c. A statement of the grantor's (borrower's) name exactly as it will appear on all closing documents.
- d. Notarized signature of grantor (if executed outside the U.S., it must be notarized at a U.S. Embassy or a military installation).
- e. Recorder's stamp, if previously recorded.
- f. Must be dated no more than 180 days prior to the Closing Date.

### 6.9.1 POA Documentation Requirements

Documents may be drawn with either signature example shown below:

---

(Attorney-in-Fact's signature)

TYPED name of Attorney-in-Fact as Attorney-in-Fact for TYPED name of Borrower

---

(Borrower's name signed by Attorney-in-Fact)

TYPED name of Borrower by (Attorney-in-Fact's signature) TYPED Attorney-in-Fact's name, his/her Attorney-in-Fact

## 6.10 Property Title Requirements

### 1. First lien:

The insured loan must be a first lien or the equivalent of a first lien on an improved 1 to 4 family residential property, modular home, condominium, or PUD.

### 2. Leasehold estate (ground rent):

- a. If the property is subject to a ground lease, the terms must be typical and customary for the market.
- b. If the terms of the ground lease are not typical for the market, the effect on marketability must be fully explained.
- c. Residential improvements on leasehold interests must be legal security for a mortgage according to state statutes or governing law.
- d. The terms of the lease may not impair the first lien status of the mortgage.
- e. Generally, the term of the lease must be at least 15 years, without renegotiation of rent or lease payments during the lease term.

f. The lease must extend or be automatically renewable for a period of 10 years beyond the mortgage term.

**3. Easements or Joint Party Agreement:**

The marketability of a property may be limited by an easement or a joint party agreement covering the adjoining property, such as a common driveway or well. Such situations should be identified in the appraisal (or other acceptable alternative).

**4. Private Transfer Fee Covenants:**

The Seller shall review title to all property securing the mortgage loans to be sold to FHLBI in MPP to identify each covenant that purports to run with the land or to bind current owners of and successors in title to the property, that obligates a Transferee or Transferor to pay upon transfer of an interest in all or part of the property, a transfer fee upon a transfer of title to the property each time the property is transferred (a Private Transfer Fee Covenant).

No mortgage loans on properties encumbered by Private Transfer Fee Covenants are eligible for purchase/sale into MPP program if the Private Transfer Fee Covenant became effective on or after February 8, 2011, unless the Private Transfer Fee Covenant meets each of the following conditions:

- a. Requires payment of a private transfer fee to a nonprofit mandatory membership organization comprising owners of homes, condominiums, cooperatives, manufactured homes, or any interest in real property created pursuant to a declaration, covenant or other applicable law; or an organization described in section 501(c)(3) or section 501(c)(4) of the Internal Revenue Code (each, an Association”); and
- b. Limits the use of such fees to support maintenance and improvements to the subject property, and acquisition, improvement, administration, and maintenance of property owned by the Association, including cultural, educational, charitable, recreational, environmental, conservation or other similar activities that:
  - i. Are conducted in or protect the burdened community or adjacent or contiguous property, or
  - ii. Are conducted on other property that is used primarily by residents of the burdened community.

**5. Property Assessed Clean Energy (PACE):**

FHLBI will not purchase mortgage loans secured by properties with an outstanding PACE obligation unless the terms of the PACE program do not permit priority over first mortgage liens. Sellers are responsible for monitoring state and local law to determine whether a jurisdiction has a PACE program that provides for lien priority.

## 7. Quality Assurance (QA) Program Requirements

---

### 7.1 Introduction

The Seller must have a written Quality Assurance (QA) Plan that is in compliance with FHLBI's requirements relative to FHLBI's origination, underwriting, closing, delivery, and servicing procedures; including FHLBI's Anti-predatory Lending Policy.

One of the primary purposes of the QA Plan is to ensure that all loans originated and purchased:

- Conform to Seller policies
- Are of a quality acceptable to FHLBI
- Comply with insurer and regulatory requirements

### 7.2 Limitations & Restrictions

In addition to the QA Plan Guidelines provided in this section ([Section 7](#)), the following limitations and restrictions are highlighted:

The QA Plan must protect FHLBI from unacceptable risk; guard against errors, omissions, and fraud; and assure that prompt and effective corrective measures are taken when deficiencies are identified.

The QA Plan must monitor and evaluate the accuracy, validity, and completeness of a Seller's loan origination and servicing operations.

#### 7.2.1 QA Plan Requirements

The QA Plan must have documented standards and procedures that satisfy each of the following areas of QA compliance:

1. The QA Plan must assure that the Seller's operating procedures are revised in a timely manner to accurately reflect changes in FHLBI, institutional, insurer, and secondary market requirements. Personnel must be notified of changes and the Seller is accountable for performance failures or errors.
2. The QA Plan may be drafted to meet the following requirements set forth in this section ([Section 7](#)) or may comply with the QA Guidelines of any one of the following agencies: Fannie Mae, Freddie Mac, or FHA.
3. The QA Plan should be kept current with the Seller's operating procedures and is subject to review by FHLBI at any time during the Seller's participation in MPP at FHLBI's request.
4. Sellers need to have the execution of IRS Form 4506-T with the IRS in their written QA Plan.
  - a. For all loans reviewed through the random selection process (and for loans selected through the discretionary selection process, as applicable) the post-closing QA review must include 24 months transcripts (executed 4506-T) from the IRS.

- b. For all loans that require tax returns (i.e. self-employed), Sellers must obtain 24 months transcripts (executed 4506-T) for the same tax years as documented by the borrower's tax returns in the underwriting file.
- c. Transcripts must be obtained for all income types used in the underwriting process (personal and business, if applicable). If tax returns were required in the underwriting of the loan, the lender must obtain transcripts for the same tax years as documented by the borrower's tax returns.

### 7.3 QA Reviewers

1. The QA Plan must identify the individuals responsible for carrying out the QA Plan.
  - a. The QA reviewers must be independent of the production, underwriting, and servicing departments of the Seller; can be internal or external (third party) reviewers; and must report directly to the Seller's senior management.
  - b. QA reviewers must be knowledgeable in all areas of the Seller's production, underwriting, compliance, and servicing departments including all FHLBI, insurer, and regulatory requirements.

### 7.4 Corrective Action & Reporting

The QA Plan must identify the corrective actions and reporting that accompany the plan's execution.

1. The Seller's management must take prompt action to deal appropriately with material findings.
  - a. Finding responses must clearly identify actions to be taken, the timetable for their completion, and planned follow-up activities and recommendations.
  - b. Additionally, the Seller will notify FHLBI, in writing, within 30 days should management determine that a QA finding affects the investment quality or eligibility of a mortgage previously sold to FHLBI. This includes violations of law, false statements, patterns of non-compliance, and suspected fraud or program abuse.
2. Regular reports must be sent to senior management within 30 days of the completion of the report and within 90 days of the selection.

## 7.5 File Retention

The QA Plan must identify how files are stored and how long files are to be retained. All QA records must be kept for a minimum of three years, including all:

- Re-verifications
- Checklists
- Review results
- Procedural information
- Detailed records of any corrective action recommended and/or implemented.

These records must be made available to FHLBI upon request.

## 7.6 Sampling Requirements

The QA Plan must specify sampling requirements which include the following:

- The closed loans chosen for review must be selected on a regular basis (monthly or quarterly).
  - Each review must document how the sample size and selections were determined.
  - Each selection must reflect the entire scope of loans originated or purchased by the Seller and each selection should contain a representative sample of loans sold to FHLBI.
  - At minimum, 10% of the loans should be selected each period, or if there are more than 7,000 loans originated in a given period, then an appropriately sized statistical random sampling may be used that provides a 95% confidence level with 2% precision.
1. The following are loan characteristics and components to consider when making the selection:
    - Mortgage types
    - Program types
    - Property types
    - Appraisers
    - Real estate companies
    - Builders
    - Underwriters
    - Processors
    - Closing personnel
    - Loan officers
    - Loan to value categories
    - Refers from automated underwriting

In addition, all loans in Early Payment Default must be reviewed.

The scope of the review must be expanded when fraud or patterns of deficiencies are uncovered. The scope must be expanded by an increase in files as well as more in-depth reviews.

## 7.7 Legal Document Review

The plan must define legal document review. At a minimum, the following legal documents must be reviewed and checked for accuracy and completeness, if applicable:

1. Note
2. Riders to Note
3. Mortgage
4. Riders to Mortgage
5. Mortgage Insurance Certificate (Private or FHA)
6. Title Commitment/Policy
7. Survey
8. Affidavit of Purchaser/Vendor
9. Truth in Lending Disclosures
10. Good Faith Estimate/Loan Estimate
11. HUD-1 Settlement Statement/Closing Disclosure statement
12. Rescission Notice
13. All applicable regulatory disclosures (Regulation Z, Regulation B, RESPA, and the Flood Act)
14. All State and Local Predatory Lending Laws and FHLBI's Anti-predatory Lending Policy

Any discrepancies found during legal document review must be noted in the QA Report, which is to be reviewed by senior management so that corrections can be made.

## 7.8 Origination Document Review

The QA Plan must define the scope of the origination document review. At a minimum, the following origination documents must be reviewed for accuracy and completeness, if applicable:

1. Applications
2. Credit Report(s)
3. Verifications of Employment/Income (VOE)
4. Verifications of Deposit (VOD)
5. Loan Verifications
6. Appraisal
7. Purchase Agreement
8. Supporting Documentation
9. Required Disclosures
10. HUD LDP Lists
11. Automated Underwriting Data
12. Mortgage Delivery Data
13. Re-verifications
  - a. Written re-verifications must be attempted; however, verbal re-verifications may be completed on various documents when deemed appropriate based on the review of the information in the

file or when written re-verifications are not possible or when suspicious issues arise from the review.

- b. The re-verification must be compared to the original information in the file and any discrepancies should be noted.

#### **7.8.1 Employment and Income**

An attempt must be made to verify employment information for any/all borrowers whose income was used to qualify for the loan.

In the event that the borrower is self-employed, an unexpired IRS 4506 form or 4506T must be used to obtain a copy of the tax returns or transcripts from the IRS for comparison to the tax returns in the file. Verbal re-verifications may be completed to verify the existence of the borrower's business license, if applicable.

#### **7.8.2 Assets**

An attempt must be made to verify all deposit, gifts, or other assets when funds are needed to close and when the documentation allows for re-verification.

#### **7.8.3 Mortgage and Rent**

Written re-verifications of mortgage or rent must be performed when the mortgage or rent is not verified on the credit report.

#### **7.8.4 Credit Reports**

Unless the loan was a streamline refinance or was processed using an approved AUS, credit reports must be ordered based on the following criteria:

1. FHA loans require a three merge credit report from another source other than the original reporting agency.
2. Conventional loans must receive a three merge on 10% of the selection and an in-file credit report from a competing agency on the remaining selection.
3. The results must be compared to the original credit report for any discrepancies.
4. Re-verifications must also be attempted on alternate credit sources.

#### **7.8.5 Occupancy**

In cases where occupancy of the subject property is suspect, an attempt must be made to determine whether or not the mortgagor is occupying the property. If it is found that the mortgagor is not occupying the property as a primary residence, this finding should be immediately reported to FHLBI.

### 7.8.6 Appraisals

Appraisal reviews must be completed on 10% of the Conventional loans in the selection and 10% of the FHA loans in the selection. The appraisal reviews must be completed by an independent fee appraiser who will complete an exterior inspection of the property and comparables and a thorough analysis of the original report.

Any discrepancy must be noted and reported immediately to FHLBI. A desk review must be completed on all other appraisals in the sample to review the appraisal data, validity of the comparables, value conclusion, and if repairs were required to meet minimum safety and soundness requirements.

Appraisals selected for field reviews may be based on the following factors:

1. Property complaints received from mortgagors.
2. Discrepancies found during desk reviews.
3. Large adjustments to value.
4. Comparable sales more than six (6) months old.
5. Excessive distances from comparables to the subject property.
6. Repetitive sales activity for the subject property.
7. Investor sold properties.
8. Identity of interest between buyer and Seller.
9. Seller identity differs from owner of record.
10. Vacant properties.

Value increased 20% or more within twelve (12) months of previous sale.

## 7.9 Underwriting Decisions

The QA Plan must define the scope of the review of underwriting decisions. The underwriting decisions must be monitored to insure that the underwriters are familiar with the specific underwriting area, familiar with the agency/investor criteria, and that the conclusions are accurate, complete, and documented properly.

Each loan must be reviewed to insure that it was properly underwritten and that sound judgment was used in the underwriting process.

Loans must also be reviewed for compliance with investor, agency, insurer, and secondary market requirements.

Each loan selected must be reviewed to determine whether:

1. Conditions which were required to be satisfied prior to Closing were in fact met before Closing.
2. The Seller was the owner of record or was exempt for the owner of record requirement in accordance with HUD regulations.
3. The loan was closed and funds disbursed in accordance with underwriting and subsequent closing instructions.
4. The closing and legal documents are complete and accurate.

### 7.10 Automated Underwriting

The QA Plan must define the scope of the review of automated underwriting decisions. Relative to any loan placed through an AUS, a data integrity check must be completed to be certain if the actual loan information matches the input to the automated system.

Specifically, the borrower, property, mortgage, income, assets, and source of funds information must be verified. It must be assured that the automated assessment is included in the loan file in addition to normal required documentation. It is determined that when the automated system cannot approve the application, that the basis of the underwriter decision is documented.

### 7.11 QA Reviews

FHLBI will contract with a Quality Control Contractor (QCC) and perform QA reviews internally. These reviews will involve re-underwriting of a representative sample of the mortgages sold to FHLBI during the review period.

In addition, these reviews will perform a cursory check/test on the calculation of points and fees in relation to Seller's compliance with the new High Cost Mortgage Regulations-HCM (formerly HOPEA) and points and fees testing under the new Qualified Mortgage Rules-QM.

Sellers must provide High Cost and QM testing worksheets that provide detailed input information for how the loan was tested for compliance during origination. The sample size shall be at the discretion of FHLBI but shall comply with all regulatory requirements. The Seller will facilitate such reviews by providing copies of mortgage files and documentation to the QCC or FHLBI upon request.

Files delivered to the QCC or FHLBI are generally reviewed within 120 calendar days of receipt. If any mortgage fails to meet FHLBI's requirements, the Seller will receive written notification of the defects and shall submit corrected documentation to FHLBI within 30 calendar days.

If the defects cannot be corrected, FHLBI may request that the Seller repurchase the mortgage, as specifically provided in [Section 18](#) of this Guide.

The QCC, FHLBI, and its agents shall also conduct periodic audits of the Seller's mortgage servicing and, if the Seller is acting as its own Document Custodian, custodial operations. The Seller will facilitate such audits and provide FHLBI and its agent's access to the Seller's offices, books, records, and computer systems at reasonable times during normal business hours.

## 8. Servicer Approval and Transfers

---

All servicers must be approved by FHLBI and must submit required information to aid in the approval process. The Seller may transfer its servicing rights solely in accordance with this section ([Section 8](#)) and the Master Agreement.

A transfer of servicing can result from either of two actions:

- A negotiation for the sale of a servicing portfolio from one party (Transferor) to another (Transferee).
- Certain changes in ownership of a Seller/Servicer that result in a conveyance or other transfer, in effect, of servicing duties and responsibilities set forth in the documents with respect to mortgages purchased through MPP.

### 8.1 Limitations & Restrictions

In addition to the Servicer Approval Guidelines provided in this section ([Section 8](#)), the following limitation is highlighted:

- FHLBI is not obligated to approve a servicer or a transfer of servicing.

### 8.2 FHLBI's Rights

FHLBI has the right to transfer servicing for cause from any purported Transferee of servicing including another Servicer that has purported to assume a Servicer's servicing obligations without FHLBI's prior written approval.

In addition, any such unauthorized transfer and assumption of servicing constitute grounds for suspension or disqualification of both the Transferor and purported Transferee as Seller/Servicers.

### 8.3 Servicer Approval Process

To be considered for approval as an FHLBI servicer, you must provide all items requested by FHLBI in [Section 8.4.1](#). Seller/Servicers should reference [Section 2](#) for requirements. FHLBI will perform due diligence using a risk-based approach to determine if a servicer is approved. The Servicer must be able to demonstrate the ability to effectively service mortgage loans by maintaining adequate staff and procedures. A \$500 nonrefundable processing fee will be charged for processing servicer approval requests for non-members of FHLBI. Due diligence fees will be billed based on the cost incurred in performing the due diligence. FHLBI reserves the right to perform on-site reviews of new servicers. FHLBI also reserves the right to approve servicing with conditions. FHLBI is not obligated to approve a servicer. FHLBI will not approve a servicer if FHLBI, in the exercise of its judgment and in its sole discretion, determines it is not in the best interests of FHLBI or determines that the servicer will not be able to adequately service the mortgages. Non-member servicers must also satisfy the requirements in [Section 2.1](#) where applicable

The Servicer approval process will focus on, but is not limited to:

- Financial capacity to honor contractual obligations
- Compliance with legal and regulatory requirements
- Capabilities and ability to perform servicing
- IT Security and internal controls
- Insurance coverage
- Existence of any outstanding obligations (such as repurchases)
- Delinquency and Real Estate Owned (REO) Ratios

## 8.4 Seller/Servicer Responsibilities

1. Providing requested information timely for servicer approval.
2. Determining when a transfer of servicing will occur due to an organizational change.
3. Submitting the appropriate request and MPP Servicing Questionnaire, if applicable.
4. Complying with other requirements in this Guide, as applicable.

### 8.4.1 Submitting Information for Servicer Approval

A potential servicer must submit the following items to FHLBI for servicer approval:

1. Servicer Approval Questionnaire, as applicable
2. Completed registration on FHLBI's supplier portal at [www.fhlbi.com](http://www.fhlbi.com)
3. Most recent Servicing Guide and/or procedures
4. Quality control procedures
5. Organizational Chart
6. Resumes of key personnel
7. SSAE 16 Service Organizational Controls "SOC" (preferably type 2 or alternative reports)
8. Business Continuity Plan
9. Most recent three years of audited financial statements
10. Overview of company
11. Details of servicing experience and history
12. Information on corporate structure (subsidiaries, parent company, etc.) and geographic location
13. Provide details of any sub-servicers or outsourced vendors that will be used to service loans owned by FHLBI
14. Documentation related to strategic business arrangements (such as mergers, acquisitions, divestitures, joint ventures, etc.)
15. Description of procedures and systems, including copies of relevant policies
16. Results of recent internal and external audit reports, including GSE reports, if applicable

17. Documentation of how security of borrower data and confidentiality is addressed.
18. Details of any regulatory enforcement actions or litigation
19. Provide a breakdown of existing serviced loans by loan type
20. Additional items may be requested based on the level of due diligence needed.

#### 8.4.2 Submitting Requests for Transfers of Servicing

The Transferor and Transferee must obtain FHLBI's written approval before the transfer takes place. Prior written approval is required, regardless of whether the transfer is initiated or requested by a Servicer or any other party, such as a conservator, receiver, or liquidator of the Servicer.

The Transferor must complete and submit the following items to FHLBI at least 60 days before the requested Transfer Date:

1. A nonrefundable \$500 processing fee to FHLBI
2. Written notice of the intent to transfer, noting the names of the transferee and transferor, any subservicers, and the proposed transfer date.
3. List of mortgages to be transferred. Transfer requests must include all outstanding loans within a selected MDC. The loans in MDCs may not be split between servicers.

The Transferee must be approved as a servicer and submit the following items to FHLBI at least 60 days prior to the transfer:

1. Completed Servicing Questionnaire
2. Detailed proposed transfer execution plan
3. Additional items as requested

MPP will indicate approval, if appropriate, by providing an approval letter to the Transferor and the Transferee.

FHLBI reserves the right to deny a transfer of servicing request. FHLBI may provide written notification of the denial, but is not obligated to provide a reason for denial.

#### 8.4.3 Review of Transferor and Transferee

FHLBI will work with the Transferor and Transferee to approve a transfer of servicing, but reserves the right to approve with conditions. FHLBI is not obligated to approve a transfer of servicing. FHLBI will not approve a transfer of servicing if FHLBI, in the exercise of its judgment and in its sole discretion, determines that such a transfer is not in the best interests of FHLBI or determines that the Transferor or Transferee will not be able to adequately service the mortgages remaining in the post-transfer portfolios.

The Transferor and Transferee must be approved Servicers in accordance with [Section 8.3](#) and must be in compliance with all requirements of MPP Documents. When reviewing a transfer of servicing request, MPP will review both the Transferor and the Transferee.

#### 8.4.4 Delinquency Reporting

MPP requires the Transferee to perform a due diligence review on the loans in the transfer and on Custodial Accounts and to be aware of any obligations of the Transferor under MPP Documents.

#### 8.4.5 Due Diligence

The Transferee's due diligence efforts should include, but are not limited to, a review of the following information that the Transferor may provide:

1. Reports and data that confirm and support information provided by the Transferor.
2. Pertinent reports prepared by internal or external auditors, including any recently completed MPP audit.

#### 8.4.6 Mortgage Insurance (MI) Coverage

The transfer must comply with the requirements of each mortgage insurer that insures any of the mortgages. Before the transfer occurs, the Transferor must obtain a commitment from each mortgage insurer to continue to provide coverage required by FHLBI for the benefit of the Transferee.

If any mortgage insurer will not continue to provide coverage for the benefit of the Transferee, the Transferor must obtain a written commitment by another mortgage insurer to provide equivalent coverage.

#### 8.4.7 Reporting to FHLBI

##### 1. Servicing Reporting:

Beginning with reports due for the reporting cycle immediately following the effective Date of Transfer, the Transferee must submit all servicing reports in their name and Seller/Servicer number of the Transferee.

##### 2. Accounting Reporting and Remitting:

- a. All of the following must be reported and remitted by the Transferor:
  - i. Payoffs for which the payoff date is before the effective Date of Transfer.
  - ii. Third-party foreclosure sales for which the Sale Date is before the effective Date of Transfer.
  - iii. Reports and funds due for the accounting cycle cutoff date immediately preceding the effective Date of Transfer.
- b. All of the following must be reported and remitted by the Transferee:
  - i. Payoffs for which the payoff date is on or after the effective Date of Transfer.
  - ii. Third-party foreclosure sales for which the sale date is on or after the effective Date of Transfer.
  - iii. Reports and funds due for the accounting cycle cutoff dates following the effective Date of Transfer.

##### 3. Written Certification:



The Transferee, as a condition of the transfer, agrees to provide to FHLBI written certification of the completion of the transfer within 30 days after the effective Date of Transfer. The certification must state that the Transferee:

- a. Has received and possesses all funds and records (such as documents, books of account, and files) required by MPP Documents to be transferred in connection with a transfer of servicing.
- b. Has had an opportunity to examine such records.
- c. Has determined that such records are correct.
- d. Assumes full responsibility and liability for the correctness of such records.

#### 8.4.8 Transfer of Mortgage and REO Files

No later than 30 days after the effective Date of Transfer, the Transferor must deliver to the Transferee the following records for each mortgage and REO for which Servicing is transferred:

**1. Mortgage File:**

The mortgage file that the Servicer is required to maintain in accordance with the Guide.

**Note:** If the Transferee does not maintain the same form of documents and records storage (photographic, photostatic, microfilm, microfiche, electronic imaging, optical disk, or laser disk storage) as the Transferor, then the Transferor must either convert the documents and records to the form of storage utilized by the Transferee or generate paper copies of all documents and records for the Transferee.

**2. Payment History:**

The complete history of mortgage payments and, if applicable, escrow disbursements (including the most recent escrow analysis), with supporting documentation, from the origination date of the mortgage.

**3. Correspondence and Reports:**

Copies of all correspondence with, and reports to, the borrowers and, as applicable, FHA, MI, FHLBI, and any government authority.

**4. Notice of Transfer:**

A copy of the notice to the borrowers regarding the transfer of servicing.

**5. REO History:**

If REO is being serviced, the complete history of receipts, expenditures and management, and marketing activities (including copies of any filed PMI or SMI claims), with supporting documentation, from the date the REO was acquired.

#### 8.4.9 Transfer of Portfolio Records

No later than the effective Date of Transfer, the Transferor must deliver to the Transferee the following records for the mortgages and REO for which Servicing is transferred:

**1. Notices to Third Parties:**

Including documentation of PMI approval and commitment to insure.

**2. Service Contracts:**

Copies of tax and flood hazard determination service contracts, if applicable.

**3. Unpaid Charges:**

A list of escrowed charges due and unpaid as of the effective Date of Transfer.

**4. Trial Balances:**

Trial balances, as of the close of the last business day immediately preceding the effective Date of Transfer, showing the following:

- a. Transfers of ownership, payoffs, and other Servicing exceptions in process.
- b. Escrows, escrow advances, and prepayments.
- c. Buy down accounts and balances, where applicable.
- d. Delinquencies, foreclosures, bankruptcies, and REO.

**5. Automatic Payments:**

A list of mortgages subject to automatic drafting of monthly payments.

**6. Insurance Policies:**

A list of mortgages showing expiration dates of the insurance policies on the Mortgaged Premises, whether or not premiums for these policies were escrowed by the Transferor.

**7. Other Documents:**

Ledger records and definitions of codes used in ledger records, trial balances, or any other documents required by FHLBI to be transferred to the Transferee.

**8. Custodial Accounts:**

A copy of the depository's reconciliation, as of the close of the Transferor's last business day immediately preceding the effective Date of Transfer, for each P&I and escrow custodial account.

**9. FHLBI Reports:**

Copies of all Servicing and accounting reports filed with FHLBI for the three (3) months immediately preceding the effective Date of Transfer.

#### 8.4.10 Transfer of Funds

**1. General:**

All account balances (including, but not limited to, escrows, prepayments, and buy down funds) must be transferred to the Transferee's designated depository. A final reconciliation of all monies relating to the transfer must be made by the Transferor on the effective Date of Transfer.

**2. Escrow Accounts:**

The Transferor must forward the entire balance of all Custodial Accounts related to Escrows, buy down funds, repair accounts, and replacement reserves (net of documented advances) to the Transferee's depository on the effective Date of Transfer.

**3. Interest:**

Delinquent interest advanced to MPP by the Transferor as of the effective Date of Transfer net of prepaid interest must be reimbursed to the Transferor by the Transferee no later than the date the funds are due to FHLBI.

**4. Principal:**

Delinquent principal advanced to FHLBI by the Transferor as of the effective Date of Transfer net of prepaid principal must be reimbursed to the Transferor by the Transferee no later than the effective Date of Transfer.

#### 8.4.11 Note Endorsements and Assignment of Security Instruments

At the time the mortgage is sold to FHLBI, the Seller must endorse the note in blank in accordance with this Guide. When a transfer of servicing occurs, the Transferor Servicer cannot complete the blank endorsement or further endorse the note. The note should remain in its endorsed in blank state.

The Transferor Servicer must prepare and complete assignments according to the following requirements:

1. For mortgages not registered with the Mortgage Electronic Registration Systems Inc. (MERS), the Transferor must record any intervening assignments to complete the chain of assignments from the original mortgagee to the Transferor. The Transferor must then assign the Security Instruments to the Transferee and record the assignments. An assignment from the Transferee in blank in recordable form (but unrecorded) should also be prepared and placed in the file.

Copies of all assignments sent to the county recorder's office as well as the unrecorded final assignment in blank should be delivered to the Transferee's Document Custodian to be verified and re-certified in accordance with the requirements of this Guide.

In addition, the Transferor must recover and destroy any original unrecorded assignments to FHLBI that may have been prepared.

2. If the Transferee is a MERS member, and the loans are registered with MERS (either as MOM loans or as loans that have been assigned to MERS), no further assignment is needed. The

Transferor must notify MERS of the transfer of servicing by changing the Servicer of record on the MERS system for each loan.

3. If the Transferee is not a MERS member, and the loans are registered with MERS (either as MOM loans or as loans that have been assigned to MERS), then the Transferor must prepare and record an assignment of the Security Instrument (on behalf of MERS) from MERS to the Transferee and record that assignment. An assignment from the Transferee in blank in recordable form (but unrecorded) should also be prepared and placed in the file.

Copies of all assignments sent to the county recorder's office as well as the unrecorded final assignment in blank should be delivered to the Transferee's Document Custodian to be verified and re-certified in accordance with the requirements of this Guide.

#### 8.4.12 Document Custody Requirements

Refer to the Document Custodian Manual (Appendix A) for recertification requirements.

Recertification procedures are required if the Seller or document custodian responsibilities change for a group of mortgages. Recertification is also required each time one or more mortgages are deregistered from MERS.

The Transferor Document Custodian must cooperate with the Transferee Document Custodian to allow a smooth and orderly transfer. It is the responsibility of the Transferor Document Custodian to work with the Transferor, the Transferee, the Transferee Document Custodian, and FHLBI to cure all document deficiencies prior to recertification of the custodian files.

The Transferor's responsibilities include (but are not limited to) the following:

1. Verify that the Transferee Document Custodian has been selected by the Transferee in accordance with FHLBI's requirements and that a copy of the Transferee's executed Custodial Agreement accompanies the Transferor's request to transfer the custodial files.
2. Cause the Transferor Document Custodian to deliver to the Transferee Document Custodian the custodial files not later than 30 days after the effective date of transfer.
3. Ensure that all mortgages registered and assigned to MERS and all mortgages closed as MOM loans are identified as such.
4. Cause the Transferor Document Custodian to remove and destroy the recordable but unrecorded assignment, if prepared, from the Transferor in blank.

The Transferee Document Custodian's responsibilities include (but are not limited to) the following:

1. Establish a custodial arrangement in accordance with this Guide.
2. Perform the recertification as required in Document Custodian Manual (Appendix A).
3. Responsible for all representations and warranties with respect to the validity and enforceability of the mortgage documents.

#### 8.4.13 Notice to Borrowers

**1. Transferor's Notice to the Borrower:**

The Transferor must provide timely notice to the borrowers to ensure a smooth transition, avoid disruption in mortgage payments and comply with applicable laws and regulations. The Transferor must provide written notice to each borrower at least 15 days before the first payment is due to be received by the Transferee.

**2. Transferee's Notice to the Borrower:**

The Transferee must provide to each borrower written confirmation of the information in the Transferor's notice to the borrowers within 15 days before the date the first payment is due to be received by the Transferee.

**3. Notice Requirements:**

The notice must advise the borrower of the following:

- a. Effective Date of Transfer.
- b. Name and address of the Transferee.
- c. Names and telephone numbers of the contact persons or departments of the Transferor and of the Transferee where the borrowers' inquiries relating to the transfer should be directed. (If toll-free numbers are not available, the letter must indicate that collect calls are accepted.)
- d. Date when the Transferor will no longer collect the borrowers' payments and when the Transferee will begin to collect them.
- e. Any previously escrowed optional mortgage life or accident and health insurance for which the Transferee will not assume responsibility, with appropriate suggestions or instructions for the borrower to continue such coverage.
- f. Procedures for maintenance of automatic draft payments, if applicable.

The notice may not amend the terms of a mortgage other than those relating to where to send payments.

#### 8.4.14 Borrower Issues and Inquiries

The Transferor and Transferee must ensure that their staff and facilities are adequately prepared to process Servicing and accounting transactions and to respond to borrower inquiries during the transfer transition period. The Transferee must assume responsibility for responding to borrower inquiries received after the effective Date of Transfer.

**Note:** If any servicing or accounting problem cannot be resolved without the involvement of the Transferor; the **Transferee**, not the borrower, should initiate the contact with the Transferor.

During the transfer transition period, the Transferor and Transferee must make reasonable efforts to resolve disputes to the borrowers' satisfaction when such disputes arise from legitimate borrower misunderstanding of instructions in the notice of transfer of servicing. Late charges must be waived and, if applicable, appropriate adjustments to payment and credit records made for misapplied or unapplied payments due to the Transferee but received by the Transferor.

#### **8.4.15 Funds and Correspondence Received after Transfers of Servicing**

Within one day of receipt, the Transferor must deliver to the Transferee any funds for, or correspondence regarding, any of the transferred mortgages and REO received on or after the effective Date of Transfer.

#### **8.4.16 Notices to Third Parties**

The Transferor must obtain the following approvals and provide the following notices, as applicable:

1. Mortgage insurer approval and commitment to insure.
2. Advise all applicable property insurers including, if applicable, Federal Emergency Management Agency (FEMA), of the transfer and of the name and address of the Transferee to modify the mortgage clause.
3. Provide the required notices to FHA, if applicable.
4. Notify all other appropriate parties, including, but not limited to:
  - Mortgage life and/or accident and health insurers
  - Tax and flood hazard determination services
  - Tax authorities
  - HOAs
  - Fee owners for leasehold mortgages
  - Other lien holders and public utilities levying mandatory assessments for which escrow is collected.

#### **8.4.17 Liability of the Transferor and Transferee**

##### **1. Warranties**

For transfer of servicing requests received by FHLBI, the Transferee is liable to FHLBI for all sale and Servicing representations, covenants, and warranties in MPP Documents with respect to the mortgages and REO for which Servicing is transferred, whether or not the Transferor had such liability.

##### **2. Hold Harmless**

The Transferor and the Transferee, jointly and severally, fully indemnify and agree to hold FHLBI, its successors and assigns, harmless from and against any and all losses, claims, demands, actions, suits, damages, costs, and expenses (including reasonable attorney fees) of every nature and character that may arise or be made against or be incurred by FHLBI as a result of the Transferor's or the Transferee's failure to comply with applicable law or failure to comply with

FHLBI's Servicing requirements as set forth in MPP Documents, including, but not limited to failure to provide the notices, failure to make any payment to the appropriate parties for which escrow is collected, and failure to credit properly any payments received from borrowers.

### **3. Servicing**

The Transferee hereby agrees to service the mortgages in accordance with the terms of the MCC, this Guide, and all applicable MPP Documents, all of which are fully incorporated herein by reference.

## 9. Remittance Schedule

---

### 9.1 Scheduled/Scheduled

1. The Servicer must make all required payments to FHLBI by the 18th calendar day of each month or the next business day if the 18th is not a business day, as specifically provided in [Section 14](#) of this Guide.
  - a. FHA remittance is the 15th calendar day of each month.
2. In case of shortfalls in collections on the mortgages, the Servicer must supply, from its own funds, amounts necessary to pay FHLBI the amounts to which it is entitled under the mortgages on a timely basis.

This may include a shortfall of interest from loans paid in full prior to the scheduled maturity date and curtailments (other than curtailments on payments that are prepaid).
3. In any event in which the Seller advances its own funds on behalf of a mortgagor, the Servicer shall not be entitled to exercise the rights of FHLBI in connection with such advance until the Seller has repurchased the mortgage from FHLBI or FHLBI has been paid in full all amounts due or to become due under such mortgage. Such advances shall then be reimbursed as provided in [Section 14.1.4](#) of this Guide.

### 9.2 Actual/Actual

1. The Servicer must make all required payments to FHLBI by the 18th calendar day of each month or the next business day if the 18th is not a business day, as specifically provided in [Section 14](#) of this Guide.
2. All principal and interest (net of servicing fee) received by the Seller/Servicer must be transferred to the actual/actual P&I custodial account at FHLBI within 2 business days of receipt from the borrower.

## 10. Servicing Guidelines

---

### 10.1 Limitations & Restrictions

In addition to the Servicing Guidelines provided in this section ([Section 10](#)), the following limitations and restrictions are highlighted:

- The Servicer may transfer custodial accounts, Document Custodian responsibilities, and subcontract servicing responsibilities only with prior FHLBI approval.
- The cost of property inspections is not reimbursable by FHLBI.

### 10.2 Mortgage Servicing and Administration

GSE servicing guidelines are an integral part of MPP. To the extent that certain servicing matters are not covered in this Guide, GSE servicing guidelines, under which the mortgage would be eligible for sale to that GSE, should be followed.

Sellers and Servicers are expected to obtain current GSE guidelines from Fannie Mae or Freddie Mac and receive announcements and updates as they are released. Sellers need not be approved Sellers or Servicers of other GSEs to obtain the guidelines. Access to the guidelines is available through a subscription to AllRegs, which is available at [www.allregs.com](http://www.allregs.com). Wherever this Guide and GSE guidelines may be in conflict, this MPP Guide shall supersede the GSE guidelines.

#### **Servicing Responsibilities:**

- a. For as long as FHLBI owns the mortgages, the Servicer of record is responsible for servicing the mortgages in accordance with FHLBI Guidelines, this Guide, the MCC, the Master Agreement, all other Program Documents, GSE Guidelines, and submitting monthly reports (accounting and servicing reports) to the Master Servicer.
- b. Accounts and records relating to the mortgages must be maintained according to generally accepted accounting practices in a manner that permits FHLBI's representatives to examine and audit them.
- c. The Servicer must keep PMI in effect that existed when FHLBI purchased the mortgage until such time that the borrower's equity equals 80% LTV or below, or as otherwise required by law, and evidence of such insurance must be obtained by the Servicer and retained in its files.
- d. When payment of an annual mortgage insurance premium is required, the Servicer should use the funds in the mortgagor's Escrow Custodial Account to pay the premium. If the Escrow Custodial Account balance is not sufficient to pay the PMI premium, the Servicer must advance its own funds to pay such premiums, and such advances may then be reimbursed in accordance with the provisions of [Section 14](#) of this Guide.

- e. The Servicer agrees to automatically cancel the PMI according to applicable law. Servicer also agrees to process Borrower-requested PMI cancellation according to applicable law and GSE Guidelines.
- f. The Servicer must establish and maintain proper P&I custodial deposit accounts and escrow custodial deposit accounts for the mortgages which must be balanced monthly with the corresponding servicing accounting records.
- g. The Servicer must collect each mortgagor's monthly principal, interest, escrow payments, and all other payments and recoveries with respect to the mortgages and must deposit them into the P&I Custodial Accounts and Escrow Custodial Accounts for the mortgages.
- h. Every month, the Servicer must submit detailed accounting and servicing reports for all mortgages to the Master Servicer in the format specified in [Section 17.2](#) of this Guide.
- i. The Servicer may transfer Custodial Accounts, Document Custodian responsibilities, and subcontract servicing responsibilities only with prior FHLBI approval. If FHLBI approves the transfer, the Servicer shall continue to make all representations and warranties as contained in this Guide and applicable Program Documents for the life of the mortgages.
- j. The Servicer shall obtain the services of an eligible Document Custodian for the mortgages, such eligibility to be approved in writing in advance by FHLBI.
- k. The Seller or Servicer shall provide the documents required to be in the custody file to the Document Custodian in accordance with the requirements in Appendix A.
- l. The Seller may transfer servicing at time of sale by participating through the Servicing Released Program or at a later date only with prior FHLBI approval. Please see [Section 8](#) of this Guide regarding the sale and transfer of servicing.
- m. On Thursday, March 9, 2012, the U.S. government and 49 State Attorney's General announced proposed settlements (collectively, the "Settlements") with the five largest home mortgage servicers, including GMAC/Ally Financial, Bank of America, Citigroup, JPMorgan Chase Bank, Wells Fargo, and certain of their respective affiliates (collectively, the "Servicers"), regarding allegations of "robo-signing" and other alleged improper practices in foreclosures and in home mortgage servicing by the Servicers.

In the Settlements, the Servicers agreed to provide relief to homeowners, refinance "underwater" homes, reform mortgage servicing, submit to monitoring, and make payments to various parties.

**FHLBI is not party to any of the Settlements, and FHLBI's rights under all applicable servicing agreements and the MPP Guide remain unchanged by the Settlements.**

Since the inception of MPP, FHLBI has required its servicers to fully comply with all applicable laws in performing their contractual duties. Servicers of FHLBI-owned loans should act to ensure their continuing compliance with all applicable laws and to work with borrowers toward acceptable arrangements subject to FHLBI approval that will help the borrower avoid

foreclosure. The Servicers' obligations under the Settlements remain subject to the terms of the MPP Guide and the servicing agreements in effect with such servicers.

FHLBI will continue to review loan modification requests on a case-by-case basis to assist those borrowers that have experienced reduced income after the closing of their mortgage, while also taking into consideration the unique cooperative structure of FHLBI. Borrowers that may benefit from a loan modification would typically be those that have experienced a loss or decline of income since the loan was originated under MPP. Loan workout modifications require the approval of FHLBI as specified in [Section 10.2.9](#) of this Guide.

#### 10.2.1 Servicing Loans under MCCs with SMI

FHLBI will arrange for SMI on behalf of the Seller, if applicable. Refer to the Mortgage Guaranty Insurance Corporation (MGIC) [Default Servicing Guide](#) or [Genworth Servicing Guide](#) as applicable for complete details of the supplemental mortgage insurance servicing process.

1. The Servicer will comply with and perform all duties on behalf of FHLBI (the insured) required by the SMI provider and PMI under SMI and PMI policies, including, without limitation, acting as the representative of the insured (and the insured's designee, if any) and will bind the insured and its designee for all purposes of the policies, including providing information to the SMI provider and PMI providers, receiving any notices, paying premiums, accepting loss payments, and performing any other acts required under the policies.

The Servicer is responsible for performing the following:

- a. The Servicer agrees to notify the SMI provider and PMI providers in the event servicing rights are sold, assigned, or transferred.
  - b. The Servicer agrees to initiate any and all proceedings in accordance with the terms of the policies in regard to defaults and foreclosures and to diligently pursue the proceedings once they have begun.
  - c. Claims to the applicable PMI and SMI provider for any loss incurred must be submitted by the Servicer within 30 days of liquidation of the property.
  - d. Any eligible claims not reimbursed by the PMI and/or SMI provider must be submitted by the Servicer to FHLBI within 30 days of final claim notification from PMI and/or SMI provider.
2. The Servicer represents that all of the following conditions have been met:
    - a. All statements made and information provided to the SMI provider or PMI provider in relation to a policy or claim are supported by statements and information in the loan file.
    - b. No statements made or information provided to the SMI provider and PMI provider are false or misleading in any material respect.
    - c. The mortgage complies with any eligibility criteria required by the SMI provider and PMI provider in effect at the time the SMI and PMI are applied for.

### 10.2.2 Servicing Loans under MCCs without SMI

1. The Servicer will comply with and perform all duties as required by FHLBI including, without limitation, receiving any notices, paying premiums, accepting loss payments, and performing any other acts required under the Program Documents. Refer to [Section 16](#) for details on servicing delinquent loans without SMI.

Additional Servicer duties include:

- a. The Servicer agrees to notify FHLBI in the event servicing rights are sold, assigned, or transferred.
  - b. The Servicer agrees to notify FHLBI of any Default on a loan and initiate any and all proceedings in regard to Defaults and foreclosures and to diligently pursue the proceedings once they have begun, obtaining FHLBI's approval of Deeds-in-Lieu, assumptions and sales of properties.
  - c. The Servicer shall submit a claim to FHLBI for any loss incurred within 30 days of liquidation of the property.
  - d. The Servicer must submit to FHLBI any eligible claims not reimbursed by the PMI provider within 30 days of final claim notification from PMI provider.
2. The Servicer represents that all of the following conditions have been met:
    - a. All statements made and information provided to FHLBI in relation to a claim are supported by statements and information in the loan file.
    - b. No statements made or information provided to FHLBI are false or misleading in any material respect.
    - c. The mortgage complies with any eligibility criteria required by the PMI provider in effect at the time the PMI is applied for (if applicable).

### 10.2.3 Non-delegable Duties

The Servicer may not delegate or transfer to a subcontractor (through a POA or otherwise) its obligations to perform any of the following functions:

- Withdrawing funds from a P&I Custodial Account for any purpose.
- Signing any accounting reports and certifications to FHLBI.
- Requesting the release of documents from the Document Custodian.

#### 10.2.4 Required Record Keeping

The Servicer must perform the following record keeping duties:

1. Retain records for each mortgage for the life of the mortgage. These records must accurately reflect the application of each monthly installment and any un-recovered advances.
2. Maintain records of all disbursements for taxes, insurance premiums, and all other expenses while the mortgage is being serviced for FHLBI.
3. Retain all escrow and expense disbursement records and related bank statements pertaining to the mortgages in accordance with FHLBI requirements and practices generally accepted in the mortgage lending and servicing industries.
4. Retain a copy of all credit and closing documents that were used in the approval, closing and purchase of each loan.

##### 10.2.4.1 Monthly Reporting Requirements

Each Servicer must submit loan-level data to the Master Servicer on a monthly basis, specifically found in [Section 17](#) of this Guide and Appendix C.

#### 10.2.5 Mortgage Administration Costs

The Servicer is responsible for all administration costs associated with the mortgages including those associated with:

- Servicing the mortgages
- Processing foreclosures
- Preparing and submitting reports and records required by FHLBI and the SMI, (if applicable).

#### 10.2.6 Pledging Servicing Rights

1. The Seller and/or Servicer may pledge the servicing rights to all or part of its portfolio of mortgages.
2. The Seller must obtain approval from FHLBI prior to pledging the servicing rights on the mortgages that it is servicing for FHLBI.
3. A Consent and Acknowledgement of Servicing Transfer Agreement must be completed in a form that is acceptable to FHLBI prior to pledging servicing rights.

### 10.2.7 Servicing Fees

The Servicer may retain a servicing fee for servicing the mortgage from interest payments actually collected from a mortgagor. The applicable servicing spread from which the servicing fee is determined for each mortgage is specified in the MCC and the MDC.

The servicing fee may be withheld at the time an installment is collected. All remaining collections must be deposited directly to the P&I Custodial Account.

### 10.2.8 Inspection of Properties

The Servicer must ensure that mortgaged properties are occupied and are being properly maintained. Under certain circumstances this will require inspection of the property. The Servicer must be able to certify that any required inspections were made at FHLBI's request.

#### 10.2.8.1 Inspection Requirements

When possible, the Servicer's inspection should include the interior of the property. All inspections, regardless of purpose, must be documented and be made part of the individual loan file but need not be forwarded to FHLBI, except as described below. The cost of property inspections is not reimbursable by FHLBI.

**Note:** The cost of property inspections is not reimbursable by FHLBI.

#### 1. Current loans:

Property securing a current loan should be inspected immediately when the Servicer learns the property may be vacant and/or believes it is necessary to preserve the value of the security or that FHLBI's interest in a property may be jeopardized due to negligence or Default on the part of a borrower in any of the terms of the loan other than delinquency.

Action is not required when an inspection finds that repairs are unnecessary, are minor, or will not cause deterioration. However, if the inspection indicates deterioration has occurred, or repairs of an urgent nature are required to properly restore the property to a habitable condition or to correct a condition which might lower the value of the property, the borrower must be reminded of the obligation to make such repairs.

In addition, when a code violation notice is received, the Servicer should immediately contact the borrower and make arrangements for repairs necessary to fulfill the code requirements. In either case, the Servicer should document the loan files regarding all contact with the borrower and any arrangements made.

The Servicer must follow up until the repairs are completed or the borrower's refusal or inability to make the repairs is established. If the latter occurs, the Servicer should send FHLBI a property inspection with pictures and a recommendation. If emergency repairs are required, the Servicer

must make the repairs and is authorized to spend up to \$1,000 for each property. Sums in excess of \$1,000 for any property require FHLBI's prior approval.

When requesting reimbursement for advance for repairs, the Servicer must submit a property inspection with photos and a statement of expenses. All invoices and statements must accompany the statement of expenses. The Servicer must verify that the mortgage insurer approved all advance expenditures before they were incurred whenever such prior approval is required.

## **2. Vacant or Abandoned Properties:**

Whenever a mortgaged property is found to be vacant or abandoned, the Servicer must perform all of the following:

- a. Attempt to locate the borrower and determine the reasons for the abandonment or vacancy.
- b. Arrange for the protection of the property from vandalism or damage by the elements, including winterizing the property if necessary.
- c. File the appropriate notice with the mortgage insurer, if any, as soon as the Servicer has established, by a thorough investigation, that the property has been abandoned by the borrower. Full details of the Servicer's investigation and conclusions must be reported immediately on a property inspection with a recommendation. An option available for delinquent loans when the property has been abandoned may be commencing foreclosure.
- d. Notify the hazard insurance carrier to ensure the proper endorsement is made so that coverage is maintained.

### **10.2.9 Loan Modifications**

**Note:** All modifications require prior approval from FHLBI.

#### **10.2.9.1 Modifications Due to Curtailments**

1. In the event of a curtailment, the Servicer may find it necessary to recast the existing P&I to accommodate a mortgagor request. A recast may be allowed provided that there are no changes to the original terms of the loan and the UPB would be reduced by \$10,000 or more.
2. In order to recast the P&I, the Servicer must request a recast authorization from FHLBI in writing. The request must include the amount of the principal curtailment and the new P&I amount. Once the request is received by FHLBI, it will be reviewed and a written response is issued for approval or denial by FHLBI.
3. To qualify for a modification due to a curtailment, the loan must be current, and no other modifications are permitted that would change the applicable mortgage interest rate, defer, or forgive the payment of any principal or interest, reduce the outstanding principal balance (except for actual payments of principal), or extend the final maturity date.

4. Once the loan modification is complete, the Servicer must provide a copy of the executed modification agreement to FHLBI and the Master Servicer.

#### **10.2.9.2 Modifications for Purpose of Loss Mitigation**

1. In the event of missed payments or imminent default, the Servicer may offer the borrower a loan modification to mitigate loss. This type of loan modification may be allowed provided that there are no changes to the original interest rate of the loan and the loan modification is approved in writing by the applicable SMI provider, if applicable, and FHLBI.
2. For a loan modification review, the Servicer must perform all of the following:
  - a. Analyze the borrower's financial situation, verify proposed modification is affordable and reasonable and assess his or her intention toward the mortgage obligation.
  - b. Determine the value and condition of the collateral which secures the loan.
  - c. Manage the foreclosing process to ensure that expenses and accruing interest are minimized.
  - d. Verify clear and marketable title as soon as legally possible.
3. In order to modify the loan, the Servicer must request an approval from both the SMI provider, if applicable, and FHLBI in writing. The request must be filled out on the applicable SMI provider's loan modification form and be documented appropriately. Once the request is received by FHLBI, it will be reviewed and a written response is issued for approval or denial by FHLBI.
4. Once the loan modification is complete, the Servicer must provide a copy of the executed modification agreement to FHLBI and the Master Servicer.
5. See [Section 16.5](#) of this Guide for additional information regarding modification requests for loss mitigation.

#### **10.2.9.3 Modifications for Purpose of Land Release**

A release of a portion of the security for the mortgage may be requested by the borrower due to one of the following:

- Release or grant of an easement, or the subordination of the mortgage lien to an easement
- Release of a portion of the real property from the security
- Partition (or division) of a property
- Substitution of security property
- Removal or disposition of all or part of the structures on a property as the result of condemnation
- Full or partial taking of a property by the exercise of eminent domain
- Waiver of certain rights under the mortgage

If the Servicer maintains an escrow deposit account to pay property taxes, it also should notify the tax collector or assessor when a release of any portion of a security property that will subsequently affect the amount of taxes levied against the property is approved (or when an authorized substitution of security property will affect either the taxing jurisdiction or the tax assessment).

The Servicer should submit the borrower's application (along with its recommendation) to FHLBI for review and decision. The Servicer must first obtain any required approval from the mortgage insurer, SMI provider or guarantor, if applicable.

#### ***10.2.9.1 Modifications for Purpose of Borrower Release***

In situations of divorce when the property has transferred to one spouse in the divorce decree and the transferee spouse qualifies for loan modification, release of the other spouse from liability on the Note may be considered.

The Servicer should submit the borrower's application (along with its recommendation) to FHLBI for review and decision. The Servicer must first obtain any required approval from the mortgage insurer, SMI provider or guarantor, if applicable.

## 11. Custodians

---

### 11.1 Document Custodian Eligibility

The Document Custodian works under a Custodial Agreement with the Seller and FHLBI. In order to become a Document Custodian, an institution must meet the eligibility requirements listed in the Document Custodian Manual (Appendix A).

The Seller and the Document Custodian must execute a Custodial Agreement and provide any additional documentation as requested by FHLBI.

#### 11.1.1 Requirements for Related-Party Document Custodians

Related-party Document Custodians must satisfy and continue to satisfy additional requirements as listed in in the Document Custodian Manual (Appendix A).

### 11.2 Transfer of Document Custodian Functions by FHLBI

FHLBI may decide at any time to transfer custody of the custody files, remove and discharge the Document Custodian from the performance of its duties for any reason, including but not limited to:

1. The failure by the Document Custodian to perform or observe any of the provisions of this Guide or the Custodial Agreement.
2. The failure of the Document Custodian to meet requirements of the credit policy or Advances, Pledge, and Security Agreement.
3. An event of default occurs under any advances, pledge, and security agreement to which the Document Custodian is a party or to which the applicable Seller is a party.
4. The removal or termination of the Seller or any other person as Servicer of the mortgages.

### 11.3 Accounts

#### 11.3.1 Custodial Funds Accounts Eligibility

1. The Servicer must establish separate, appropriate custodial accounts for the deposit of funds collected and must strictly control all funds in its custody.
2. Unless specifically approved by FHLBI in writing, the Servicer may not hold funds in a corporate account or segregated as part of the general ledger system. All accounts and related records must be maintained according to sound and generally accepted accounting practices and in a way that permits FHLBI and its agents to examine and audit such accounts and records at any time.

3. In order to become a funds custodian, any institution other than FHLBI must meet all of the eligibility requirements listed below:
  - a. Must be a financial institution regulated by one of the following:
    - i. Federal Deposit Insurance Corporation (FDIC)
    - ii. Federal Reserve System
    - iii. Office of the Comptroller of the Currency of the U.S.
    - iv. Office of Thrift Supervision
    - v. National Credit Union Administration (NCUA)
  - a. A member of FHLBI, or meet the custodial depository requirements of Fannie Mae or Freddie Mac.
  - b. Employ knowledgeable personnel.
  - c. Meet the minimum FHLBI financial requirements under the credit policy and Advances, Pledge, and Security Agreement.
  - d. Maintain minimum insurance coverage requirements as provided in [Section 2.1](#) of this Guide.
  - e. Establish and follow written procedures relating to its responsibilities as fund custodian.
  - f. Execute a P&I Custodial Account Agreement and an Escrow Custodial Account Agreement.
  - g. Supply any additional documentation as requested by FHLBI.
  - h. FHLBI reserves the right to require a servicer to transfer funds out of a depository institution, even if the institution appears to meet eligibility requirements, if FHLBI determines it is its best interest to do so.
4. The Servicer must establish and maintain a P&I Custodial Account and an Escrow Custodial Account for mortgages. These two accounts must be maintained separately.
5. As soon as FHLBI purchases a mortgage, the Servicer must transfer any funds related to such mortgage held by the Servicer on deposit to the appropriate Custodial Account.
6. The Servicer must establish a reasonable daily work cutoff to ensure that collections are credited to the Custodial Account no later than the business day following their receipt.
7. All Custodial Accounts must be Demand Deposit Accounts and may be interest bearing.

### 11.3.2 Principal & Interest (P&I) Account

All funds for the payment of principal and/or interest which are received by the Servicer must be held in trust by the Servicer for FHLBI and deposited to the P&I Custodial Account(s). This includes any proceeds from the liquidation of a defaulted mortgage from mortgage insurance and from any other policies of insurance collected by the Servicer. This also includes any prepayment in part or in whole accompanied by interest to the date of the prepayment.

A P&I Custodial Account must be established at FHLBI for loans serviced for FHLBI in accordance with an approved Actual/Actual remittance method.

Each account must clearly indicate the respective interests of the Servicer as trustee and of FHLBI as beneficial owner.

**The account designation must be:**

[Servicer's name] Trustee of Principal and Interest Custodial Account for various Federal Home Loan Bank of Indianapolis ("FHLBI") Whole Loans. [S/S or A/A]

Servicers remitting under an approved Actual/Actual Remittance method must establish procedures to transfer the daily collection of principal and interest (less servicing fees) to the P&I custodial account at FHLBI. The transfer of funds should be made within 2 business days of receipt by the Servicer.

Transferred funds are held in the P&I Custodial Account at FHLBI until withdrawn as further described in [Section 14.2.1](#) of this Guide.

Remittance of P&I funds to FHLBI are accomplished as described in [Section 14](#) of this Guide.

The Servicer may only make withdrawals from the P&I account for one of the following purposes:

1. Make monthly remittance to FHLBI.
2. Transfer to an actual/actual P&I Custodial Account at FHLBI.
3. Reimburse itself for delinquency advances that have been recovered from subsequent collections from the related mortgagor provided that funds are available for such purpose.
4. Remove amounts that have been deposited to the account in error.
5. Remove fees, charges, or other such amounts that are deposited on a temporary basis in the account.
6. Clear and terminate the account.

**Note:** The Servicer should not use the P&I Custodial Account as a collection clearing account. It should establish a separate account for such purpose.

Servicers must deposit only funds due to FHLBI into a P&I Custodial Account. As an exception, Servicers may deposit the full principal and interest payments received into the P&I Custodial Account and subsequently withdraw the servicing fee.

The following is a list of the funds Servicers must deposit into the P&I Custodial Account for FHLBI mortgages:

- a. Principal and interest payments on all FHLBI mortgages whether received from the borrower or paid on the borrower's behalf
- b. Principal curtailments
- c. Payoff proceeds including those from short payoffs and third-party foreclosure sales
- d. Prepayment penalties (if applicable)
- e. Repurchase proceeds

### 11.3.3 Escrow Custodial Account

#### 1. Servicer Responsibilities Include:

- i. Must deposit all collections of taxes, assessments, ground rents, insurance premiums, and comparable items to the Escrow Custodial Account.
- ii. Ensuring that the account is maintained and administered in accordance with applicable state and federal laws and regulations.
- iii. Payment of any interest due to the mortgagor.

Withdrawals may be made only to effect the timely payment of mortgagors' taxes and insurance premiums, to refund mortgagor surpluses, to recover servicing advances and comparable items, and to remove any amounts deposited in error.

At least annually, the Servicer must compute the escrow payments required under each mortgage based on reasonable estimates or assessments and bills to determine that sufficient funds are being collected to meet all of the mortgagor's obligations to pay escrow payments.

If the amount held in the Escrow Custodial Account by the Servicer with respect to a mortgage, together with the future monthly installments of escrow payments, exceeds the amount required to pay escrow payments as they become due, plus any cushion amount permitted under applicable law and regulation; the Servicer must either repay the excess promptly to the mortgagor or credit the excess to the mortgagor by a reduction in monthly escrow payments.

- iv. If the amount held in the Escrow Custodial Account by the Servicer is deemed insufficient to pay escrow payments when due, the Servicer should obtain additional funds from the mortgagor necessary to make the escrow payments before the latest date on which the escrow payments may be paid prior to penalty, or lapse of insurance policies, as the case may be.

**If the mortgagor fails to remit the deficient amount, or if there is insufficient time to obtain the amount, the Servicer must pay any charges due and reflect the shortage in the mortgagor's Escrow Custodial Account.**

- v. The account is to be designated in the name of the Servicer acting as an agent for mortgagor in order to show that the account is custodial in nature.
- vi. The account designation must be:

[Servicer's name] Trustee of Escrow Custodial Account for various Mortgagors related to Federal Home Loan Bank of Indianapolis ("FHLBI") Whole Loans.

- vii. The Servicer must maintain records identifying each mortgagor's payment and the account into which each payment is deposited.

#### 11.3.4 Timing of Deposits to Custodial Accounts

Servicers must deposit all funds received for mortgages into the Custodial Accounts no later than the first business day after receipt.

If a lock box service or other service is used to collect payments, Servicers must apply the payment and deposit the funds to the corresponding Custodial Accounts no later than the second business day after the day on which the lock box or other service received the payment.

P&I collections (net of servicing fees) under Actual/Actual remittance methods must be transferred from the Servicer's P&I Custodial Account to FHLBI's P&I Custodial Account within 2 business day of deposit to the Servicer's P&I Custodial Account.

## 12. Insurance

---

### 12.1 Limitations & Restrictions

In addition to the insurance guidelines provided in this section ([Section 12](#)), the following limitations and restrictions are highlighted:

- Special endorsements are required for condominium and PUD units. For condominiums, an ALTA 4 Endorsement or its equivalent is required. For PUD's, an ALTA 5 Endorsement or its equivalent is required. These endorsements must be attached to each policy or incorporated in the text of the policy.
- Title exceptions require the Seller to submit a title waiver from FHLBI before the mortgage loan closes.
- Mortgages are not eligible for sale to FHLBI if the community does not participate in the National Flood Insurance Program (NFIP).
- If an area has not been mapped by FEMA but the Seller/Servicer is aware that the insurable improvements are exposed to flood risks, the mortgage is not eligible for sale to FHLBI without flood insurance on the improvements.
- If the Condominium Owners Associations' building coverage is not at least equal to the lower of 80% of the building's replacement cost or \$250,000 multiplied by the number of units in the building, the mortgage is not eligible for sale to FHLBI.
- FHLBI will not accept hazard insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damage, or any other perils that are normally included under an extended coverage endorsement unless such risks are covered by a separate policy or endorsement from another insurer that provides adequate coverage for the limited or excluded risk.

### 12.2 Required Insurance Coverage

#### 12.2.1 All Risk Property Insurance

All Risk property insurance is required for each mortgage and evidence of such insurance must be kept in the Servicer's files pursuant to [Section 12.3](#) of this Guide.

1. The Servicer is required to maintain a valid, standard policy of insurance for all risk property coverage or comparable insurance coverage.
2. Such policy must be in an amount equal to or greater than the UPB of the mortgage, or the value of the improvements, less the value of the land.
3. The policy must include a standard mortgagee clause naming the Servicer, its successors and assigns, or FHLBI, its successors and assigns, as mortgagee.
4. The Servicer must also maintain, for each mortgage, any other insurance required by FHLBI Guidelines.

5. The Servicer must maintain the insurance in full force and effect to the extent that the insurance is available.

### 12.2.2 Title Insurance

Title Insurance policies must meet the requirements of Fannie Mae and Freddie Mac and each policy must be written on a standard form ALTA Title Insurance Policy 1992 Version, or a more recent version, which contains the updated creditor's rights exclusion statement and evidence of such insurance, must be kept in the Servicer's files pursuant to [Section 12.3](#) of this Guide.

#### 12.2.2.1 Title Insurance Rating Requirement

Each Title Insurance policy must be written by a title insurance company that had at least one of the following ratings at the time the mortgage loan closed:

- A Financial Stability Rating of **S** (substantial) or better, or a Statutory Accounting Rating of **C** (average) or better from Demotech, Inc.
- A **BBB** or better rating from Duff and Phelps Credit Rating Company.
- A **C** or better rating from LACE Financial Corporation.
- A **Baa** or better rating from Moody's Investors Service.
- A **BBB** or better rating from Standard and Poor's Ratings Group.

#### 12.2.2.2 Short Form Policies or Mortgagee's Certification of Insurance

FHLBI will accept Title Insurance provided by short form policies or by mortgagee's certifications of title insurance issued in conjunction with master Title Insurance policies provided that all of the following conditions are met:

1. The title insurer satisfies FHLBI's insurer rating requirement.
2. The title insurer and any applicable branches, affiliates, or agents of the title insurer are properly licensed and authorized to do business in the jurisdiction in which the mortgaged property is located and the policies are validly issued in that jurisdiction.
3. The standard ALTA policy forms (the Short Form Residential Loan Policy or the Master Residential Loan Policy and the Residential Loan Certificate) is used.
4. The master policy insures against loss due to survey-related matters.

#### 12.2.2.3 States Not Requiring Title Insurance

For states in which Title Insurance policies are not normally issued, an attorney's opinion stating that the mortgage is a valid First Lien in that state is required.

However, FHLBI always requires a Title Insurance policy on a mortgage that is executed using a POA or that is secured by a condominium or PUD, even if the condominium or PUD is located in a state in which title policies are not normally issued.



#### **12.2.2.4 Title Insurance Policy Requirements**

All Title Insurance policies shall meet all of the following requirements:

**1. Effective Date:**

The effective Date of the title insurance may be no earlier than the later of the date of the final disbursement of loan proceeds or the date the mortgage was recorded.

**2. Minimum Coverage:**

The minimum amount of title insurance coverage is the original principal amount of the mortgage loan.

**3. Environmental Protection Lien Endorsement:**

An Environmental Protection Lien Endorsement is required for all mortgage loans originated after September 1, 1987. ALTA Endorsement 8.1 provides the required coverage.

**4. General Title Waivers:**

The title to the property, which secures a mortgage loan, must be good and merchantable and free and clear of all liens and encumbrances. The title policy must not be subject to any exceptions unless waived in writing by FHLBI before Closing or unless permitted pursuant to this section ([Section 12.2](#)).

#### **12.2.2.5 Allowable Title Conditions**

FHLBI will allow a title that is subject to any of the following conditions:

1. Any lien established by public bond, assessment or tax, when no installment, call or payment of or under such bond, assessment or tax is delinquent.
2. Any municipal and zoning ordinances and exceptions to title waived by the regulations of federal mortgage insurers and guarantors with respect to one to four family residences in effect on the date on which the mortgage was closed and all documents were executed.
3. Any other impediments which will not have a materially adverse effect on either the transferability of the Property or the sale thereof to a bona fide purchaser.

#### **12.2.2.6 Good and Merchantable Title Restrictions**

A Good and merchantable title will not exist if either of these conditions apply:

1. There is any lien pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act, or similar federal or state law, as in effect from time to time, providing for liens in connection with the removal and clean-up of environmental conditions, or if notice has been given of commencement of proceedings which could result in such a lien.
2. There are limitations on ingress and egress to the property or on use of utilities. Any action or proceeding after a foreclosure sale relating to establishing a deficiency judgment will not be considered in determining whether the insured has acquired good and merchantable title.

### 12.2.2.7 Condominiums and PUD Projects

The mortgage Title Insurance policy covering each unit in a condominium or PUD project must meet the following requirements:

#### 1. Legal Description:

Must include all components of the unit estate including:

- a. The name of the project.
- b. The unit itself.
- c. The undivided interest in the common elements (for condominium units).
- d. The non-exclusive easement to use the common areas and facilities (for a PUD or other kind of project unit that has separately owned common elements or facilities).
- e. Any significant limited common elements or exclusive easements over the common areas.

If the unit owners own the common areas of the project as tenants in common that ownership must be reflected in the policy. The policy may describe limited common elements or exclusive easements specifically or by reference to the constituent documents.

If the HOA owns the common elements, areas, or facilities of a project separately (or holds them in a leasehold estate), insurance on those areas is required to insure that ownership. The title must be free and clear of any objectionable liens and encumbrances, including any Statutory or Mechanics' Liens for labor or materials related to improvements on the common areas that began before the title policy was issued.

#### 2. Title Insurance Policy Coverage:

Must include coverage that provides protection by:

- a. Insuring that the mortgage is superior to any lien for unpaid common expense assessments. In jurisdictions that give these assessments a limited priority over a First or Second Mortgage Lien, the policy must provide assurance that those assessments have been paid through the Effective Date of the policy.
- b. Insuring against any impairment or loss of title of FHLBI's First Lien caused by any past, present, or future violations of any covenants, conditions, or restrictions of the master deed for the project. The title insurance policy must specifically insure against any loss that results from a violation that existed as of the date of the policy.
- c. Insuring that the unit does not encroach on another unit or on any of the common elements, areas or facilities. The policy must also insure that there is no encroachment on the unit by another unit or by any of the common elements, areas or facilities.
- d. Insuring that the mortgage is secured by a unit in a condominium project that has been created in compliance with the applicable enabling statutes.

- e. Insuring that real estate taxes are assessable and lienable only against the individual condominium unit and its undivided interest in the common elements, rather than against the project as a whole.
- f. Insuring that the owner of a PUD is a member of the HOA and that the membership is transferable if the unit is sold.

**Note:** Special endorsements are required for condominium and PUDs. For condominiums, an ALTA 4 Endorsement or its equivalent is required. For PUD's, an ALTA 5 Endorsement or its equivalent is required.

These endorsements must be attached to each policy or incorporated in the text of the policy.

#### **12.2.2.8 Request for Additional Title Waivers**

For title exceptions, which are not specifically permitted above, the Seller must request a title waiver from FHLBI before the mortgage loan closes.

**The request should be accompanied by the following:**

- A statement from the private mortgage insurer, if any, which indicates the exception will not adversely affect the private mortgage insurance coverage.
- A statement from the appraiser, which indicates that the exception will not adversely affect the marketability or use of the property and agrees to indemnify FHLBI if a loss should later be incurred due to the exception(s).

#### **12.2.3 Improvement Survey Requirements**

An Improvement Survey must be obtained and kept in the Servicer's files unless the mortgage loan is covered by a master title insurance policy, which insures against loss due to survey-related matters. In areas where surveys are not customary, the title insurance policy must insure against loss or damage by any violation, variation, encroachment, or adverse circumstance that would have been disclosed by an accurate survey.

**1. The survey must show each of the following:**

- a. The location by courses and distances of the plot to be covered by the mortgage, the relation of the point of the beginning of the plot to the monument from which it is fixed, all easements affecting the plot, any established building line, the line of the street or streets abutting the plot, and the width of such streets;
- b. Any encroachments upon the plot or any easement appurtenant to the plot, and their extent measured in terms of feet and inches; and
- c. All structures and improvements on the plot, including the horizontal lengths of all sides and the relation of the structures and improvements by distance to all boundary lines of the plot, easements, established building lines, and street lines.

If the plot is described as being on a field map, the survey must contain a legend relating the plot to the map on which it appears. The survey must prove the improvements lie

entirely within the boundaries of the plot and no part of the improvements encroach upon or overhang any easement or right of way upon other plots. The survey must also prove the improvements are wholly within the established building restriction lines and no adjoining structure encroaches upon the plot or upon any dominant easement affecting the plot.

## 2. Variations:

Variations between the length of the property lines as shown on the appraisal report and on the survey are acceptable provided that:

- a. The variance does not interfere with the current use of, or any improvement on, the mortgaged property; and
- b. The variance in the length of the front property line and rear property line is not deficient by more than 2% or 5%, respectively.

The appraiser must provide a statement regarding any other variations and explain how they affect the value of the property. If private mortgage insurance is required, the Seller must obtain a statement from the private mortgage insurer stating the variations will not affect the property's insurability.

### 12.2.3.1 *Survey Expiration Restrictions*

The survey must be performed, dated, and certified by a licensed civil engineer or registered surveyor within six (6) months of the date the title insurance policy was issued.

If a survey is dated more than six (6) months prior to the date of the title insurance policy, it must be re-certified by the licensed civil engineer or registered surveyor who originally performed the survey within the six (6) months prior to the purchase of the mortgage loan by FHLBI.

### 12.2.4 **Flood Insurance**

A flood zone determination must be made for each property securing a mortgage sold to FHLBI. A flood zone determination must be documented by a completed FEMA Form 81-93 Standard Flood Hazard Determination Form (SFHDF) in accordance with federal law.

The SFHDF may be used in a printed, computerized, or electronic manner and must be retained for the life of the mortgage in either hard copy or electronic format. The date in the **Date of Determination** field on the SFHDF must be a date that is no more than 120 days before the Note Date of the mortgage or, if applicable, the refinance Mortgage.

Flood insurance is required for any property located in a special flood hazard area that has federally mandated flood insurance purchase requirements.

FHLBI will rely on the Seller's representations and warranties that, as of the date a mortgage loan has been purchased, flood insurance has been obtained and the premiums for such insurance have been paid.

#### **12.2.4.1 Additional SFHDF Requirements**

##### **1. Special Flood Hazard Area (SFHA):**

If the SFHDF identifies the insurable improvements on the Mortgaged Premises as located in an area that has been identified as a SFHA designated as Zone **A** or **V** on a flood map; for example on a Flood Hazard Boundary Map or Flood Insurance Rate Map of FEMA, the Seller/Servicer must ensure that Flood Insurance is obtained and maintained on such improvements for the term of the mortgage.

The Flood Insurance policy may be issued by any qualified insurer and the terms and conditions of the flood insurance coverage must be at least equivalent to the terms and conditions of coverage provided under the standard policy of the National Flood Insurance Program (NFIP) for the type of improvements insured.

##### **2. Flood Insurance Waivers:**

The Seller/Servicer may waive the Flood Insurance requirement if one of the following conditions are met:

- a. The borrower and the Seller/Servicer have obtained, following a joint request to FEMA as provided under federal law, a Letter of Determination Review (LODR) concluding that the insurable improvements are not in the SFHA.
- b. The borrower has provided the Seller/Servicer with a Letter of Map Amendment (LOMA) from FEMA excluding the insurable improvements or the entire property from the SFHA.
- c. The borrower has provided the Seller/Servicer with a Letter of Map Revision (LOMR) from FEMA removing the community's SFHA designation.

The borrower must maintain Flood Insurance on the insurable improvements until FEMA issues a LOMA, LOMR or LODR. Upon issuance of a LOMA, LOMR or LODR, the borrower may request from FEMA a refund of paid Flood Insurance premiums through the insurance agent servicing the flood insurance policy. A copy of the LOMA, LOMR or LODR, as applicable, must be maintained in the mortgage file.

If the insurable improvements on the Mortgaged Premises are located in an SFHA but the community does not participate in the National Flood Insurance Program (NFIP), therefore considered a non-participating community, the mortgage is not eligible for sale to FHLBI.

If the insurable improvements on the Mortgaged Premises are located in an area that has not been mapped by FEMA and the Seller/Servicer is not aware of any flood risks to which the improvements are exposed, the mortgage is eligible for sale to FHLBI without the benefit of Flood Insurance. If the area has not been mapped by FEMA but the Seller/Servicer is aware that the insurable improvements

are exposed to flood risks, the Mortgage is not eligible for sale to FHLBI without Flood Insurance on the improvements.



### 3. Required Documentation:

Flood insurance should generally be in the form of the standard policy issued by members of the National Flood Insurance Administration (NFIA). And an insurer whose coverage is guaranteed by the NFIP under a Standard Flood Insurance Policy ISSUED PURSUANT TO THE National Flood Insurance Act of 1968, as amended. If Flood Insurance is required, the mortgage loan must close with one of the following:

- a. A complete Flood Insurance policy containing a standard mortgagee clause.
- b. A complete application to the National Flood Insurance Program Agency (NFIP) with evidence that the first year premium on the policy has been paid and an elevation certificate if the property was constructed after the date of the FIRM.

A new elevation certificate may be obtained from a private engineer, architect, land surveyor, or a local community permit official who obtains the information by transcribing data from the building permit records provided that the data has been certified.

To help minimize the expense of obtaining an elevation certificate, FHLBI will accept the following alternative documentation:

- i. A copy of the property Seller's elevation certificate.
  - ii. A copy of the property Seller's Flood Insurance Declaration page, provided the elevation information is on the declaration page.
  - iii. With respect to new construction, elevation information may be obtained from the city engineer or the developer's site planning engineer.
- c. A completed application to the NFIP with evidence that the first year premium on the policy has been paid, and a completed flood Insurance certification form, in form and substance acceptable to FHLBI, if the property was constructed before the FIRM date.

To determine whether a property was constructed before or after the FIRM date, consult the community status book published by NFIP, or call NFIP directly at (800) 638-6620 or (800) 492-6605 specifically for Maryland residences).

To use the community status book, locate the city/county in which the property is located and read across to the Date of Entry into the Emergency or Regular Program to determine the FIRM date.

#### **4. Amount of Coverage:**

If the community where the Mortgaged Premises are located participates in the Emergency Program of the NFIP, the Flood Insurance coverage on the insurable improvements must at least equal the lowest of the following:

- The UPB of the mortgage.
- The maximum amount of coverage currently sold under the Emergency Program of the NFIP for the type of improvements insured.
- The replacement cost of the insurable improvements.

#### **5. Deductible Amounts:**

The deductible may not exceed the maximum deductible amount currently allowed under the NFIP for the type of improvements insured.

#### **6. Condominiums and PUDs:**

Flood insurance requirements for 1 to 4 unit properties apply to similar residential properties in a Detached Condominium Project. If the Condominium Unit securing a mortgage sold to or serviced for FHLBI is in a building in a Condominium Project other than a Detached Condominium Project and all or part of the building is in an SFHA, the following flood insurance coverage, as applicable, is required:

##### **a. Condominium Owners Association Coverage**

The Condominium Owners Association must maintain building coverage on the building for the lower of:

- the building's replacement cost or
- \$250,000 multiplied by the number of residential units in the building.

The Condominium Owners Association must maintain contents coverage on the building for the lower of:

- the actual cash value of the contents in the building that are owned in common by the association members or
- the maximum amount of contents coverage sold by the NFIP for a condominium building.

The deductible of the Condominium Owners Association's coverage may not exceed the maximum deductible amount currently allowed under the NFIP for condominium association building coverage. The deductible for association building contents may not exceed the maximum deductible amount currently allowed under the NFIP for association building contents.

**b. Unit Owner's Coverage**

To the extent the Condominium Owners Association's building coverage does not meet the requirements above, the Borrower must maintain supplemental coverage on the unit in an amount at least equal to the difference between the condominium associations' building coverage allocated to that unit and the amount required on a 1 to 4 unit property and with a deductible not exceeding the maximum deductible allowed for a 1 to 4 unit property.

If the Condominium Owners Associations building coverage is not at least equal to the lower of 80% of the building's replacement cost or \$250,000 multiplied by the number of units in the building, the mortgage is not eligible for sale to FHLBI.

**7. Mortgagee Clause:**

The mortgagee clause must read as follows:

The Seller's name must appear in the mortgagee clause of the flood insurance policy followed by the phrase "its successors and/or assigns."

FHLBI should not appear as mortgagee unless the policy coverage would be impaired as a result.

**8. Federal Disaster Area:**

FHLBI will purchase mortgage loans secured by properties located in a federal disaster area, provided the Seller submits the following documentation to FHLBI:

- a. Written certification of the Seller that the value of the mortgaged property has not been affected by any damage arising out of the disaster.
- b. Written re-certification from the original appraiser stating that the value of the mortgaged property has not been affected by any damage arising out of the disaster.
- c. After repairs have been made to the mortgaged property, a written re-certification from the original appraiser stating that the mortgaged property has been restored to its original appraised value.

FHLBI will not purchase the mortgage loan until any damages arising out of the disaster are repaired.

The Seller should contact the appropriate regional FEMA offices to determine whether properties located in its origination regions are included in the disaster areas.

## 12.2.5 Hazard Insurance

### 1. General Requirements:

At Closing, the borrower must provide the Seller with a hazard insurance policy which meets the requirements stated below and evidence that the first year premium has been paid. FHLBI will rely on the Seller's representations and warranties that, as of the date a mortgage loan has been purchased, hazard insurance has been obtained, and the premium for such insurance is paid.

The borrower has the right to select the insurance carrier provided the carrier has at least one of the following ratings at the time the mortgage loan was closed:

- A **B** or better Financial Strength Rating from A.M. Best's Insurance Reports.
- An **A** or better rating in Demotech Inc.'s Hazard Insurance Financial Stability Ratings.
- A **BBB** or better Insurer Financial Strength Rating in Standard and Poor's Ratings Direct Insurance Service.

### 2. Prior to Closing:

Seller must verify that the hazard insurance rating requirements have been met. The following alternative hazard insurance coverages are also acceptable:

- a. In the event that the issuer of the hazard insurance policy does not meet the above described rating requirements, the hazard insurance policy may, nevertheless, be acceptable if the insurer is reinsured by a company that meets either one of the A. M. Best general policy-holder ratings or Standard and Poor's Ratings Group claim-paying ability ratings described above.  
Both insurance companies must, however, execute an assumption of liability agreement, in form and substance acceptable to FHLBI that provides for 100% reinsurance of the primary insurer's policy and 90-day written notice of termination of the reinsurance arrangement. The assumption of liability agreement must be attached to the hazard insurance policy.
- b. Coverage from Lloyd's of London or, if no other coverage is available, coverage under a fair access to insurance requirements (FAIR) plan or other state-managed insurance pools.
- c. The insurance carrier and, if applicable, the reinsuring insurer must be authorized (or licensed, if required) to transact business in the state in which the mortgaged property is located.

### 3. Mortgagee Clause:

The mortgagee clause must read as follows:

[Seller's name] its successors or assigns.

FHLBI should not appear as mortgagee unless the policy coverage would be impaired as a result.

### 4. One to Four Family Residences:

#### a. Type of Coverage

- i. One to four family residences (including those secured by PUD units) must be covered for loss or damage from fire and other hazards covered by a standard extended coverage endorsement.  
**Note:** FHLBI will not accept hazard insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damage, or any other perils that are normally included under an extended coverage endorsement unless such risks are covered by a separate policy or endorsement from another insurer that provides adequate coverage for the limited or excluded risk.
- ii. The coverage should be of the type that provides for claims to be settled on a current replacement cost basis. FHLBI does not require separate appraisal valuations for land and improvements to support the use of replacement cost coverage.
- iii. Individual insurance policies are required on PUD units unless the PUD unit is covered under the project's blanket policy and the PUD project's constituent documents allow the individual PUD units to be included in the project's blanket policy. In addition, the homeowners association must maintain a policy that covers the common areas, fixtures, equipment, personal property and supplies of the project.
- iv. An individual hazard insurance policy is not required for a condominium unit. The Seller must, however, verify that coverage is in force for the entire project before the mortgage loan is delivered to FHLBI.

#### b. Amount of Coverage

For one to four family residences and individual PUD units, the amount of hazard insurance coverage must at least equal the lesser of:

- i. 100% of the insurable value of the improvements, as determined by the property insurer.

- ii. The UPB of the mortgage loan, provided that it equals the minimum amount (80% of the insurable value of the improvements) required to compensate for damage or loss on a replacement cost basis. If the policy is written for less than the mortgage loan amount purchased by FHLBI, it should contain a replacement cost guarantee endorsement.

c. Deductible Amounts

Unless a higher maximum amount is required by state law, the maximum deductible may not exceed 5% of the limit maintained for dwelling coverage. The deductible clause may apply to either fire, water (not caused by flooding), or wind damage.

When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible may be the higher of \$2,000 or 2% of the policy face amount (or 2% of a PUD unit's replacement cost, if the unit is covered under a blanket insurance policy).

d. Additional Coverage

Each of the following additional coverages are required:

- Earthquake coverage is required for all mortgaged properties located in Puerto Rico.
- Rent Loss Insurance must be maintained by the borrower with respect to any 2 to 4 family investment property, one unit of which is not occupied by the borrower.

Hazard insurance policies, which include optional coverage that is not required by FHLBI, are acceptable provided that FHLBI is not obligated to renew any part of the coverage not required hereunder.

## 5. Condominium and PUD Projects

a. Type of Coverage

- i. Condominium and PUD projects must be covered by an insurance policy which protects against fire, all other hazards that are normally covered by the standard extended coverage endorsement, and all other perils customarily insured against by similar types of projects, including those covered by the standard all risk endorsement.

If the policy does not include an *all risk* endorsement, FHLBI will accept a policy that includes the broad form covered causes of loss.

- ii. The HOA must maintain the hazard insurance policies described in this section ([Section 12.2.5](#)). Premiums with respect to such policies should be considered a common expense of the project.
- iii. Policies covering the common elements for a PUD project must cover all of the common elements except for those that are normally excluded from coverage, such as land, foundation, excavations, etc. Fixtures and building service equipment that are considered part of the common elements, as well as common personal property and supplies, should be covered. If the project's legal documents allow for blanket insurance policies to cover both the individual units and common elements, FHLBI will accept such policies in satisfaction of the insurance requirements for the units.
- iv. The *master* or *blanket* policy covering the common elements of a condominium project must cover all of the general and limited common elements that are normally included in coverage such as fixtures, building service equipment, and common personal property and supplies belonging to the HOA. The policy must also cover fixtures, equipment, and other personal property inside individual units if they are to be financed, whether or not the property is part of the common elements.
- v. The insurance requirements set forth in this section ([Section 12.2.5](#)) apply to any condominium unit mortgage with a Note dated on or after July 1, 1995, if the condominium unit is in a condominium project, and part of which is located in one or more California High-Risk Zip Codes.

In addition, the earthquake insurance requirements of this section ([Section 12.2.5](#)) may apply to a condominium unit mortgage with a Note dated on or after July 1, 1995, if the condominium unit is in a condominium project, any part of which is located in one or more California Moderate-Risk Zip Codes.

A condominium project in a moderate-risk zip code must have earthquake insurance coverage if required by applying an earthquake insurance requirements matrix prepared by Risk Management Solutions (RMS).

Characteristics of this matrix include:

- Year built
- Construction Class (wood, concrete, steel, reinforced masonry, or unreinforced masonry)
- Number of stories
- Type of parking (tuck-under or multilevel above-grade)

Current or future zip code classifications may be subject to change from time to time due to one or both of the following:

- Action by the United State Postal Service that modifies, add, or deletes zip codes.
  - Changes that may result from natural or man-made conditions.
- vi. Earthquake insurance is required for all buildings in Puerto Rico. The amount of required coverage and the deductible limitations are the same for these policies as they are for policies for fire and extended coverage.

b. Amount of Coverage

- i. Hazard insurance coverage for PUD and condominium projects must be at least 100% of the insurable replacement cost of the project improvements, including the individual units in a condominium or PUD project.

A hazard insurance policy that includes either of the following endorsements will assure full replacement cost coverage:

- A guaranteed replacement cost endorsement which provides that the insurer agrees to replace the insurable property regardless of the cost; or
- A replacement cost endorsement which provides that the insurer agrees to pay up to 100% of the property's insurable replacement cost, but no more.

- ii. If the policy includes a coinsurance clause, an agreed amount endorsement waiving the coinsurance clause is required.

c. Deductible Amounts

Unless a higher maximum amount is required by state law, the maximum deductible for policies covering the common elements in a PUD or condominium project is the lesser of \$10,000 or 1% of the policy face amount.

The maximum deductible amount for individual units that are covered under the blanket policy for the project should be the higher of \$1,000 or 1% of the replacement cost of the unit.

d. Special Endorsements

All of the following endorsements are required for PUD and condominium projects:

- i. An Inflation Guard Endorsement, if available.
- ii. Construction Code endorsement if there is a construction code provision that would require changes to undamaged portions of the subject projects' building(s) even when only a part of a building is destroyed by an insured hazard.

- iii. Steam Boiler and Machinery Coverage endorsement if the project has central heating or cooling. The minimum coverage per accident must be at least equal to the lesser of \$2 million or the insurable value of the building(s) containing the boiler or machinery. Separate stand-alone boiler and machinery coverage may be purchased in lieu of obtaining this endorsement.

e. Additional Condominium Project Requirements

In addition, policies covering a condominium project should provide that all of the following conditions are met:

- i. Insurance Trust Agreements are recognized
- ii. The right of subrogation against unit owners is waived.
- iii. The insurance will not be prejudiced by any acts or omissions of individual unit owners that are not under the control of the HOA.
- iv. The policy is primary, even if a unit owner has other insurance that covers the same loss.

These provisions are usually covered by a Special Condominium Endorsement.

- Name Insured:

Insurance policies for PUD and condominium projects must show the HOA as the name insured and must contain the applicable mortgagee clause.

### 12.3 Evidence of Coverage

1. The Servicer must maintain evidence of the required insurance and a copy of the Improvement Survey as specified in [Sections 12.2.1](#) through [Section 12.2.5](#) of this Guide by retaining all of the following:
  - The original policies or the information relating to the insurance policies.
  - The survey or master title insurance policy (in accordance with [Section 12.2.3](#)), in a medium that is accessible to FHLBI.
2. If the Servicer does not retain the original policies as evidence of insurance, it must carry Mortgage Impairment or Mortgage Interest Insurance.
3. In addition to all other remedies of FHLBI, the Servicer will indemnify FHLBI for any loss FHLBI sustains due to the Servicer's failure to verify that the required insurance is in force on the mortgages.

The Servicer's obligation will not be limited to the amount of coverage in force under a mortgage impairment or mortgagee interest policy.

## 13. Audit

---

### 13.1 Audit Records

1. The Seller and Servicer agree that at any reasonable time, during normal business hours, as requested by FHLBI, FHLBI or its designated agents may examine and audit the mortgages held by the Seller or Servicer.

This includes all books, records, or information of the Seller or Servicer or relating to a Seller's or Servicer's mortgages or its participation in MPP, or bearing on the Seller's or Servicer's compliance with the requirements of MPP, its management or its financial structure, including but not limited to, all mortgage documents, mortgage servicing records, mortgage records and banking records for funds directly or indirectly related to the mortgages.

2. The Seller and Servicer agree that FHLBI shall have the right to perform such audits on any of the Seller's or Servicer's servicing subcontractors, agents, or other representatives of the Seller or Servicer.
3. As a service to FHLBI, various contractors conduct financial and administrative reviews of the Seller or Servicer to assure compliance with FHLBI requirements. The Seller or Servicer must afford all contractors and their staff full cooperation in their conduct of these reviews.

### 13.2 Access to Audits

1. For the purpose of audit, examination, monitoring, and evaluation of a Seller's or Servicer's compliance with MPP, each Seller or Servicer must make available for inspection by FHLBI or its agents, upon request; Custody Files, mortgage documents, and other information pertinent to its operations under MPP.
2. Each Seller or Servicer must ensure that any party holding Custody Files or mortgage documents, including a servicing subcontractor, Document Custodian, Funds Custodian, or other person, has executed a written agreement with the Seller or Servicer to permit FHLBI access to documents as provided above.

## 14. Payments to FHLBI

---

### 14.1 Scheduled/Scheduled

#### 14.1.1 Method and Timing

1. The Servicer is obligated to make timely monthly payments of scheduled P&I on the mortgages to FHLBI without regard to whether the Servicer is able to recover, from liquidation proceeds, insurance proceeds or late payments, amounts paid to FHLBI.
2. For conventional mortgage MCCs, FHLBI will debit Seller's CMS Account or accept wired funds by the applicable Servicer by 1:00 p.m. Eastern (EST) time on the 18th calendar day of the month if the 18th is a business day.

If the 18th calendar day is not a business day, the transfer must be completed by 1:00 p.m. Eastern (EST) time on the first business day following the 18th calendar day of the month. FHLBI shall debit the amount set forth in a notice of withdrawal from the Master Servicer.

3. For FHA MCCs, FHLBI will debit Seller's CMS Account or accept wired funds by the applicable Servicer by 1:00 p.m. Eastern (EST) time on the 15th calendar day of the month if the 15th is a business day.

If the 15th calendar day is not a business day, the transfer must be completed by 1:00 p.m. Eastern (EST) time on the first business day following the 15th calendar day of the month. FHLBI shall debit the amount set forth in a notice of withdrawal from the Master Servicer.

#### 14.1.2 Computation of Payments

1. The Servicer's monthly payment to FHLBI will consist of three elements: scheduled interest, scheduled principal, and unscheduled principal, computed as described below.

##### a. Scheduled Interest

Interest due to FHLBI each calendar month under each mortgage is computed as one-twelfth of the Pass-Through Rate payable on the mortgage, multiplied by the beginning scheduled balance of the mortgage on the cut-off date prior to the calendar month in which the interest payment on the mortgage is due.

##### b. Scheduled Principal

The scheduled principal payment due each calendar month to FHLBI under each mortgage is the scheduled amount of principal due on the mortgage on the first day of the calendar month in which the principal payment on the mortgage is due.

##### c. Unscheduled Principal

In addition to the regular monthly scheduled principal payments, each monthly payment to FHLBI must include all unscheduled recoveries of principal received by the Servicer, or due through the cut-off date prior to the calendar month in which the next regular scheduled monthly payment on the mortgage is due.

- i. Unscheduled principal payments are proceeds received in connection with, or that become due on, the mortgage or the property other than scheduled P&I payments and miscellaneous collections.
  - ii. Unscheduled principal includes, but is not limited to:
    - a) Prepayments (excluding scheduled payments made in advance of their due dates, which the funds custodian is to hold in the P&I Custodial Account and pay to FHLBI in connection with the appropriate mortgage payment date).
    - b) PMI, SMI, or title insurance settlement proceeds.
    - c) Hazard insurance proceeds, to the extent not used to repair the collateral.
    - d) Proceeds from foreclosure sales or repossession sales and any payments received in lieu of foreclosure or repossession of the collateral.
    - e) Any principal amount of a mortgage finally discharged by a bankruptcy court.
    - f) Proceeds from any disposal or transfer of a mortgage, except for authorized pledges of servicing.
    - g) Payments from the Servicer's own funds, as required.
    - h) All other payments or proceeds that reflect the recovery of principal on a mortgage. The entire amount of any such payments, whether or not actually received by the Servicer, is considered an unscheduled recovery of principal.
2. The Servicer must pay the entire amount of all unscheduled recoveries of principal on a mortgage to FHLBI until such time as FHLBI has been paid in full all amounts due or that may become due on a mortgage.
  3. The Servicer may not deduct from any such unscheduled recoveries, advances made to make payments due FHLBI under the mortgage. Advances may be reimbursed as permitted by [Section 15.3](#) of this Guide.
  4. If a third party deducts any amounts from an unscheduled recovery of principal, the Servicer must pay an amount equal to such amounts to FHLBI.
  5. Once FHLBI has been paid in full, all amounts due or that may become due on a mortgage, to the extent that the Servicer has made any advances on behalf of the mortgagor; they may exercise the rights of FHLBI to recover such amounts from such mortgagor.

### 14.1.3 Early Receipt of Scheduled Payments

Scheduled payments collected on each mortgage in advance of the dates they are due are to be retained by the Funds Custodian in the P&I Custodial Account for payment to FHLBI during the calendar month in which such payments are required to be passed through to FHLBI.

In case of a full payoff, the Servicer will remit the full scheduled interest due for the current month, regardless of the date the payoff was received during that month.

### 14.1.4 Escrow and Miscellaneous Collections

The following escrow and miscellaneous collections are not recoveries of principal:

1. Mortgage Insurance Premiums
2. Tax payments
3. Hazard insurance payments
4. Special charges related to servicing
5. Late charges
6. Ground rents
7. Special assessments
8. Water rents
9. Attorney's fees
10. Any funds to repay the Servicer's expenditures under the terms of the mortgage to complete construction, pay for security services, or prevent waste.

## 14.2 Actual/Actual

### 14.2.1 Method and Timing

1. The Servicer is obligated to remit to FHLBI the actual principal and actual interest (net of servicing fees) collected from borrowers.
2. FHLBI will debit the Seller/Servicer's actual/actual P&I Custodial Account maintained at FHLBI on the 18th calendar day of the month if the 18th is a business day. If the 18th calendar day is not a business day, the debit is posted on the first business day following the 18th calendar day of the month. FHLBI shall debit the amount set forth in a notice of withdrawal from the Master Servicer.

#### 14.2.2 Computation of Payments

1. The Servicer's monthly payment will consist of two elements: actual interest and actual principal, as described below:

- a. **Actual Interest**

Interest due FHLBI each calendar month will equal the interest collected and applied to each mortgage during the prior calendar month. The amount of interest shall be net of servicing fee to be retained by the Servicer.

- b. **Actual Principal**

Principal due FHLBI each calendar month will equal the principal collected and applied to each mortgage during the prior calendar month. This will include prepayments and liquidation proceeds applied to the loan.

#### 14.3 FHA Delinquency and Losses

If at any time, the property securing an FHA mortgage is transferred to the Servicer by the mortgagor or in connection with foreclosure proceedings or otherwise and a UPB exists with respect to such mortgage, the Servicer shall advance FHLBI from its own funds on the 15th day of the calendar month following either such event (or the first business day following such 15th day) an amount equal to the UPB of such mortgage and all other amounts remaining due and unpaid under such mortgage.

Such payment is deemed an advance to or on behalf of the mortgagor or under such FHA mortgage. In such event, the Seller or Servicer may exercise the rights of FHLBI against such mortgagor or against the FHA under the FHA Insurance.

FHA Seller/Servicers may, at their option and without FHLBI's prior approval, repurchase any FHA loan for an amount equal to 100 percent of the loan's remaining balance, less the principal payments advanced, when at least one missed payment remains uncured for four (4) consecutive months.

#### 14.4 Advances to Pay Taxes and Insurance

1. If the mortgagor does not make full and timely payment of amounts required to make payments of taxes and insurance premiums, the Servicer must advance its own funds to make the payments when due, either to the Escrow Custodial Account or directly to the taxing authority or insurance company.
2. If the Servicer makes such payment from the Escrow Custodial Account, it must deposit from its own funds into the Escrow Custodial Account an amount equal to such payment within one business day after payment of such taxes or insurance premiums is made from such Escrow Custodial Account.
3. Tax and insurance funds on deposit for a mortgagor cannot be used for any purpose other than the payment of such mortgagor's taxes and insurance.

## 14.5 Other Expenses

1. When due, the Servicer must advance from its own funds any legal fees or litigation expenses incurred in connection with the enforcement of any mortgage.
2. When due, the Servicer must advance from its own funds any other loss or expense incurred in connection with a mortgage if this Guide or FHLBI Guidelines do not specifically provide for reimbursement.
3. In the event of any such advance made with respect to an FHA mortgage, at such time as FHLBI is paid in full, all amounts that are due or may become due under a mortgage; the Seller or the Servicer may exercise the rights of FHLBI against the mortgagor or the FHA under the FHA Insurance.
4. In the event of any such advance made in respect of any conventional mortgage, the Seller or Servicer shall be entitled to reimbursement of such advance for reasonable and customary expenses as approved in by [Section 15.3](#) of this Guide.

## 14.6 LRA and SMI Advances

If FHLBI has advanced funds on behalf of the LRA, FHLBI will reduce any LRA distribution by the amount of such LRA advances made on behalf of the Seller and still outstanding at the time of the calculation for LRA distribution.

If the SMI has advanced funds for default claim settlements, the SMI shall be reimbursed for such advances, to the extent that LRA funds are available, before LRA funds will be released to the Seller.

## 14.7 Early Payoffs/Prepayments

FHLBI will recapture premium and LRA on loans paid off within 120 days (calculated by date of borrower's payoff to servicer) of settlement.

## 15. Advance Agreements and Reimbursement of Advances

---

### 15.1 Ledger

The Servicer must maintain a ledger that details all of the following:

1. The net unrecovered Servicer advances to the P&I Custodial Account.
2. The excess funds used in lieu of Servicer advance of its own funds.
3. The net amount of excess funds outstanding during each month, i.e., the amount that has not been recovered either through the Servicer's own funds or from payments by mortgagors.

### 15.2 Funds in Escrow

Funds in an Escrow Custodial Account cannot constitute excess funds, because escrow funds collected in connection with a mortgage may be used only for the benefit of the mortgagor that made the payment.

#### 15.2.1 Deficit Escrow Balance

The Servicer must advance its own funds to cover payments due on a mortgage with a deficit escrow balance.

**Important:** The Servicer must replace, in the P&I Custodial Account, excess funds used to make advances during a given calendar month in time to pay FHLBI the amounts due FHLBI in the following calendar month and before the Servicer recovers advances made from its own funds.

The Servicer is liable to FHLBI at all times for the restitution of any excess funds withdrawn to cover advances.

### 15.3 Reimbursement of Advances

With respect to conventional mortgages, the Servicer is entitled to reimburse itself for any advance made in accordance with this Guide from any amounts received as Servicer from the related mortgagor in respect of the required payment or expense for which the advance was made; proceeds from liquidation of the mortgage through foreclosure or otherwise; and proceeds from claims made on behalf of FHLBI under any PMI policy and any SMI policy, if applicable.

To the extent not reimbursed, FHLBI will reimburse the Servicer for advances made in accordance with the Guide. With respect to an FHA mortgage, the Servicer is entitled to reimburse itself for any advances made by it in accordance with this Guide through exercising the rights of FHLBI against the related mortgagor and the proceeds of any insurance claim against the FHA in respect of such FHA mortgage.

## 16. Servicing Delinquent and/or Defaulted Mortgages

---

### 16.1 Mortgages in Default

A loan is deemed to be in Default by a borrower when one of the following occurs:

1. Failure to pay when due one (1) or more monthly regular periodic payments due under the terms of a loan.
2. Failure to pay all amounts due on acceleration of the loan by the Servicer after breach by the Borrower of a due-on-sale provision in the Loan, granting the Servicer the right to accelerate the loan upon transfer of title to, or an interest in, the Property and to institute Appropriate Proceedings.

**Note:** Violation by the borrower of any other term or condition of the loan which is a basis for Appropriate Proceedings shall not be considered to be a Default.

A loan is deemed to be in Default for that month as of the close of business on the Installment Due Date for which a scheduled monthly payment has not been made or as of the close of business on the Due Date stated in the notice of acceleration given pursuant to the due-on-sale provision in the loan.

The loan is considered to remain in Default until filing of a claim so long as such periodic payment has not been made or such basis for Appropriate Proceedings remains.

For example, a Loan is *three (3) months in Default* if the monthly installments due on January 1 through March 1 remain unpaid as of the close of business on March 31, or if a basis for acceleration and Appropriate Proceedings exists for a continuous period of three (3) months.

### 16.2 Servicer Responsibilities

1. The Servicer must service delinquent and defaulted mortgages in accordance with GSE guidelines. Wherever this Guide and GSE guidelines may be in conflict, this MPP Guide shall supersede the GSE guidelines.
2. The Servicer must employ staff that is experienced and skilled in financial counseling and mortgage collection techniques. The Servicer's staff must assist a mortgagor in bringing a mortgage current, while protecting the mortgagor's equity and credit rating and protecting FHLBI's interests.
3. Servicer's failure to service a delinquent loan timely may result in curtailments upon claim settlement. Severe failures to prudently service a delinquent loan as well as other servicing practices that are not compliant with FHLBI servicing guidelines may result in repurchase of the loan.

### 16.3 Delinquency Rates

The Servicer's continued eligibility to service mortgages for FHLBI is contingent on maintaining delinquency rates that are acceptable to FHLBI. FHLBI may disqualify or suspend a Servicer if their 30, 60, or 90 day delinquency rate or REO Rate for FHLBI mortgages is more than 50% higher than the mortgage bankers association's (or other source approved by FHLBI) average 30, 60, or 90 day delinquency rate, or REO rate, for all mortgages in the same geographical area in which the properties that secure the mortgages serviced by the Servicer are located.

Termination of the Servicer shall be the sole remedy for any failure of the Servicer to maintain the delinquency rates beneath the thresholds provided in this section ([Section 16.3](#)).

### 16.4 Inspection

The Servicer must inspect a property that secures a delinquent mortgage before the 90th day of delinquency. After the Servicer's initial inspection and until such time as the mortgage is referred for foreclosure, the Servicer should schedule subsequent property inspections for delinquent mortgages as often as it considers necessary to protect FHLBI's interests.

Particular attention should be paid to properties located in areas that have a high rate of vandalism and neglect. See also [Section 10.2.8](#) regarding Inspection of Properties.

### 16.5 Loss Mitigation Review

The Servicer should actively pursue collection and loss mitigation options on delinquent loans pursuant to the GSE guidelines including repay plans, modifications, Short Sales and Deeds-in-Lieu of Foreclosure. FHLBI does not require prior approval for short term repayment plans that may be established and monitored by the Servicer. However, the Servicer should make FHLBI aware of any plan they establish and provide status updates upon request.

**Additional loss mitigation efforts such as Loan Modification, Short Sale, and Deed in Lieu of Foreclosure require FHLBI approval.**

If insured by a PMI or SMI policy, MI approval is also required. See [Section 10.2.9](#) of this Guide for modification details.

## 1. Hardship Packages

When reviewing for loss mitigation approval, unless there are extenuating circumstances, the Servicer should submit a complete hardship package to FHLBI for review and decision. FHLBI will insist on clear, current, and accurate information. Incomplete or inaccurate requests may be denied.

The hardship package should consist of the following:

Required Item	Modification	Short Sale	Deed in Lieu
Proposed HUD-1		X	
Appraisal/BPO	X	X	X
Estimated Payoff Amount (through the proposed Resolution Date)		X	X
Reinstatement figures (through the proposed Resolution Date)	X		
Hardship Letter	X	X	X
Financial Statement (illustrating monthly income & monthly debt)	X	X	X
Credit Report	X	X	X
Proof of Income (last two months pay stubs)	X	X	X
Bank Statements (last two months)	X	X	X
Taxes (tax returns from last two years filed)	X	X	X
Purchase Offer		X	
Listing Agreement		X	
PMI/SMI Approval (if applicable)	X	X	X

## 16.6 Foreclosure Bidding Instructions

If foreclosure is necessary, the action should be prosecuted in the name of the Servicer. Foreclosing in the name of MERS is also acceptable in some cases, but may not be an option in all states. If the Servicer is the successful bidder at the foreclosure sale, title should be placed in the Servicer's name for REO marketing.

The bidding should always begin at the lowest bid amount acceptable in each state. If the auction is competitive, the bidding process should be continued until the maximum bid amount is reached.

### 16.6.1 Loans with PMI or SMI

For loans with PMI or SMI, the Servicer should refer to the insurance provider's Guide for directions on how to bid at foreclosure sale.

### 16.6.2 Loans without PMI or SMI

For all loans in Michigan and Minnesota, the maximum bid should be the total debt.

In all other states, the bid amount is based on the Fair Market Value of the property. For the purposes of calculating a Fair Market Value, the servicer should obtain a BPO and an Appraisal from separate sources. Both valuations should be reviewed for quality assurance.

1. The lower value should be subtracted from the higher value to determine the *value variance*.
2. The two values should be averaged together to obtain the *averaged value*.
3. The value variance should then be divided by the averaged value to determine the *variance percentage*.
4. If the variance percentage is less than or equal to 15%, the average value should be used as the Fair Market Value and applied as listed below to determine the maximum bid:

If the Value is  $\leq$  \$99,999 bid up to total debt or 85% of the fair market value; whichever is lower.

If the Value is between \$100,000 - \$225,000 bid up to total debt or 88% of the fair market value; whichever is lower.

If the Value is  $\geq$  \$225,001 bid up to total debt or 90% of the fair market value; whichever is lower.

If the variance percentage is greater than 15%, contact FHLBI for direction before bidding.

### 16.7 Foreclosure Sale Results/REO Notifications

For loans with PMI or SMI, the Servicer should refer to the insurance provider's Guide for directions on proper sale notification to the insurance provider.

In addition, the Servicer should notify FHLBI of the foreclosure sale results within 2 business days from when the sale took place. The results should include all of the following:

- Foreclosure Sale Date
- Redemption Expiration (if applicable)
- Estimated Confirmation/Ratification Date (if applicable)
- Winning Bid Price
- Winning Bidder
- Occupancy Status
- Documentation of the values used for bidding

## 16.8 Cash for Keys

In lieu of proceeding with eviction, Servicers may engage in Cash for Keys negotiations with the borrower/occupant.

1. For loans with SMI, the Servicer must seek approval from the SMI provider to ensure reimbursement of the cash for keys expense on the SMI claim.
2. All Cash for Keys offers require prior approval from FHLBI.

## 16.9 Listing and Sale of REO Properties

Immediately after the Servicer has obtained title to a property and the property is vacated, the Servicer should secure the property, remove debris, and take any emergency action necessary to preserve and protect the property. The Servicer should then obtain a Broker's Price Opinion and Appraisal and contract with an agent for listing and sale of the property. FHLBI (and the SMI provider, if applicable) should be involved in listing and sale decisions as well as repair decisions regarding the REO property.

The BPO, Appraisal, and any repair bids should be presented to FHLBI (and the SMI provider, if applicable) along with a recommendation for a listing strategy. Property repair and listing guidance is provided to the Servicer by FHLBI (and the SMI provider, if applicable). Failure to list properties for sale or to present offers to FHLBI in a timely manner may result in an adjustment to the final claim settlement.

## 16.10 Claim Filing

If PMI coverage is required under the FHLBI Guide, the PMI claim must be settled prior to filing a claim with the SMI provider and/or FHLBI. For loans with SMI, the Servicer should refer to the SMI provider's Guide for directions regarding claim filing.

### 16.10.1 Loans without SMI

A claim should be filed with FHLBI within 30 days of the REO settlement, approved short sale settlement, or foreclosure sale to a third party. Failure to submit claim within 30 days may result in adjustments and curtailments.

The Claim for Loss form must be completed in full and must include the submission date, the signature of an authorized representative, and must be accompanied by the necessary supporting documentation. Failure to provide a complete claim may result in a delay in claim payment.

#### 1. Supporting documentation should include:

- a. If applicable, a copy of the PMI claim and the PMI carrier's explanation of payment.
- b. The most current BPO and/or appraisal.
- c. A copy of the HUD-1/CD from the sale closing (unless sold to a 3rd party at foreclosure sale.).

- d. An itemized loan transaction history with clearly marked entries illustrating the escrow balance at the time of default, subsequent escrow disbursements and corporate advances.
- e. Copies of documentation (i.e. invoices) associated with all expenses claimed.
- f. If property repairs are claimed, please include any documentation to support that the servicer was diligent in maintaining the property.

**2. Claimable items may include:**

- a. UPB
- b. Accrued interest at the Note Rate through the date of claim filing or the date the claim should have been filed, whichever comes first. (Unacceptable delays may result in a curtailment of the claim).
- c. Attorney's fees.
- d. Statutory expenses.
- e. Post default hazard insurance premiums advanced (prorated through the date of sale settlement or 3rd party foreclosure sale.)
- f. Reasonable property preservation expenses.
- g. Appraisal/BPO.

**3. Credit on the claim should be given for:**

- a. Funds in escrow at the time of default.
- b. Any and all rental monies received.
- c. PMI claim settlement funds.
- d. Hazard insurance premium refunds.
- e. Hazard insurance claim settlements.
- f. Any proceeds from an approved sale closing as represented on the HUD-1/CD.
- g. Any other funds received and held in suspense.
- h. Any contributions provided by the borrower.

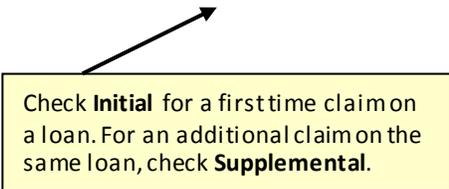
**4. Examples of non-claimable expenses may include:**

- a. Unauthorized property repairs.
- b. Late Charges.
- c. Penalty interest or compounded interest.
- d. Attorney referral fees.
- e. Property preservation expenses over and above customary amounts.

**5. FHLBI Claim for Loss Form Instructions:**

The FHLBI Claim for Loss form may be accessed [here](#) on the FHLBI website. Refer to the following graphics for assistance when completing the form:

***FHLBI Claim for Loss form (page 1 of 3)***



Check **Initial** for a first time claim on a loan. For an additional claim on the same loan, check **Supplemental**.

Please note any additional information in the comments section that may be helpful when reviewing the claim for payment.

If additional space is needed in any particular expense section, you may utilize the space in section 16 and/or itemize additional items on the back of the claim form.

If listing items on the back of the claim form, use the last line of the appropriate section to reference the itemization and the total itemized amount.

**Review the following helpful hints when completing fields on this page:**

**Line 17** – The Borrower’s Unpaid Principal Balance.

**Line 18** – Enter the interest paid thru date (not the next payment date) and the claim filing date. Using the full Note rate and the number of days, calculate the amount of interest being claimed.

**Line 28** – Positive escrow balance at the time of default.

**Line 30** – Should be supported by the PMI explanation of benefits.

**Line 31** – Calculated as the unearned premium refund.

**Line 33** – Net proceeds from the HUD-1/CD or 3rd party bid amount.

**Line 34** – May include rents or any other deductions to reduce the loss amount.

## 6. Claim Submission

Completed claim forms should be printed, signed and imaged. Claims and all supporting documentation should be emailed to either Steve Broviak at: [sbroviak@fhlbi.com](mailto:sbroviak@fhlbi.com) or Laurel Harpster at: [Lharpster@fhlbi.com](mailto:Lharpster@fhlbi.com).

Claims not sent electronically may be mailed to:

**FHLBI**

Attn: MPP Claims

8250 Woodfield Crossing Blvd.

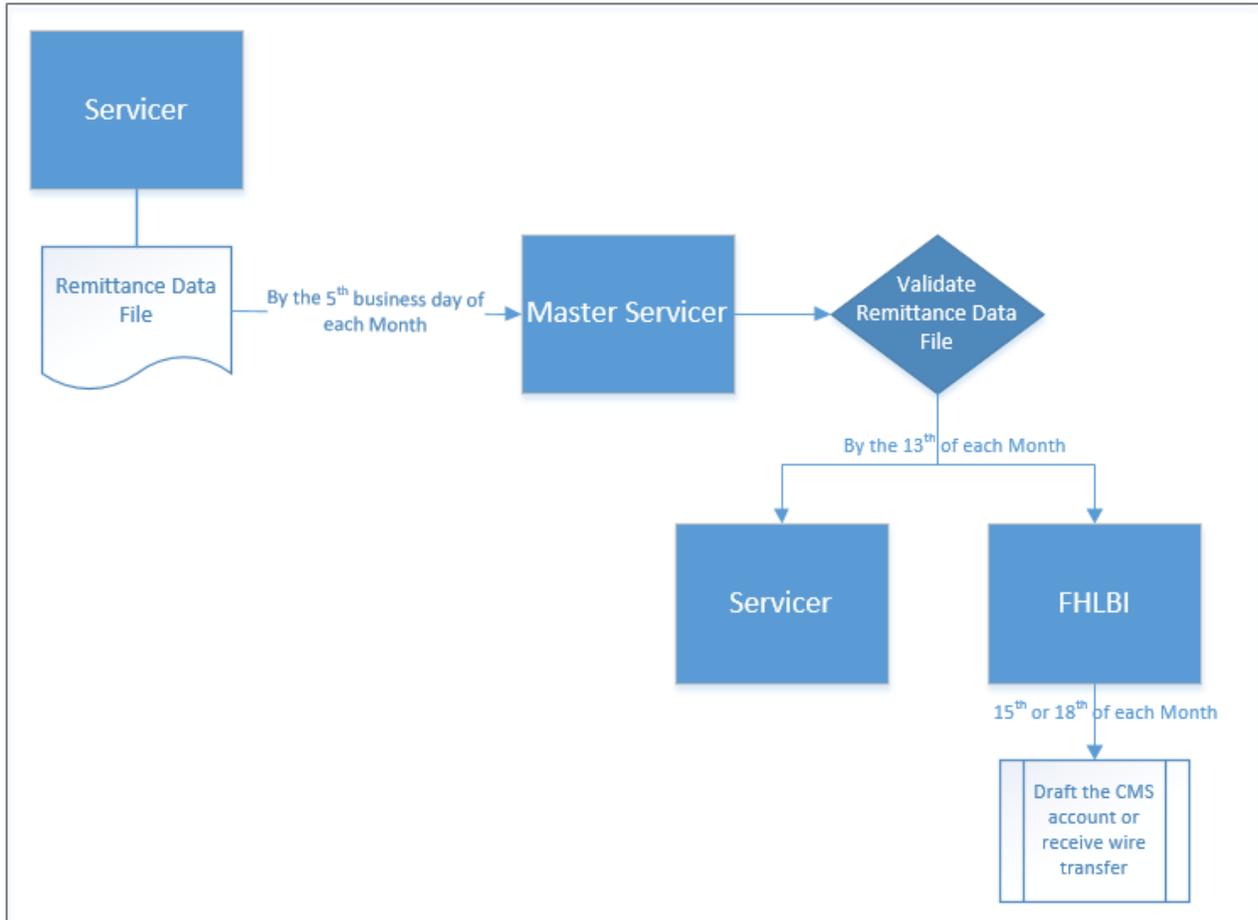
Indianapolis IN 46240



## 17. Remittance Reporting Requirements

The Servicer is required to provide remittance data to the Master Servicer each month, beginning in the month following purchase. The complete and accurate remittance data report is to be submitted to the Master Servicer no later than the 5<sup>th</sup> business day of each month.

**Process Flow for Monthly Remittance Submission**



## 17.1 Remittance Reporting Submission

1. The submission method chosen should be based on mortgage servicing volume, and implementation must be coordinated with the Master Servicer and FHLBI.
2. Servicers may choose from the following reporting methods:
  - a. Emailed file as an attachment.
  - b. Other electronic form that is acceptable to the Master Servicer.
  - c. Hard copy/paper (a fee may be assessed).
3. The format for submitting remittance reporting to the Master Servicer should be as follows:
  - a. Excel file in compliance with the reporting template listed as Appendix C.
  - b. Other consistent format approved by the master servicer and FHLBI.
    - 1) For submission of a format that does not conform to the template provided in appendix C, the format should be reviewed and accepted by the Master Servicer and FHLBI before being deemed compliant with this Guide.

## 17.2 Penalties for Late Submission

A Servicer that fails to provide accurate remittance data reports to the Master Servicer on or before the 5th business day of each calendar month or that submits incomplete or inaccurate accounting or servicing reports violates its responsibilities and is subject to the following remedies for offenses in any consecutive 12-month period:

<b>1st Late Offense</b>	<b>2<sup>nd</sup> Late Offense</b>	<b>3rd Late Offense</b>
Warning letter may be sent to the managing officer of the institution, with a copy to the Accounting Department.	Servicer is charged a \$250.00 late reporting fee, per report.	FHLBI may decline to enter into any further MDCs or MCCs.

Additional fees may be assessed to the Servicer if additional fees are assessed to FHLBI.

FHLBI reserves the right to change the late reporting fee and all other remedies at any time, at its sole discretion. FHLBI may debit the Seller's CMS account for late reporting fees then due from the Seller.

### 17.3 Monthly Reporting and Withdrawal Summary

1. If the remittance report submitted to the Master Servicer does not appear accurate or if additional information is needed, the Master Servicer will contact the Servicer directly to obtain the additional information for an acceptable report.
2. The Master Servicer will provide the Servicer and FHLBI with a final and validated copy of the remittance data report and a Notice of Automatic Withdrawal (NAW) on or before the 13th day of the month. Based on the amounts specified in the remittance report and NAW, FHLBI will debit the Seller's CMS account at FHLBI or receive the funds via a wire from the Servicer on the withdrawal date.
3. The withdrawal date will be the 15<sup>th</sup> of the month for FHA loans or the 18<sup>th</sup> of the month for Conventional loans (if the 15<sup>th</sup> or 18<sup>th</sup> fall on a holiday or a weekend, then the next business day will apply). These debits begin in the month following the month of purchase of a mortgage. The Servicer is responsible for assuring that sufficient funds are available for debit. If funds are being wired to FHLBI, the Servicer is responsible for having the funds wired on the applicable withdrawal date.
4. For each Scheduled/Scheduled MCC, the actual debit will consist of the sum of the Scheduled Interest and Scheduled Principal computed in accordance with [Section 14.1](#) and the Unscheduled Principal determined in accordance with [Section 14.1](#). For each Actual/Actual MCC, the actual debit will consist of the Actual Principal and Actual Interest computed in accordance with [Section 14.2](#).

## 18. Repurchase

---

### 18.1 Involuntary Repurchase

FHLBI has the right to require the Seller or the Servicer, as applicable, to repurchase any mortgage under any of these circumstances:

1. If the SMI provider rescinds SMI coverage, FHLBI will require immediate repurchase of the loan on the basis of the SMI rescission.
2. If the Seller or Servicer breaches any of the representations, warranties, or covenants made with respect to the mortgage as stated in the program documents.
3. If a mortgage fails to meet the quality assurance review of FHLBI requirements and the defects are not corrected within 30 days of notice.
4. If a loss claim is rejected by the SMI provider or FHLBI resulting from a breach by the Seller or the Servicer, as applicable, of any representation, warranty, or covenant made in this Guide or any other program documents.
5. Delays in foreclosing on the property violate this MPP Guide, which requires Servicers to protect FHLBI's interest.

Within 30 calendar days of the Seller/Servicer's receipt of a repurchase demand, the Seller/Servicer shall repurchase the mortgage for an amount equal to:

1. The sum of the UPB (determined as of the date of repurchase) plus the premium paid on the funding date, if any, (determined by multiplying the purchase price by the settlement principal balance) plus interest accrued at the mortgage pass-through rate from the first day of the calendar month in which repurchase occurs to and through the end of the month in which repurchase occurs.
2. All out-of-pocket costs and expenses incurred by FHLBI in connection with the repurchase of the mortgage, including all documentary stamp taxes, recording fees, transfer taxes, attorney's fees, court costs, and legal expenses.
3. If the Seller is required to repurchase the mortgage, the Seller may not submit a Claim for Loss form to the SMI provider or FHLBI.

### 18.2 Voluntary Repurchase

The Seller/Servicer may repurchase a delinquent FHA loan as detailed in [Section 14.3](#) of this Guide.

The Seller/Servicer may repurchase any loan if the Seller/Servicer becomes aware that the loan does not meet FHLBI requirements. Such repurchase requires notification to FHLBI and the purchase amount is calculated as described in [Section 18.1](#) above.

The Seller/Servicer may repurchase loan(s) for other reasons only with the prior approval by FHLBI.

### 18.3 Indemnification

The Seller shall indemnify FHLBI against, and hold FHLBI harmless from, all costs, including attorney's fees, arising out of any breach of a representation, warranty, or covenant made by the Seller under the Master Agreement, this Guide, or any Program Documents, or any breach or violation of FHLBI Guidelines.

The foregoing indemnification shall include any costs incurred by FHLBI in connection with enforcing its rights under the Master Agreement, this Guide, any Program Documents, or any breach or violation of FHLBI Guidelines, or defending against any claim, demand, or assertion against FHLBI by a third party arising out of a breach of a representation, warranty, or covenant made by the Seller in this Master Agreement, this Guide, or any Program Documents.

The Seller's indemnification pursuant to this section ([Section 18.3](#)) shall survive the purchase and delivery of the mortgages, their liquidation or repurchase, and any suspension or termination of the Seller's selling privileges or the termination of this Master Agreement or any other Program Documents.

### 18.4 Offset

FHLBI may offset against the price for any mortgage delivered for purchase by the Seller, or against any other amounts owed by FHLBI to the Seller pursuant to an MDC between the Seller and FHLBI, any outstanding amounts owed to FHLBI by the Seller or any affiliate of the Seller as provided in the Master Agreement.

## 19. Participations

---

FHLBI may make available, for purchase by third parties, including, without limitation, other FHLBanks, interests, whether whole or partial, in mortgages sold or to be sold by Sellers under MPP.

Such sales of mortgages will not affect agreements entered into by Sellers and FHLBI, including, without limitation, Master Agreements, MCCs, and MDCs.

# Mortgage Purchase Program (MPP) Appendices

---

Effective Date | 08-01-2016



## Table of Contents

Appendix A: Document Custodian Role & Responsibilities.....	4
1.1 Role & Responsibilities.....	4
1.1.1 Role.....	4
1.1.2 Responsibilities.....	4
1.1.3 Custodial Agreement.....	4
1.1.4 Record Keeping Requirements.....	5
1.1.4.1 Control of Documents.....	5
1.1.4.2 FHLBI Forms and Other Loan Documents.....	5
1.2 Eligibility.....	5
1.2.1 General Requirements.....	5
1.2.2 Insurance.....	6
1.2.3 Related-Party Document Custodians.....	6
1.3 Certification Process.....	7
1.3.1 Certification Process.....	7
1.3.2 Certification Responsibilities.....	8
1.3.3 Initial Certification.....	8
1.3.3.1 Initial Certification Procedures.....	9
1.3.4 Recertification.....	13
1.4 Operational Procedures.....	15
1.4.1 Release and Return of Documents.....	15
1.4.2 Transfers.....	18
1.4.2.1 Transfer of Seller Responsibilities.....	18
1.4.2.2 Transfer of Document Custodian Responsibilities.....	19
1.4.2.3 Transfer of Document Custodian Functions by FHLBI.....	20
1.4.3 Physical Security.....	20
1.4.4 Inventory Accounting.....	21
1.4.5 Document Exceptions.....	22
1.4.5.1 Missing Document Resolution.....	22
1.4.5.2 Custodial Responsibilities.....	22

1.4.5.3	Seller Responsibilities.....	23
1.4.6	Common Problem Resolution.....	23
1.4.7	Seller Corporate Name Changes .....	24
1.5	Third Party Compliance Oversight.....	25
1.5.1	Independent Auditors (IA).....	25
1.5.2	Compliance Review Agent.....	25
1.6	Exhibit A.....	27
	Appendix B: MPP Delivery Fee Schedule .....	28
	Appendix C: Remittance Template.....	29
	Appendix D: External Resources .....	30

## Appendix A: Document Custodian Role & Responsibilities

---

### 1.1 Role & Responsibilities

#### 1.1.1 Role

The role of the Document Custodian is primarily to maintain physical and custodial control of Custody Files on behalf of the Seller and FHLBI. This responsibility continues for the life of the mortgage or until its custodial responsibilities are transferred to another Document Custodian by the Seller or FHLBI, or otherwise terminated.

The Document Custodian is required to assure FHLBI that mortgages are represented by the documents placed in the Document Custodian's control. The Document Custodian performs this function through a process of certifications and recertification. Custodial guidelines for the certification and recertification processes are outlined in this manual.

#### 1.1.2 Responsibilities

As the holder of collateral documents for FHLBI, the Document Custodian's primary responsibilities are as follows:

- Physical safekeeping of Custody Files.
- Certifying the completeness and consistency of mortgage documents.
- Maintaining physical and custodial control over the release and transfer of mortgage documents.

In addition, see the Operational Procedures section for custodial duties.

#### 1.1.3 Custodial Agreement

1. The Seller must obtain the services of an eligible custodial institution to hold all Custody Files. It is the responsibility of the Seller to select an eligible Document Custodian and execute a Custodial Agreement. A Custodial Agreement covers all mortgages for which the institution serves as the Document Custodian.
2. The Custodial Agreement sets forth the responsibilities of both the Seller and the Document Custodian in the MPP.
3. The Document Custodian must enter into a Custodial Agreement with each Seller for which it serves as a Document Custodian.
4. The Document Custodian negotiates directly with the Seller all compensation for the performance of its custodial duties as stipulated in the Custodial Agreement.
5. As a provision in the Custodial Agreement, FHLBI recognizes the Document Custodian as an agent of FHLBI.

**Note:** FHLBI has no obligation to pay any compensation to Document Custodians for services rendered.

#### 1.1.4 Record Keeping Requirements

The Document Custodian is required to protect the Custody Files physically in its custody. FHLBI requires the performance of reasonable procedures to protect the documents located in Custody Files from theft, misplacement, fire, or other calamity.

To fulfill this safekeeping obligation, the Document Custodian is required to store Custody Files in a secure, fire-resistant facility as detailed in Section 5.5 of this manual and to develop and enforce procedures that both:

- Prevent unauthorized access to the documents.
- Maintain control over all documents received.

##### 1.1.4.1 Control of Documents

The Document Custodian is required to retain all Custody Files in one permanent storage location as identified by the address of record on file with FHLBI.

The Document Custodian is required to permit representatives of the Seller or FHLBI (including FHLBI's agents) to inspect any documents relating to mortgages under the Document Custodian's control. The Seller may request removal of individual Custody Files or Mortgage Documents by sending the Document Custodian a Document Release Form (see Exhibit A).

##### 1.1.4.2 FHLBI Forms and Other Loan Documents

In its fiduciary role, a Document Custodian is required to review, accept, and maintain various types of documents relating to the mortgages.

It is the responsibility of the Seller to fully and accurately complete required forms before delivery to the Document Custodian. As required by Section 5.6 of this manual, it is the responsibility of the Document Custodian to obtain from the Seller a copy of a Corporate Resolution listing officers authorized to execute the appropriate documents and hold such documentation in its Master File.

If a Document Custodian discovers mortgage documentation to be incomplete or otherwise deficient, it must return the documents to the Seller for correction (see Section on Missing Document Resolution).

## 1.2 Eligibility

### 1.2.1 General Requirements

1. The Document Custodian works under the Custodial Agreement with the Seller and FHLBI. In order to become a Document Custodian, an institution must meet the following eligibility requirements:
  - a. A financial institution must meet the requirements set forth in the certification in clauses one through four of the Custodial Agreement.
  - b. Maintain physically secure, minimum 1-1/2 hour fire-resistant storage facilities.
  - c. Employ knowledgeable personnel.
  - d. Maintain minimum insurance coverage requirements as provided in Section 3.2 of this manual.
2. The Seller and the Document Custodian must provide any additional documentation as requested by FHLBI.

### 1.2.2 Insurance

The Document Custodian must maintain insurance coverage under an institutional bond or equivalent that provides Fidelity and Lost Instrument coverage and provides Errors and Omissions coverage as listed below.

The financial institutional bond must cover any loss resulting from employee dishonesty and must cover damage, destruction to, or loss of any Notes and assignments whether on site or in transit.

1. Required Coverage
  - a. Errors and Omissions insurance must cover claims resulting from breach of duty, neglect, errors or omissions, or other wrongful acts.
  - b. Insurance must be underwritten by an insurer that has a rating of at least B+ and a financial size category of VI or better as rated by A.M. Best or must be underwritten by Lloyd's of London.
  - c. Insurance coverage must be in amounts deemed adequate for the number of Notes and assignments held in custody based on prudent business practices.  
Each policy must have a deductible not more than the greater of 5% of the custodian's net worth as determined under generally accepted accounting principles (GAAP) net worth or \$100,000, but in no case greater than \$10,000,000.

If the Document Custodian is covered under the insurance of its parent company, the deductible amounts are the same as above based on the parent's net worth, the Document Custodian must be a named insured, and the policy must meet all other requirements as listed.

### 1.2.3 Related-Party Document Custodians

A related-party Document Custodian is defined as either the Seller acting as Document Custodian (Self-Custody) or an affiliate of the Seller acting as Document Custodian (affiliated Document Custodian).

1. Self-Custody
  - a. The Seller, while acting as Document Custodian, must maintain custody of the Custody Files in a trust department that is physically separate from the servicing area and that maintains separate personnel, files, and operations, unless FHLBI approves an exception to this requirement.
  - b. The Seller, while acting as Document Custodian, must have obtained prior approval from its primary regulator to exercise fiduciary powers. These fiduciary powers must include ordinary trust services, such as:
    - Personal trust services
    - Personal representative services
    - Guardianship
    - Custodian services
    - And/or investment advisory services offered to the public and may not be limited to maintaining custody of documents for FHLBI.
  - c. The trust service function of the Seller while acting as Document Custodian must be subject to periodic review and inspection by its primary regulator.

## 2. Affiliated Document Custodian

- a. The Seller-affiliated Document Custodian must meet all of the requirements of Self-Custody and maintain custody of the Custody Files in a separate trust department.
- b. If the Custody Files are not maintained in a separate trust department, the Seller must provide evidence satisfactory to FHLBI that the Seller and the affiliated Document Custodian are vertically independent, which means that the persons having hiring, supervising, and compensation authority over employees of the Seller performing mortgage origination, selling, or servicing functions are different from the persons having similar authority over the employees of the Seller exercising its Document Custodian functions.
- c. The document custodial function of an affiliated Document Custodian must be subject to periodic review and inspection by its primary regulator.

## 1.3 Certification Process

### 1.3.1 Certification Process

The Document Custodian accesses FHLBI's Loan Acquisition System (LAS) and identifies the mandatory delivery contract (MDC) to be certified. When the appropriate MDC has been selected, the Document Custodian grants the certification (Initial Certification or Recertification) by clicking on the appropriate button in LAS.

This action certifies that all required documents meet the standards as set out in this Document Custodian Manual. Should the certification be incomplete, in addition to certifying in LAS, the Document Custodian must sign and date the document certification for mortgages sold, identify the name and address of the Document Custodian and the name and title of the officer who signed the certification, and attach the required schedules (faxed and/or emailed certifications and schedules are acceptable).

It is at the discretion of FHLBI whether or not incomplete Certifications are acceptable.

Prior to providing Certification, the Document Custodian is required to review the Custody Files for missing, incomplete, or inconsistent documents.

If defective documents are identified, the Document Custodian is required to notify the Seller in a timely manner. It is the Seller's responsibility to correct or resolve any defects identified by the Document Custodian or to provide the Document Custodian with adequate clarification for those defects that are not considered material.

This responsibility continues for the life of the mortgage. The Document Custodian is responsible for verifying that all necessary corrections have been made by the Seller before making any certification.

### 1.3.2 Certification Responsibilities

In accordance with the terms and conditions of the Custodial Agreement and this manual, the Seller must deliver the documents set forth in Section 4.3 to the Document Custodian as the documents become available.

At the discretion of the Document Custodian and the Seller, documents may be delivered on a piecemeal basis or after all required documents have been received for individual Custody Files.

The Document Custodian is responsible for the following:

1. Accept the documents when delivered.
2. Ascertain that the documents relate to mortgages listed on a related schedule to an MDC.
3. Review documents for completeness and consistency in accordance with the review procedures required by this manual.
4. Notify the Seller of any documents received that require correction or completion before Certification can be made.
5. Certify that the documents received satisfy the requirements of Initial Certification and, if necessary, Recertification.

### 1.3.3 Initial Certification

The Custody File must contain the following documents at least one business day prior to the applicable Settlement Date for a particular MDC:

1. The original Promissory Note or other evidence of indebtedness (or, in the case of a modified mortgage, the original note and the allonge, modification agreement or other evidence of modification) endorsed in blank without recourse as follows:

PAY TO THE ORDER OF \_\_\_\_\_  
WITHOUT RECOURSE  
LENDER'S NAME (AUTHORIZED SIGNATURE)  
NAME OF AUTHORIZED SIGNER  
TITLE OF AUTHORIZED SIGNER

The endorsement must provide a complete chain of endorsements if the Seller did not originate the mortgage. The last endorsement will be that of the Seller.

2. An original assignment of the mortgage or other security instrument to FHLBI in recordable form but unrecorded (not required for mortgages on MERS). The assignment of the mortgage must be in blank, and must not include a recitation that the assignment of the mortgage or lien is "without recourse." In general, recordable form is whatever form the local recorder's office requires. If state law does not specifically address the information required for recording, the following information should be included in the assignment of the mortgage:
  - a. Date of Execution
  - b. Lender Name
  - c. Borrower Name
  - d. Legal description of the property
  - e. Recording information related to the mortgage such as the deed book and page number or the instrument number
  - f. Original mortgage amount
  - g. Date of the mortgage

- h. Authorized signature
  - i. Appropriate notarization
3. A copy of the mortgage (or other security instrument) securing repayment of the indebtedness, signed by the mortgagor, that was sent for recording (or, in the case of a modified loan, a copy of the mortgage, the modification agreement, and any required subordination agreement that was sent for recording).
  4. Copies of any interim assignments that were sent for recording, as applicable, such as when the Seller did not originate the mortgage or if the mortgage has been assigned to MERS. If the mortgage was originated with MERS as the original mortgagee (a MOM loan), interim assignments are not required.
  5. A copy of the Power of Attorney (POA) that was sent for recording, as applicable, such as if an attorney-in-fact signed the mortgage note on a borrower's behalf.

### **1.3.3.1 Initial Certification Procedures**

At a minimum, the Document Custodian is required to perform the following review procedures for Initial Certification (any defects discovered based on performing the review procedures must be referred on a timely basis to the Seller for correction):

#### **1. Promissory Note or other evidence of indebtedness**

- a. Verify that each item listed below is the same on both the Promissory Note and the related schedule to the MDC:
  - i. Mortgagor Name(s)
  - ii. Principal Amount
  - iii. Interest Rate
  - iv. Monthly Principal and Interest (P&I) Payment
  - v. Term of the mortgage (first and last payment due dates)
  - vi. Property street address, city, and state (if property address is included on the Note). The address on the Note may be the borrower's mailing address instead of the property address.
- b. Verify that each signature on the Note agrees with the name typed below the signature line it appears on. FHLBI will accept Notes with undersigning (with name affidavit) or oversigning by the borrower. Undersigning occurs when the borrower does not sign the complete name as typed below the signature line, such as not signing a middle initial. If a Note is undersigned, a name affidavit is required to be placed in the Custody File. Oversigning occurs when the borrower signs more than is typed below the signature line, such as signing a full middle name instead of an initial. No additional documentation is required for oversigning.
- c. Verify that a complete chain of endorsement exists from the originator of the mortgage to the Seller or one of its affiliates. FHLBI requires that the chain of endorsements from the originator of the mortgage to the current Seller for the Note and assignments must be complete. The Note endorsement may be from originator to company "C" and the interim assignments may be from originator to company "B," then to company "C." Both documents have a complete chain of title,

even though the two chains are not identical. The endorsement should not include a date. All endorsements must be on the last page of the Note, unless there is not space available. If space is not available on the Note, the endorsement should be placed on an allonge, which references the note. If an erroneous endorsement is discovered that interferes with the chain of title after receipt by the Document Custodian and cancellation of the endorsement is being proposed, the Seller must resolve the error. If this is not possible, the Seller's qualified outside legal counsel must review and agree with the proposed cancellation in writing.

- d. Determine that the Seller endorsement in blank and without recourse was made by an authorized officer.

FHLBI permits the use of facsimile signatures when placing the blank endorsement on original Notes, as long as the following conditions are met:

- i. The use of facsimile signatures is acceptable under the laws of the relevant jurisdiction in which the property is located.
  - ii. Such signatures are not prohibited under the Seller's corporate charter and by-laws.
  - iii. The use of such signatures is authorized by a resolution duly enacted by the Seller's Board of Directors.
  - iv. Such signatures must be notarized when required by jurisdictional law.
- e. Examine the Promissory Note for sections requiring a notarization, acknowledgment, or witness. If required, verify that such sections have been completed.
  - f. Verify that each rider, allonge, or addendum relates to and references the Note. The Note may reference the allonge, but such reference is not required. The rider, allonge or addendum must be an original if it requires a signature. If an allonge is required for a Note correction, the corrective documents must be filed with and attached to the original Note.
  - g. In the case of a missing original Note, the Document Custodian must request that the Seller provide a copy of the Note with original signatures by the borrower(s) or obtain a lost instrument bond with unlimited liability in the form prescribed by FHLBI from an insurance or surety company. The bond must be accompanied by the appropriate POA and Certification as required by the insurance or surety company.

If the original Note is missing and the Seller has exhausted all reasonable means of obtaining the original note or cannot satisfy the above requirements, FHLBI may authorize the Seller to substitute a Lost Note Affidavit (LNA), or similar substitute documentation for a missing note. If an LNA is utilized, the Document Custodian should examine the LNA to determine that a copy of the security instrument or the Note is attached, and that the data elements on the Note copy match the data submitted. This includes verifying that the LNA has been notarized if the format requires it. The LNA form may have a blank notary section only if the Document Custodian has a legal opinion from the Servicer's counsel stating that notarization is not required in the jurisdictions in question.

**Important:** FHLBI holds the Seller responsible for any losses or litigation that may arise due to the missing Note regardless of whether or not an LNA was accepted.

- h. Verify for any Lost Instrument bond with unlimited liability that each of the items listed below are placed on the bond:
  - i. Name of Seller purchasing the bond
  - ii. FHLBI Mortgage Number
  - iii. current Seller Mortgage Number
  - iv. Name of original Mortgagor
  - v. Address of property
  - vi. Mortgage recording information
  - vii. Date the bond was executed by surety or insurance company
  - viii. Name of surety or insurance company
  - ix. Signature of representative for surety or insurance company
  - x. Appropriate POA and Certification as required by surety or insurance company

**2. Assignments in blank (not required for mortgages on MERS)**

- a. Verify that an original assignment in blank, signed by the current Seller, exists for each mortgage and that the assignment is in recordable form but unrecorded. Sellers are responsible for determining that the mortgage assignment is in a form acceptable for filing in the applicable local recorder's office. If an assignment has been recorded, the Seller must correct by reassignment before the loan can be certified.

FHLBI permits the use of facsimile signatures for executing unrecorded assignments in blank, as long as the following conditions are met:

- i. The use of facsimile signatures is acceptable under the laws of the relevant jurisdiction.
  - ii. Such signatures are not prohibited under the Seller's Corporate Charter and By-Laws.
  - iii. The use of such signatures is authorized by a resolution duly enacted by the Seller's Board of Directors.
  - iv. Such signatures must be notarized when required by jurisdictional law.
- b. Verify that blanket assignments in blank apply to mortgages in the same MDC and the same recording jurisdiction. FHLBI permits the use of blanket unrecorded in blank assignments provided the jurisdiction accepts blanket assignments. Otherwise, individual unrecorded assignments must be prepared.

**3. Copy of mortgage or other security instrument that was sent for recording**

- a. Verify that each item listed below is the same on both the security instrument and the related schedule to the MDC:
  - i. Mortgagor Name(s)
  - ii. Principal Amount
  - iii. Term of Loan (first and last payment due dates)
  - iv. Property street address, city, and state (if property address is included on the security instrument).

- b. Determine that the date of the mortgage or other security instrument is the same as or later than the date of the promissory note.
- c. Verify that a legal description appears on the security instrument or on an attachment to the instrument.
- d. Verify that all signatures on the security instrument properly relate to the Note. FHLBI requires that if there are multiple mortgagor names on the Note, all names should be on the security instrument. If not, an explanation must be placed in the file.
- e. Examine the security instrument for the completion of any required notarization, acknowledgment, or witness.
- f. Verify that any rider or addendum properly relates to the security instrument.

#### **4. Copies of interim assignments that were sent for recording**

- a. Verify that all interim assignments follow a complete chain of title from the original lender to the Seller (or one of its affiliates) or MERS. If MERS is designated in the security instrument as a MOM loan (with MERS as the original mortgagee), no interim assignments will be required as long as the mortgage remains registered with MERS. FHLBI requires that the chain of endorsements from the originator of the mortgage to the current Seller for the note and assignments must be complete. The Note endorsement may be from originator to company "C" and the interim assignments may be from originator to company "B," then to company "C." Both documents must have a complete chain of title, even if the two chains are not identical.
- b. Verify that the Mortgagor Name(s) on the assignment agrees with the related schedule to the MDC.

#### **5. Initial Certification**

- a. The Document Custodian must indicate Initial Certification on LAS, or, in the case of an incomplete Initial Certification, also complete the certification form for Initial Certification and submit it directly to FHLBI.
- b. The Document Custodian accesses LAS and identifies the MDC to be certified. When the appropriate MDC has been selected, the Document Custodian grants the Initial Certification by clicking Grant IC in LAS. This action certifies that all required documents meet the standards as set out in this manual.
- c. Should the Initial Certification be incomplete, in addition to certifying in LAS, the Document Custodian must sign and date the document certification for mortgages sold and indicate that this is an Initial Certification, identify the name and address of the Document Custodian and the name and title of the officer who signed the certification, and attach the required schedules (faxed and/or emailed certifications and schedules are acceptable).

### 1.3.4 Recertification

Recertification procedures are required if the Seller or Document Custodian responsibilities change for a group of mortgages. Recertification is also required each time one or more mortgages are deregistered from MERS.

Recertification is required to assure FHLBI that the required interim assignments have been recorded and filed with the Document Custodian and that the Notes have been properly endorsed for a transfer of Seller responsibility. The recertification also confirms that the required Mortgage Documents have been received by the Document Custodian and meet FHLBI's certification standards.

Recertification must be performed within twelve (12) months of the transfer date for mortgages transferred in a transfer of Document Custodian or Seller responsibility.

1. For loans with a Settlement Date less than ten (10) years prior to the effective Transfer Date:
  - a. The Recertification can be completed using one of the following methods:
    - i. Reconcile the original mortgages listed on the original certification form to the active mortgages listed in the Seller's current loan trial balance for the Custody Files that have been removed. Mortgages that have been satisfied must be noted or deleted by manually lining out the terminated mortgages, referring to the original schedule by attachment on the certification form, or
    - ii. Attach a list of the mortgages remaining, per the Seller's current trial balance, to the Recertification. The information provided for each mortgage must be the same as the information required on the front of the certification form.
  - b. Verify that all required mortgage documents are present and meet the minimum review standards.
  - c. If there has been a change in Seller, verify that there has been a recorded assignment of each mortgage.
  - d. If there has been a change in Seller, verify that there have been updated endorsements on the Promissory Note.
  - e. Verify that no document release, with a non-liquidation release code, is included in an active Custody File in the place of a Promissory Note. If a Document Custodian certifies a mortgage with released documents, all documents must have been received, reviewed, and been found to be certifiable at the time of release by the Document Custodian performing the certification.
  - f. Verify that all original document release forms with liquidation release codes are in the related file.
  - g. If there has been a change in Seller, verify that the recertification page of the document release contains the name, ID number, address, and signature of the substitute Seller.
  - h. Sign the certification form, indicating this is a Recertification and recertifying that all required Mortgage Documents have been received. The Document Custodian's name, address, and FHLBI Document Custodian number must be included on the certification form.

If a problem with the Custody File is not resolved within ninety (90) days of notification to the Seller, the Document Custodian must notify FHLBI, and the affected mortgages will be considered uncertified until the Custody File has been corrected.

2. For loans with a Settlement Date ten (10) or more years prior to the effective Transfer Date:
  - a. The recertification can be completed using one of the following methods.
    - i. Reconcile the original mortgages listed on the original certification form to the active loans listed in the Seller's current mortgage trial balance and the document release for the Custody Files that have been removed. Mortgages that have been satisfied must be noted or deleted by manually lining out the terminated loans, referring to the original schedule by attachment on the certification form, or
    - ii. Attach a list of the remaining mortgages, per the Seller's current trial balance to the certification form being recertified. The information provided for each mortgage must be the same as the information required on the front of the certification form. Because of assumptions, the borrower's name provided on the certification form may not agree with the mortgage documents.
  - b. Verify that all required mortgage documents are present and meet the following minimum review standards:
    - i. Promissory Note
      - a) Verify that the Promissory Note is an original document with an original signature.
      - b) Verify that a complete chain of endorsement exists from the originator of the mortgage to the current Seller.
      - c) Verify that the current Seller endorsement is blank and without recourse.
    - ii. Security instrument  
Verify that the security instrument is a copy of the security instrument and matches the information on the note.  
Security instrument assignments
    - iii. Verify that all interim assignments are present.
    - iv. Unrecorded FHLBI assignments
      - a) Verify that an original assignment to FHLBI signed by the current Seller exists for each mortgage and that such assignment is in recordable form, but unrecorded. If an assignment has been recorded to FHLBI, the Seller must correct by reassignment before the mortgage or group of mortgages can be certified.
      - b) Verify that the mortgagor name(s) agrees with the name(s) on the document certification for mortgages sold.
      - c) Assignments to FHLBI can be completed using facsimile/laser signatures provided the signatures are:
        1. Acceptable under the laws of the relevant jurisdiction
        2. Permissible under the Seller's corporate charter and by-laws
        3. Authorized by a resolution duly enacted by the Seller's Board of Directors
        4. Notarized when required by state law.

## 1.4 Operational Procedures

### 1.4.1 Release and Return of Documents

#### 1. Release Procedures

The Document Release Form lists the following reasons, by Release Reason Code, that a Seller/Service Provider may use to request the release of a Custody File or document from a Document Custodian:

- a. Mortgage paid in full
- b. Foreclosure
- c. Substitution
- d. Other liquidation
- e. Non-liquidation

Seller/Service Providers are authorized to request Mortgage Documents or Custody Files from the Document Custodian for one of the four (4) reasons listed above.

The Document Custodian may rely on the Seller/Service Provider's stated reason for requesting the documents without verification.

The Seller may use a computer-generated document release form provided that the format form is the same form as the printed version.

Document Custodians are required to obtain a document release in hard copy from the Seller/Service Provider for each Custody File for which a release is requested and a copy of each document release form must be kept in the related Master File.

Upon receipt of the request, the Document Custodian must verify that the document release is complete and correct. If information is incorrect, the Document Custodian may make corrections for the Seller/Service Provider. The Seller/Service Provider and Document Custodian must agree what corrections the Document Custodian will make. Only the Seller/Service Provider may sign the Form of Document Release.

The Document Custodian must verify that the Seller/Servicer completes the following:

- i. Seller institution full name, unabbreviated
- ii. Signature of authorized Seller representative
- iii. Document Custodian full name, unabbreviated
- iv. individual Custody File information
- v. Mortgagor complete name(s)
- vi. Property address
- vii. One of the four reason codes
- viii. A listing of document(s) removed in the non-liquidation section, if the entire Custody File is not requested
- ix. Seller Mortgage Number
- x. Mortgage paid in full - Settlement Date
- xi. Foreclosure - Actual Date or best estimate of Settlement Date
- xii. Other liquidation - estimated Settlement Date
- xiii. Non-liquidation - expected return date, not later than one hundred eighty (180) days after document release date

After reviewing the prepared request for document release for completeness and consistency, the Document Custodian must record its Document Custodian Identification Number (number as assigned in LAS) and sign and date the form prior to releasing the requested Custody File or documents to the Seller.

FHLBI permits the use of facsimile signatures by either the Seller or Document Custodian, as long as the signatures are permissible under the Seller or Document Custodian's Corporate Charter and By Laws, and the use of such signatures is authorized by a resolution duly enacted by the Seller or Document Custodian's Board of Directors.

Additional information for identification purposes may be added to the request for release of documents if agreed upon by the Seller and the Document Custodian. A copy of the signed and dated form must accompany the Custody File or documents transferred to the Seller. When the Seller requests mortgages from the Document Custodian using the document release form, the Seller is responsible for appropriate insurance coverage to insure against any loss or damage to the files in transit.

## 2. Release Reason Codes

### **Reason Code 1: Mortgage Paid in Full**

When a mortgage has been paid in full, the Custody File pertaining to the mortgage must not remain in the possession of the Document Custodian. The Seller must submit to the Document Custodian a document release form, no later than thirty (30) days following the Mortgage Liquidation Date.

### **Reason Code 2: Foreclosure**

The Seller must submit a document release form for the release of the Custody File no later than the Mortgage Liquidation Date.

### **Reason Code 3: Substitution**

A provision in a mortgage to allow the seller to obtain a release of the original collateral documents in order to replace it with a corrected version of the collateral that is satisfactory to the Document Custodian.

### **Reason Code 4: Other Liquidation**

This reason code must be used by Sellers for all other liquidation release reasons, including repurchase of a defective mortgage. The Seller must use the document release form to request release of the Custody File from the Document Custodian's possession.

A form with this reason code must be accompanied by a copy of the letter from FHLBI approving the liquidation. Once the Custody File is released to the Seller and the Document Custodian receives the document release form, the Document Custodian must update the Custody Register to reflect removed files.

The Document Custodian must retain a copy of the FHLBI approval letter, if applicable, in the Master File for the life of the MDC. The certification form may be maintained in an electronic medium, but the Document Custodian must be capable of producing a hard copy of the schedule upon request.

### **Reason Code 5: Non-Liquidation**

All routine reviews of mortgage documents by the Seller's auditors or staff must be performed on the premises of the Document Custodian. The Seller may remove a Custody File only when it is necessary for carrying out the Seller's responsibilities to service mortgages.

The Seller must use the document release form to remove a Custody File or documents from the Document Custodian's possession for a period not exceeding one hundred eighty (180) calendar days.

Ninety (90) days following release, if the documents have not already been returned, the Document Custodian shall notify the Seller that documents are due for return in ninety (90) days; one hundred eighty (180) days following release, if the documents have not already been returned, the Document Custodian shall notify the Seller and FHLBI that documents are past due.

If individual Mortgage Documents are requested, they should be specified on the bottom of the document release. Upon return of the Custody File or documents, the Document Custodian must review the Custody File or documents and acknowledge the return by signing the bottom portion of the form.

### 3. Return Procedures

When a Custody File released for Reason Code 1, 2, or 4 is returned to the Document Custodian by the Seller, the Document Custodian must perform the following procedures to properly execute the return section of the document Release Form:

- a. Match the original document release to the applicable Custody File or documents.
- b. Review the returned file or documents to determine that all applicable mortgage documents are returned and meet the requirements for certification as outlined in this manual.
- c. Sign and date the bottom of the copy of the document release form that is being returned by the Seller.
- d. Forward the executed document release return to the Seller.
- e. Sign and date the bottom of the original document release form if the Document Custodian retains document release forms for files released with liquidation codes that have been returned; otherwise, dispose of the original document release form.
- f. The custodian is not required to retain a copy of the return section of the document release form.

## 1.4.2 Transfers

### 1.4.2.1 *Transfer of Seller Responsibilities*

This section describes custodial responsibilities when there is a change in Seller without a change in Document Custodian. A transfer of Seller responsibility requires FHLBI prior written approval of the transfer, the execution of a new Custodial Agreement, and recertification of the mortgages sold.

Prior to both final approval by FHLBI and the actual transfer of Seller responsibilities, appropriate Custodial Agreements must be executed by both the substitute Seller and the existing Document Custodian, unless a current Custodial Agreement is already in effect.

Recertification of a mortgage is required any time a mortgage is transferred to a Successor Seller, except where mortgages are simultaneously transferred to a substitute Seller through an intermediary institution. In the latter case, Recertification may not be required for the intermediate transaction.

FHLBI grants waivers to Sellers on a case-by-case basis for simultaneous transactions that occur within the same calendar day. If a Recertification Waiver is granted, a copy of FHLBI's waiver letter must be included in each applicable MDC.

**Note:** FHLBI does not require Recertification, interim assignments, or Note endorsements if the transfer is due to a merger of institutions, but all mergers still require prior written approval from FHLBI if the Document Custodian is to continue to maintain the documents.

#### **1.4.2.2**     *Transfer of Document Custodian Responsibilities*

A transfer of Document Custodian responsibility requires FHLBI prior written approval of the transfer, the execution of a new Custodial Agreement, and recertification of the mortgages sold.

Prior to both final approval by FHLBI and the actual transfer of responsibilities, appropriate Custodial Agreements must be executed by the existing or Successor Seller, as applicable, and the Successor Document Custodian, unless a current Custodial Agreement is already in effect.

Prior to the actual transfer of Mortgage Documents to the Successor Document Custodian, the current Seller must prepare an exhibit listing all Loan Numbers to be transferred to the Successor Document Custodian.

Upon FHLBI's written approval of the transfer, the following files must be released to the Successor Document Custodian:

1. All Initial Certification forms
2. All Custody Files
3. All blanket interim assignments, blanket assignments to FHLBI, legal opinions, and FHLBI waiver letters
4. All non-liquidation Document Release forms

It is the Successor Document Custodian's responsibility to determine that all required documents pertaining to all mortgages have been received.

The prior Document Custodian is responsible for packing the files for transit and making the files available to the Successor Document Custodian. The Seller is responsible for the safe transfer of all documents to the Successor Document Custodian's facility.

The Custody Files must be sent directly to the Successor Document Custodian, not to the Seller. The Successor Document Custodian must transfer all files directly to the permanent storage location specified in the Custodial Agreements.

Whenever there is a physical movement of Custody Files, the Seller is responsible for appropriate insurance coverage to insure against any loss or damage to the files in transit. As an alternative, FHLBI allows the use of a temporary rider to the Seller's or Document Custodian's property insurance policy to provide adequate coverage.

Recertification of a mortgage or group of mortgages is required any time a mortgage is transferred to a Successor Document Custodian. Recertification must take place within twelve (12) months of transfer for all transfers.

**Note:** FHLBI does not require recertification if the transfer is due to a merger of institution, but all mergers still require prior written approval from FHLBI if the Document Custodian is to continue to maintain the documents.

#### **1.4.2.3 Transfer of Document Custodian Functions by FHLBI**

FHLBI may determine to transfer custody of the Custody Files for whatever reason, including, but not limited to:

- the failure by the Document Custodian to perform or observe any of the provisions of this Document Custodian Manual or the Custodial Agreement,
- the failure of the Seller to meet requirements of the credit policy or blanket agreement,
- an event of default occurs under any blanket agreement to which the Document Custodian is a party or to which the applicable Seller is a party, or
- the removal or termination of the Seller or any other person as Servicer of the mortgages,

**FHLBI may remove and discharge the Document Custodian from the performance of its duties.**

#### **1.4.3 Physical Security**

FHLBI has determined that certain requirements must be met by Document Custodians to ensure that a secure and accessible storage facility is provided for the retention of pool and Mortgage Documents. These requirements are as follows.

1. All documents must be retained in a single permanent storage location. The name, address, and identification number (number as assigned in LAS) of the Document Custodian must be specified on the final page of the applicable certification form. The address at which the documents are held must be the last address of record reported in writing to FHLBI.
2. FHLBI's approval must be received before a Document Custodian can move documents to a new location. Information required in writing includes the prior location's address, the new location's address, and a listing of the mortgages to be moved. If the Document Custodian changes the location of FHLBI documents to a new address, an appropriate amount of inland marine insurance coverage must be in force to indemnify against any loss or damage to the files in transit to the new permanent storage location.

The Document Custodian is responsible for obtaining insurance coverage to insure against any loss or damage to the files in transit. As an alternative, FHLBI allows the use of a temporary rider to the Document Custodian's property insurance policy to provide coverage.

3. Adequate controls and safeguards must be provided to protect documents from hazards and unauthorized access.

4. A fire resistant depository for all Custody Files is required. The facility must provide a minimum of one and one-half (1-1/2) to two (2) hours of fire protection, as attested to in a written statement from the insurance company of the Document Custodian, A Fire Marshal, or a fire protection contractor of the applicable jurisdiction and updated upon any significant change in the facility. This statement of compliance must be retained by the Document Custodian and available for inspection by FHLBI or its agent.

It is acceptable if the storage facility meets Federal Deposit Insurance Corporation (FDIC) guidelines for vaults as stated in their rules and regulations.

**Note:** It is the Seller's responsibility to reconstruct the Custody Files in the event of a disaster.

#### 1.4.4 Inventory Accounting

The Document Custodian must maintain control of Custody Files for the life of the mortgages. Custodial control is critical for preserving the collateral interests of the Seller and FHLBI.

This section describes specific inventory accounting requirements that must be followed for each Seller for which the Document Custodian is responsible:

##### 1. Master File

For each Seller, the Document Custodian must maintain a Master File that includes at least the following information:

- a. Custody Register (described below)
- b. Custodial Agreement
- c. Copy of Seller's Corporate Resolution for a name change (if applicable)
- d. Copy of Seller's Corporate Resolution authorizing officers to execute documents
- e. Initial Certification forms
- f. Document Release Forms submitted on the basis of the non-liquidation reason code
- g. Any other applicable Seller documents in the Document Custodian's possession

##### 2. Custody Register

For each Seller, the Document Custodian must maintain a Custody Register that includes at least the following information:

- a. Listing of mortgages currently in custody, including Seller Identification Numbers
- b. Count of the total number of mortgages in custody for each MDC

At a minimum, this Register must be updated once a month. Monthly activity that must be recorded includes all:

- Certifications
- Transfer activity
- Terminations

The Seller Custody Register must be kept in the Master File and must be available for review by FHLBI or its agent. If the Custody Register is maintained in electronic medium, the Document Custodian must be capable of producing a hard copy of the register upon request.

### 1.4.5 Document Exceptions

FHLBI will consider, on a case-by-case basis, granting an exception letter to a Seller for a specific document exception to the requirements listed throughout this manual. Requests for exceptions must be submitted in writing, and all FHLBI exception letters must be retained by the Document Custodian in the related Master File for the remaining life of the mortgage.

If a waiver letter has been granted that pertains to specific mortgages and those mortgages are transferred, the waiver letter or a copy must transfer with the Master Files.

#### 1.4.5.1 *Missing Document Resolution*

Lost or missing Mortgage Documents are documents that existed at some point, but are currently not in the possession of the Seller, Document Custodian or an agent, such as a foreclosure attorney or subcontract Servicer. Note that the following is not designed to be comprehensive and cannot be construed as a substitute for the advice of qualified legal counsel.

Except for the Promissory Note, documents missing from the Custody File may be replaced with a copy of the missing document. The Document Custodian must obtain a copy or original as appropriate of any missing document from the Seller.

If an interim assignment is missing and the assignee is defunct, the Seller must obtain a legal opinion from qualified outside legal counsel which cites applicable law and place it in the Custody File to which it pertains.

#### 1.4.5.2 *Custodial Responsibilities*

When a Document Custodian becomes aware that a required document is missing, it is the Document Custodian's responsibility to send the Seller written notification immediately, not to exceed thirty (30) days after discovery, and request timely resolution by the Seller.

The written lost document notification to the Seller must contain each of the following items:

1. Mortgage Number(s)
2. Mortgagor and Mortgagee Names
3. Description of missing document
4. Date the document was discovered missing
5. Possible reasons for the absence of the document, if known

A copy of the Document Custodian's written request must be placed and maintained in the Custody File. Additionally, at least quarterly, the Document Custodian is expected to forward to the Seller a listing of all documents that have been missing for ninety (90) days or more.

Upon review and acceptance, the Document Custodian must file the replacement document in the applicable Custody File and delete the document from the original lost document notification that was sent to the Seller.

### 1.4.5.3 *Seller Responsibilities*

The Seller must make a timely submission of the replacement document. If the problem is not resolved within ninety (90) days, the Document Custodian must then notify FHLBI that the affected mortgages will be considered uncertified, and the Custody File will have to be corrected.

For missing Note situations requiring a Lost Instrument Bond with Unlimited Liability, the Bond must be in the form prescribed by FHLBI. The Lost Instrument Bond must be accompanied by the appropriate POA and Certification as required by the insurance or surety company.

The Lost Instrument Bond does not require an endorsement. The bond must be submitted to the Document Custodian for review and approval.

The Document Custodian will review the Lost Instrument Bond and, if acceptable, place the Lost Instrument Bond in the Custody File to replace the missing Note. In those cases where the Document Custodian may not be able to resolve a discrepancy with the Seller concerning the Lost Instrument Bond, the Document Custodian must submit the Lost Instrument Bond to FHLBI for a final determination.

If the original Note is missing and the Seller has exhausted all reasonable means of obtaining the original Note or cannot satisfy the above requirements, FHLBI may authorize the Seller to substitute a LNA, or similar substitute documentation for a missing Note.

If an LNA is utilized, the Document Custodian should examine the LNA to determine that a copy of the security instrument or the Note is attached, and that the data elements on the Note copy match the data submitted. This includes verifying that the LNA has been notarized if the format requires it. The LNA form may have a blank notary section only if the Document Custodian has a legal opinion from the Servicer's counsel stating that notarization is not required in the jurisdictions in question.

**Important:** FHLBI holds the Seller responsible for any losses or litigation that may arise due to the missing Note, regardless of whether or not an LNA was accepted.

The Document Custodian is required to review documents for their consistency and completeness. If at any time a Document Custodian discovers an error, the Document Custodian must notify the Seller of the error for correction or resolution. If the error cannot be remedied, the FHLBI MPP department must be notified within ninety (90) days. The Seller will be required to determine materiality of errors and adequately explain the materiality to the Document Custodian.

### 1.4.6 **Common Problem Resolution**

#### **1. Re-Recording of Interim Assignments**

If an interim assignment or the security instrument has been re-recorded, all interim assignments following do not need to be re-recorded to correct the chain of title.

## **2. Oversigning/Undersigning by Borrower**

FHLBI will accept documents with undersigning by the borrower or co-borrower, if applicable.

Undersigning occurs when the borrower, or co-borrower, does not sign the complete name or initials, such as not signing a middle initial. If a document is undersigned, a name affidavit is required to be placed in the Custody File.

Oversigning is acceptable and does not require a name affidavit. Oversigning occurs when the borrower, or co-borrower, sign more names or initials, such as signing a full middle name instead of an initial. A Name Affidavit may also be used to correct a misspelled name on a mortgage document.

## **3. Incorrect Borrower Name**

If the borrower or co-borrower name on the certification form is incorrect, it must be corrected.

However, if the name on the attached schedule(s) is correct, then a Name Affidavit will be acceptable to correct Mortgage Documents with incorrect borrower names. The same Name Affidavit may apply to various mortgage documents with the same name error. It is acceptable to have a copy of the Name Affidavit in place of the original.

## **4. Minor Typographical Errors**

FHLBI will accept minor obvious typographical errors that are inconsequential and do not affect the Mortgage Documents.

## **5. Correction Tape or Correction Liquid**

FHLBI will allow the use of correction tape or correction liquid on documents. However, the use of correction tape or correction liquid should be treated as any correction. If the correction requires initials, it must be initialed by the appropriate party.

## **6. Note Corrections**

If a correction to the Note is required, the Note must be corrected. An allonge should not be use in place of making corrections to the Note.

### **1.4.7 Seller Corporate Name Changes**

Sellers are required to provide the Document Custodian with a copy of the appropriate Corporate Resolution in the event of a Seller name change. The Seller is required to provide the resolution within thirty (30) days of a name change, and the resolution will be maintained by the Document Custodian in the Custody File.

Sellers are not required to prepare new assignments because of a name change.

## 1.5 Third Party Compliance Oversight

### 1.5.1 Independent Auditors (IA)

The Master Agreement requires the Seller to submit copies of its annual financial statements, audited by an independent certified public accountant or an independent public accountant (both referred to as an IA), within ninety (90) days following the end of the Seller's fiscal year.

Pursuant to the Custodial Agreement, each Document Custodian also becomes subject to an IA compliance audit. This audit includes a review of the operations and records of each Document Custodian in accordance with the compliance tests required by each Document Custodian's primary regulation.

The IA report on compliance testing includes all items of noncompliance that the IA has concluded are material departures from FHLBI regulations or requirements.

The annual IA examination with respect to the Document Custodian can be performed in either, or both, of the two methods discussed below:

#### 1. Multiple Auditor Approach

A Document Custodian may be tested for compliance with FHLBI requirements by an IA engaged by each Seller for which a Custodial Agreement exists. The IA contracts with a Seller, performs audit procedures on the mortgage documents related to that Seller only, and issues reports based on the results of those tests.

Under these circumstances, if a Document Custodian performs services for more than one Seller, more than one IA may audit the mortgage files each year.

#### 2. Single Auditor Approach

One IA, engaged by the Document Custodian, performs one compliance review of all Mortgage Documents held for every Seller for which a Custodial Agreement exists. If a Seller uses only one Document Custodian, it must be reviewed every year. If a Seller uses more than one Document Custodian, all Document Custodians contracted by the Seller must be reviewed at a minimum of every three years.

### 1.5.2 Compliance Review Agent

The Custodial Agreement executed between a Document Custodian and a Seller allows FHLBI or an agent of FHLBI to inspect and audit any and all records held by a Document Custodian relating to FHLBI's purchase of mortgages. FHLBI or its agent is responsible for the following functions:

1. Testing Seller and Document Custodian records and procedures to determine whether they conform to FHLBI requirements.
2. Following the completion of compliance testing, issuing corrective action letters to the Document Custodian, with relevant portions sent to affected Sellers.
3. Following up with Document Custodians and Sellers to resolve reported compliance exceptions.
4. Monitoring compliance with recertification deadlines and following up as necessary when such certifications become past due. FHLBI or its agent is responsible for contacting Document Custodians directly and scheduling periodic on-site compliance testing visits.

Document Custodians are required to provide full cooperation during their compliance testing and any subsequent follow-up contacts. Compliance testing is performed for the sole benefit of FHLBI and does not substitute for the required annual IA examination described earlier in this Section. FHLBI or its agent will meet with the Document Custodian at the end of an on-site compliance test.

1.6 Exhibit A



**Form of Document Release**

<b>Name of Document Custodian</b>		<b>Date prepared by Seller/Servicer</b>	
<p>In connection with the administration of the mortgages held by you in custody for FHLBI, the undersigned Seller/Servicer requests the release of the mortgage documents described below for the reason indicated. All documents to be released to the Seller/Servicer shall be held in trust by the Seller/Servicer for the benefit of FHLBI. The Seller/Servicer shall return the documents to the Document Custodian when the Seller/Servicer's need thereof no longer exists, except where the mortgage is paid in full or otherwise disposed of in accordance with the MPP guide and Document Custodian Manual (Appendix A).</p>			
Mortgagor Name, Address, and Zip Code		Master Commitment Number	
		Loan Number (as input in LAS)	
<b>Reason for Document Request</b> Enter Reason Code from list below: _____		Expected Return Date	Settlement Date
<p><b>Reason Codes</b></p> <ol style="list-style-type: none"> <li>1. Mortgage Paid in Full</li> <li>2. Foreclosure</li> <li>3. Substitution</li> <li>4. Other Liquidation</li> <li>5. Non-Liquidation</li> </ol>			
Authorized Signature of Seller/Servicer		Name of Seller	

**Document Custodian:** You acknowledge, by your signature below the execution of the above request. You must retain this form for your file in accordance with the terms of the Document Custodian Manual. A copy of this form, signed and dated by you, shall also be given to the Seller/Servicer.

Authorized Signature of Document Custodian	Document Custodian Number	Document Release Date
<p><b>Return of Released Documents</b> All documents released have been returned</p>		
Authorized Signature of Document Custodian	Date Returned	

## Appendix B: MPP Delivery Fee Schedule

---

The following is a schedule of all delivery fees charged for the Mortgage Purchase Program. Be sure to refer to your Master Commitment Contract (MCC) which may restrict the delivery of loans in some of these categories. These fees are net funded from the settlement proceeds and reflected on the Funding Schedule in LAS.

### Cash-Out Refinance Fees

Loan to Value (LTV)	Fee
< 75% LTV	None
75.01%-80%	0.25%

## Appendix C: Remittance Template

Remittance Template used to submit monthly remittance data to the Master Servicer in Excel format as referenced in Section 17.1 of the MPP Guide.

Appendix C Monthly Remittance File Format Including Field Descriptions										
Column:	A	B	C	D	E	F	G	H	I	J
<b>Data Description:</b>	Servicer Loan Number	Actual Interest amount collected from borrower (at Note Rate)	Standard FNMA Action Code. Coded Payoff and Charge Off Loans required.	Payoff/Charge Off Date Use format dd-mmm-yyyy (ie. 30-Apr-2016)	Net Interest remitted (This amount is interest less service fee.)	Sched/Sched Only. Leave blank for Actual/Actual loans For S/S enter the scheduled Note Rate for the next cycle	Sched/Sched Only. Leave blank for Actual/Actual loans For S/S enter the scheduled P&I Payment for the next cycle	Sched/Sched Only. Leave blank for Actual/Actual loans For S/S enter the Scheduled Service Fee Rate for the next cycle	Loan Due Date per Trial Balance Report Use format dd-mmm-yyyy (ie. 30-Apr-2016)	Current Note Rate per Trial Balance Report
<b>Column Header:</b>	SERVICER LOAN NUMBER	ACTUAL INTEREST COLLECTED	FNMA ACTION CODE	FNMA ACTION DATE	INTEREST REMITTED	ENDING SCHEDULED NOTE RATE	ENDING SCHEDULED P&I PAYMENT	ENDING SCHEDULED SERVICE FEE RATE	ENDING DUE DATE	ENDING CURRENT RATE
<b>Sample Data:</b>	42543543	600.98			560.91	4.5	836.03	0.25	01-Sep-2015	4.5
Column:	K	L	M	N	O	P	Q	R	S	T
<b>Data Description:</b>	Ending Participant Principal Balance	Ending 100% P&I Payment amount	Ending 100% Principal Balance	Fees remitted from Servicer (Your share of the fees)	Total Principal Amount remitted (includes Curtailments and Payoffs)	Current Service Fee Rate per Trial Balance Report	Sched/Sched Only. Leave blank for Actual/Actual loans For S/S, enter the ending Security Balance	Beginning 100% Principal Balance	Sched/Sched Only. Leave blank for Actual/Actual loans For S/S, enter the beginning Security Balance	Total funds to be remitted on the loan
<b>Column Header:</b>	ENDING PARTICIPANT UPB	ENDING 100% P&I PMT	ENDING 100% UPB	OTHER FEES REMITTED	PRINCIPAL REMITTED	ENDING SERVICE FEE RATE	ENDING SECURITY BALANCE	BEGINNING ACTUAL BALANCE	BEGINNING SCHEDULED BALANCE	TOTAL REMIT
<b>Sample Data:</b>	160026.81	836.03	160026.81		235.05	0.25	160026.81	160261.86	18-Feb-2338	795.96

## Appendix D: External Resources

References	Available At:
A.M. Best's Insurance Reports	<a href="http://www.ambest.com/sales/BIR/">http://www.ambest.com/sales/BIR/</a>
Appendix Q to Part 1026-Standards for Determining Monthly Debt and Income	<a href="http://www.consumerfinance.gov/eregulations/1026-Q/2013-30108_20140118">http://www.consumerfinance.gov/eregulations/1026-Q/2013-30108_20140118</a>
Comprehensive Environmental Response, Compensation, and Liability Act	<a href="http://www.epa.gov/laws-regulations/summary-comprehensive-environmental-response-compensation-and-liability-act">http://www.epa.gov/laws-regulations/summary-comprehensive-environmental-response-compensation-and-liability-act</a>
Consumer Financial Protection Bureau	<a href="http://www.consumerfinance.gov/">http://www.consumerfinance.gov/</a>
Demotech, Inc.'s Hazard Insurance Financial Stability Ratings®	<a href="http://www.demotech.com/">http://www.demotech.com/</a>
Department of Housing and Urban Development	<a href="http://portal.hud.gov/hudportal/HUD">http://portal.hud.gov/hudportal/HUD</a>
Duff and Phelps Credit Rating Company	<a href="http://www.duffandphelps.com/">http://www.duffandphelps.com/</a>
Fannie Mae's Desktop Underwriter (DU)	<a href="https://www.fanniemae.com/singlefamily/desktop-underwriter">https://www.fanniemae.com/singlefamily/desktop-underwriter</a>
Federal Deposit Insurance Company (FDIC)	<a href="https://www.fdic.gov/">https://www.fdic.gov/</a>
Federal Emergency Management Agency (FEMA)	<a href="http://www.fema.gov/">http://www.fema.gov/</a>
Federal Housing Finance Agency (FHFA)	<a href="http://www.fhfa.gov/">http://www.fhfa.gov/</a>
Flood Insurance Rate Map (FIRM)	<a href="http://www.fema.gov/flood-insurance-rate-map-firm">http://www.fema.gov/flood-insurance-rate-map-firm</a>
Freddie Mac's Loan Prospector (LP)	<a href="http://www.loanprospector.com/">http://www.loanprospector.com/</a>
Genworth Mortgage Insurance Corporation	<a href="https://miservicing.genworth.com">https://miservicing.genworth.com</a>
Generally Accepted Accounting Principles (GAAP)	<a href="http://www.fasab.gov/accounting-standards/authoritative-source-of-gaap/">http://www.fasab.gov/accounting-standards/authoritative-source-of-gaap/</a>
Lloyd's of London	<a href="http://www.lloyds.com/">http://www.lloyds.com/</a>
Mortgage Guaranty Insurance Corporation (MGIC)	<a href="https://mgic.com/servicing/index.html">https://mgic.com/servicing/index.html</a>
Moody's Investor's Service	<a href="https://www.moodys.com/">https://www.moodys.com/</a>
Mortgage Electronic Registration Systems Inc. (MERS)	<a href="http://www.mersinc.org/">http://www.mersinc.org/</a>
National Credit Union Administration (NCUA)	<a href="https://www.ncua.gov/">https://www.ncua.gov/</a>
National Flood Insurance Program (NFIP)	<a href="http://www.fema.gov/national-flood-insurance-program">http://www.fema.gov/national-flood-insurance-program</a>
Nationally Recognized Statistical Rating Organization (NRSRO)	<a href="http://www.investopedia.com/terms/n/nationally-recognized-statistical-ratings-organization.asp">http://www.investopedia.com/terms/n/nationally-recognized-statistical-ratings-organization.asp</a>
Property Assessed Clean Energy (PACE)	<a href="http://www.pacenation.us/">http://www.pacenation.us/</a>

<b>References</b>	<b>Available At:</b>
Regulation B Regulatory Disclosure	<a href="http://www.consumerfinance.gov/regulations/disclosure-and-delivery-requirements-for-copies-of-appraisals-and-other-written-valuations-under-the-equal-credit-opportunity-act-regulation-b/">http://www.consumerfinance.gov/regulations/disclosure-and-delivery-requirements-for-copies-of-appraisals-and-other-written-valuations-under-the-equal-credit-opportunity-act-regulation-b/</a>
Regulation Z Regulatory Disclosure	<a href="http://www.consumerfinance.gov/regulations/">http://www.consumerfinance.gov/regulations/</a>
RESPA Regulatory Disclosure	<a href="http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/rmra/res/RESPA_hm">http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/rmra/res/RESPA_hm</a>
Risk Management Solutions (RMS)	<a href="http://www.rms.com/">http://www.rms.com/</a>
Special Flood Hazard Area (SFHA)	<a href="https://www.fema.gov/special-flood-hazard-area">https://www.fema.gov/special-flood-hazard-area</a>
Standard and Poor's Ratings Direct Insurance Service	<a href="http://www.standardandpoors.com/en_US/web/guest/home">http://www.standardandpoors.com/en_US/web/guest/home</a>
TILA-RESPA Integrated Disclosure Rule	<a href="http://www.consumerfinance.gov/regulatory-implementation/tila-respa/">http://www.consumerfinance.gov/regulatory-implementation/tila-respa/</a>
Request for Transcript of Tax Return IRS Form 4506-T	<a href="http://www.irs.gov/form4506t">www.irs.gov/form4506t</a>