

NEVADA HOUSING DIVISION
SERVICING SUPPLEMENT
October 1, 2003

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PART I – GENERAL REQUIREMENTS

1.01. Introduction.

The Nevada Housing Division and the Participating Lending Institution, its successor's and/or assigns (hereafter the "Servicer") have entered into a Mortgage Purchase Agreement whereby the Servicer agreed to transfer all of its right, title and interest in the Mortgage Loan described in the Mortgage Purchase Agreement to the Nevada Housing Division. The Mortgage Purchase Agreement further provides that the Servicer agrees to service the Mortgage Loan on behalf of the Nevada Housing Division and in accordance with the terms and conditions of this Servicing Supplement and the Nevada Housing Division Uniform Reporting Supplement dated May 1, 2000, as amended and in effect on the date of transfer of the Mortgage Loan from the Servicer to the Nevada Housing Division.

Unless otherwise defined in this Servicing Supplement, all capitalized terms referred to in this Servicing Supplement shall have the same meaning as ascribed to such terms in the Nevada Housing Division Selling Supplement, dated October 1, 2003, as amended.

Although Division staff will be available for guidance, any interpretation or waiver of any provision of this Selling Supplement will not be binding upon the Division unless in writing and signed by an approved representative of the Division.

1.02. Independent Contractor.

In servicing the Mortgage Loan on behalf of the Division, the Servicer acknowledges that it must be an independent contractor acting on its own behalf and for its own account. Nothing contained in this Servicing Supplement shall be deemed or construed to create a co-partnership or joint venture between the Division and the Servicer. Except as otherwise provided in this Servicing Supplement or the Uniform Reporting Supplement, the Servicer shall have no authority, expressed or implied, to act in any manner or by any means for or on behalf of the Division in any capacity other than that of an independent contractor.

1.03. Limitations of Servicer.

Unless authorized in writing by the Division, Servicer shall not be authorized or empowered to waive, release or vary the terms of the Mortgage Loan or waive or consent to the postponement or strict compliance on the part of any Mortgagor, with respect to any term, provision or covenant, or permit the assumption of the Mortgage Loan, without first obtaining the prior written consent of the Division.

1.04. Servicing Facilities and Personnel.

Servicer agrees to maintain servicing facilities that are staffed with trained personnel to adequately service the Mortgage Loan in accordance with the highest standards of accepted mortgage-servicing practices normally employed by prudent lending institutions. The Servicer's personnel must be familiar with all applicable rules, regulations and requirements affecting the Mortgage Loan serviced for the Division, including, but not limited to, any rules, regulations and requirements issued by either Fannie Mae or the Mortgage Insurer.

1.05. Standard of Servicing.

Servicer agrees to service the Mortgage Loan in accordance with the highest standards of accepted mortgage servicing. In this regard, the Servicer shall proceed diligently to collect all payments due under the Mortgage Loan, as and when they become due and payable, and must administer any and all buydown arrangements approved by the Division. Servicer agrees to service the Mortgage Loan in accordance with Mortgage Insurer guidelines, or Fannie Mae guidelines in the event of the absence of Mortgage Insurance or the Mortgage Insurer is silent with respect to a particular issue.

1.06. State and Federal Laws, Rules and Regulations.

Servicer agrees to service the Mortgage Loan and comply with all applicable local, state, and federal laws, rules and regulations, including, but not limited to, the “Real Estate Settlement Procedures Act,” the “Federal Truth-In-Lending Act,” the “Consumer Credit Protection Act,” the “Fair Debt Collection Practices Act”, the “Fair Credit Reporting Act”, the “Gramm-Leach, Bliley Act” and the “Homeowners Protection Act.”

1.07. Fidelity Coverage and Errors and Omission Policy.

During the period in which the Servicer services the Mortgage Loan, the Servicer agrees to keep in full force at all times, at no cost to the Division, a fidelity bond issued by a surety company authorized to do business in the State, satisfactory to the Division, protecting the Servicer against loss caused by any dishonest, fraudulent or criminal act of its employees or agents. Such bond must provide coverage and be issued by a surety company complying with the requirements of the Division and must name the Division as certificate holder and Servicer as the insured. The fidelity bond coverage must be equal to a percentage of the total portfolio of residential mortgages that the Servicer services for itself and all other investors as defined by Fannie Mae guidelines.

Unless otherwise approved by the Division, the policy’s deductible clause may be for any amount up to the greater of \$100,000 or 5% of the bond’s face amount. The Servicer agrees to furnish to the Division, at least annually, a certificate from the surety company of such fidelity bond attesting to the form and amount of the policy and expressly affirming that there can be no change or cancellation of coverage except upon ten (10) days prior written notice by certified mail to the Division.

The Servicer further agrees to keep in full force at all times, at its own expense, a policy or policies of insurance covering errors and omissions in amount equal to the amount of the Servicer’s fidelity bond coverage. Such policy or policies must name the Division as certificate holder and the Servicer as insured. The Division will apply Fannie Mae guidelines with respect to coverage in excess of \$10 million. Such policy or policies must provide coverage and be issued by an insurer complying with the requirements of the Division. At least annually, the Servicer shall furnish a certificate of such errors and omissions policy to the Division which must include the amount, term, date of commencement, renewal date, name of insured, and attestation to the effect that the coverage of the policy must not be reduced in amount or canceled except upon ten (10) days prior written notice by certified mail to the Division.

Notwithstanding any provisions contained in this Servicing Supplement which require

that the Servicer shall maintain errors and omissions insurance and fidelity bond coverage, Servicer shall not in any way or to any extent be relieved of any liability to the Division for the proper performance of its duties and obligations under the Mortgage Purchase Agreement, this Servicing Supplement or the Uniform Reporting Supplement.

1.08. Books and Records.

During the term that the Servicer services the Mortgage Loan, the Servicer agrees to maintain and retain in its possession accurate books and records with respect to the Mortgage Loan. The Servicer's books and records must reflect all receipts and disbursements with respect to the Mortgage Loan, the status of all Escrow Payments, and must reflect the respective interest of the Mortgagor and the Division with respect to the Mortgage Loan. All such books and records must be maintained by the Servicer in accordance with generally accepted accounting principles and must comply with all requirements of the Mortgage Insurer. Servicer shall furnish the Division with such statements, reports and information as required by this Servicing Supplement and the Uniform Reporting Supplement. Upon the request of the Division, the Servicer shall permit an employee or designee of the Division to examine and make copies of such books and records.

1.09. Annual Report of Servicer's Financial Condition.

The Servicer agrees to furnish to the Division, at the Servicer's sole cost, its audited annual financial statements within ninety (90) days of its fiscal year-end. Year-end financial statements of the Servicer, must be audited by an independent, certified public accountant. Failure to submit financial statements within one hundred twenty (120) days of the Servicer's fiscal year-end may result in the suspension or termination of the Servicer.

1.10. Custodial Accounts and Withdrawals Therefrom.

All funds collected by the Servicer with respect to the Mortgage Loan, other than funds collected in connection with the foreclosure or the complete payoff of the Mortgage Loan, must be credited to or deposited by Servicer in one or more special trust or custodial accounts (the "Custodial Account") which must be established in accordance with the terms of the Uniform Reporting Supplement. All funds collected by the Servicer in a Custodial Account must be retained or disbursed in accordance with the terms of the Uniform Reporting Supplement.

1.11. Amendments.

The Division reserves the right to alter or waive any of the requirements of this Servicing Supplement, to impose other additional requirements, and to rescind or amend any and all material set forth in this Servicing Supplement.

1.12. Notices.

All notices required or permitted to be given by law or by the terms of this Servicing Supplement must be in writing and shall be considered given (1) upon personal service of a copy on the party to be served, or (2) forty-eight (48) hours after mailing such notice by certified or registered mail, postage prepaid, receipt for delivery requested, addressed to the party to be served and properly deposited in the United States Mail or (3) twenty-four (24) hours after mailing such notice by an express delivery service. All notices and communications must be

given to the Division at 1802 N. Carson Street, Suite 154, Carson City, Nevada, 89701-1229 and to the Servicer at the mailing address on the Mortgage Purchase Agreement. The Division and the Servicer may designate to the other party in writing, from time to time, different addresses to which communications or notices hereunder shall be sent.

1.13. Compensation of the Servicer.

The Servicer's compensation for servicing the Mortgage Loan shall be set forth in the Invitation referenced in the Mortgage Purchase Agreement.

PART II – SERVICING REQUIREMENTS

2.01. Remittance to the Division.

The Servicer agrees to remit to the Division all funds collected with respect to the Mortgage Loan in accordance with the terms of the Mortgage Loan, this Servicing Supplement and the Uniform Reporting Supplement.

2.02. Mortgage Loan File.

The Servicer agrees to maintain all documents relating to the servicing of the Mortgage Loan, including those items listed as exhibits or attachments to the Selling Supplement, as well as all legal notices, delinquency and foreclosure documentation, correspondence, forms, reports and documentation of conversations relating to the Mortgage Loan. Such files shall contain the original paper documents or an electronically retrievable substitute that can produce an exact replica of the original document on paper, including any signatures attached to the original document. The documentation maintained must clearly indicate the Division's interest in the Mortgage Loan. Upon termination of servicing the Mortgage Loan, for any reason whatsoever, the Servicer agrees to maintain all documents relating to the servicing of the Mortgage Loan for an additional seven (7) years, or longer if required by applicable law.

Servicer shall provide the complete Mortgage Loan servicing file, or any portion thereof, to the Division within three days upon request by the Division.

2.03. Mortgage Insurer Requirements.

The Servicer is obligated to satisfy and comply with all applicable provisions and requirements of the Mortgage Insurer to maintain such Mortgage Insurance in full force and effect.

In connection with the servicing of the Mortgage Loan, the Servicer agrees to satisfy and comply with all requirements of the Mortgage Insurer, so that the maximum benefit of the Mortgage Insurance inure to the Division.

2.04. Cancellation of Mortgage Insurance.

The Homeowners Protection Act of 1998 (the Act) which affects mortgage loans originated on or after July 29, 1999, requires the termination and/or cancellation of primary mortgage insurance (PMI) under certain conditions.

Although the Act affects Mortgage Loans insured by PMI (excluding primary mortgage insurance provided by the Federal Housing Administration Single Family Program) originated on or after July 29, 1999, the Division on a case-by-case basis, will additionally extend the application of the following guidelines on Mortgage Loans insured by PMI originated prior to July 29, 1999.

In the event a Mortgagor requests cancellation of primary mortgage insurance on a loan originated prior to July 29, 1999, the Servicer shall determine that all criteria have been met as established by the Homeowners Protection Act. If such determination is made, Servicer shall provide the Division with the following information:

- A. A written request from the Mortgagor requesting cancellation of Mortgage Insurance.
- B. The Mortgage Loan history verifying no 30 day delinquencies for the preceding 12 months.
- C. Verification the loan to value is 80% or less based on amortization of the Mortgage Loan.
- D. Verification the Mortgaged Premises are not encumbered by a subordinate lien. This may be in the form of a preliminary title report, title search, or property profile provided by a title company licensed to do business in the State of Nevada.

Upon consideration of the above information, the Division will notify the Servicer if the request for termination of Mortgage Insurance is approved or declined.

2.05. Monthly Statement to Mortgagor.

Servicer agrees to deliver to the Mortgagor under the Mortgage Loan serviced for the Division, at least annually, a mortgage payment book for the following year, or alternatively, a monthly statement, at least ten (10) days before each monthly installment under the Mortgage Loan becomes due. The book or statement, as the case may be, must set forth the amount of each monthly installment and must designate which amounts are applicable to principal, interest, late fees, taxes, insurance, special assessments or other charges required to be paid under the Mortgage Loan.

2.06. Escrow Requirements.

The Servicer agrees that at least annually, it must estimate the annual amount of taxes, assessments, local improvement district assessments, special improvement district assessments, hazard insurance premiums, flood insurance premiums, mortgage insurance premiums, and all other charges required to be paid through an impound account under the Mortgage Loan that shall or will become due and payable with respect to the Mortgage Loan (hereafter collectively referred to as the “Escrow Charges”), determine whether the monthly payments (the “Escrow Payments”) payable by the Mortgagor will be sufficient to pay such estimated Escrow Charges as and when they become due and payable, and make adjustments in the amount of future Escrow Payments as deemed necessary by the Servicer, all in accordance with RESPA, the Homeowner’s Protection Act and with Nevada Revised Statute Section 100.091, or any succeeding or corresponding provision. The Servicer shall pay interest to the Mortgagor on the Escrow Payments collected by the Servicer to the extent required by the Mortgage Loan or by law.

With respect to the Mortgage Loan, the Servicer agrees to maintain accurate records reflecting the status of all Escrow Charges, and any other charges which are or may become a lien against the Mortgaged Premises, and the Servicer shall obtain, from time to time, all bills for the payment of such charges, and must effect payment thereof prior to the applicable penalty or termination date and at a time appropriate for securing maximum discounts. Servicer agrees to advance any funds needed for the payment of any Escrow Charges or other charges which are or may become liens on the Mortgaged Premises.

The Servicer agrees to be responsible for remitting premiums for Mortgage Insurance to the respective Mortgage Insurer, as they become due and payable. If the Mortgage Insurance premiums are payable on a monthly basis, and if authorized by the Mortgage Loan and Mortgage Insurer, the Servicer shall require the Mortgagor to deposit monthly in an impound account sufficient funds to provide for the payments of Mortgage Insurance premiums, including renewal premiums, as they become due.

Servicer shall be absolutely responsible for the timely payment of all taxes, assessments, premiums and other Escrow Charges prior to any applicable penalty or termination date for the payment thereof, regardless of any failure or refusal by the Mortgagor to provide such payment. Servicer is also responsible for payment of any penalty and interest if such items are not timely paid.

Servicer shall hold the Division harmless from any losses that may occur due to the failure of any payments to be made for taxes, assessments or other Escrow Charges or for the late payment of taxes, assessments or other Escrow Charges, failure to have in force a valid hazard insurance policy and flood insurance policy (as applicable), or failure to have mortgage insurance or guarantees in force as required by the Division.

At the request of the Division Servicer agrees to submit to the Division a trial balance statement reflecting the amounts held in an impound or escrow account for the Mortgage Loan. In lieu of submitting a trial balance statement for each Mortgage Loan being serviced by the Servicer, the Servicer may submit the trial balance statement for all Mortgage Loans serviced by the Servicer on behalf of the Division, so long as such trial balance statement separately lists each Mortgage Loan and the amounts held in an impound account or escrow account for each such Mortgage Loan. If the impound or the escrow account for the Mortgage Loan is zero or a negative number, then for such Mortgage Loan, the Servicer shall submit with the trial balance statement a separate statement setting forth the time that the most recent escrow analysis was completed, and the amount of funds, if any, that the Servicer has advanced on behalf of the Mortgagor to cover any shortage in the impound or escrow account.

At least annually, the Servicer agrees to furnish to the Division, at the Servicer's sole cost and expense, a statement that all hazard and flood insurance premiums, Mortgage Insurance, real property taxes, special assessments and all other charges required to be paid under the Mortgage Loan have been paid in full prior to the due date for such payments.

2.07. Hazard Insurance and Flood Insurance.

A. Hazard Insurance. The Servicer agrees that at all times during the Servicing of the Mortgage Loan, the Mortgaged Premises are kept insured against loss or damage from fire, hazards of extended coverage, and against such other insurable hazards and risks as may be required by the Division, consistent with the terms of the Mortgage Loan, in an amount equal to the maximum insurable value of the improvements based on guaranteed or extended replacement costs. The Division will not accept hazard insurance policies that limit or exclude from coverage (in whole or in part) wind, storm, hurricane, hail damages, or any other perils that are normally included under an extended coverage endorsement.

B. Flood Insurance. If the Mortgaged Premises is located in an area identified by Federal Emergency Management Program ("FEMA"), as being a special flood hazard area, Servicer shall require the Mortgagor to maintain flood insurance. When a Servicer becomes

aware that the Mortgaged Premises is located within a federally designated flood plain, Servicer is obligated to notify the Mortgagor and to obtain flood insurance either with the Mortgagor's knowledge and consent, or to force place such insurance, as allowed by law.

C. Scope and Amount of Coverage Required for the Mortgaged Premises for Residences which are Condominium Units or Attached PUD Units. Insurance coverage for a condominium unit or PUD unit secured by a Mortgage Loan must be a multi-peril type of policy covering the common areas and facilities of the project and the entire building containing the condominium unit or PUD unit providing as a minimum "all-risk" coverage the provides for claims to be settled on a replacement cost basis. Insurance should cover 100% of the insurable replacement cost of the project improvements. Coverage does not need to include land, foundations, excavations, or other items that are usually excluded from insurance coverage. The multi-peril policy must contain coverage for personal injury and property damage in all common areas and public ways. The policy must cover all personal injury and property damage claims, whether any occurrence which gives rise to a claim is the fault of one or more unit owners or the association of owners. Should any part of the condominium project or PUD project be located in a special flood hazard area, flood insurance shall be in force for the term of the Mortgage Loan.

D. Mortgage Clause. All hazard and flood insurance policies must have the standard mortgage clause commonly used by private institutional mortgage investors. Such clause must provide that the insurer will notify the named mortgagee at least 10 days before any reduction in coverage or cancellation of the policy. The mortgage clause must show the Division in care of name and address of the Servicer followed by the phrase "its successor and assigns." The mortgage clause of insurance policies obtained by homeowners associations must be endorsed to fully protect the interests of the Division and the Servicer.

When a Servicer becomes aware that the Mortgaged Premises are vacant, rented or not occupied by the Mortgagor, Servicer shall make certain that hazard insurance is and will remain in force to provide coverage to protect the Division from losses normally covered under a standard extended coverage policy for an owner occupied residence. Servicer may charge a reasonable and customary fee to the Mortgagor for the cost of Servicer's work directly related to changing its records whenever the Servicer obtains an additional endorsement, such as one covering a vacated or rented residence or if the Mortgagor changes or replaces hazard insurance policies or insurers, unless such change or replacement occurs upon the scheduled renewal date.

All policies of hazard and flood insurance must be written by insurance companies licensed to do business in the State of Nevada, and each insurance policy must be written by an insurance company that has a rating from AM Best Company, Demotech, Inc., or Standard and Poor's, Inc. which is acceptable by Fannie Mae as set forth in its Servicing Guide.

The Servicer's obligation to cause such insurance to be maintained shall be absolute and unconditional, regardless of any failure or refusal by any Mortgagor to pay in a timely fashion, the premiums, and Servicer agrees to indemnify the Division for any loss suffered by it because hazard insurance or flood insurance sufficient to protect the Division's interest is not in effect with respect to any Mortgaged Premises.

2.08. Insurance Loss Settlements.

The Servicer shall promptly notify the Division of any known loss or damage by fire or other hazard to the Mortgaged Premises in excess of \$15,000. On all losses, the Servicer is responsible for obtaining complete details on the loss and determining whether the Mortgagor has filed a claim for loss. The Servicer is responsible for monitoring the filing of any claim for loss with the insurance carrier, monitoring repairs to the Mortgaged Premises, collecting the proceeds from the hazard insurance policy and disbursing the insurance proceeds for the restoration or repair of the Mortgaged Premises.

In such cases where the Servicer determines that a loss or damage has been incurred, and the Servicer is unable to contact the Mortgagor, or it appears that the Mortgaged Premises have been abandoned, the Servicer shall determine the general extent of the damages and the required repairs, take appropriate measures to protect the Mortgaged Premises from further damage, and contact the insurance company to determine whether the Mortgagor has submitted a claim for loss. If the Mortgagor has not filed a claim for loss, the Servicer shall file a claim of loss under the insurance policy and collect the proceeds on behalf of the Division.

In addition to the responsibilities set forth above, the Servicer shall also have the following responsibilities:

A. Assisting the Mortgagor in determining the nature of the needed repairs, obtaining the necessary bids for the repairs or restoration, and reviewing and approving the final plans for repair;

B. Inspecting the repairs or restoration to insure that they comply with the plans and specifications;

C. Obtaining proper lien releases with respect to any repairs and restoration done to the Mortgaged Premises;

D. Disbursing the insurance proceeds when repairs are completed or in the case of losses in excess of \$15,000.00, disbursing progress payments as repair work and restoration is completed and inspected; and

E. Monitoring and overseeing the repair and restoration work to insure that the Mortgaged Premises are repaired to its original or equivalent condition.

The Servicer shall document in each Mortgage Loan file all pertinent facts relating to the loss or damage to the Mortgaged Premises and the disposition of any proceeds received from the insurance company.

2.09. Tax Reporting.

On or before January 31 of each year that the Servicer services a Mortgage Loan for the Division, Servicer agrees to furnish to the Mortgagor in accordance with the applicable provisions of the Code and Treasury Regulations, on such form determined by the Internal Revenue Service, an information return setting forth the total amount of interest paid by the Mortgagor under the Mortgage Loan for the preceding calendar year. The information return, or a separate written statement accompanying the information return, must also reflect for the

preceding calendar year the beginning and ending balances of the impound or escrow account, the total deposits or withdrawals made to or from the impound or escrow account, the amount of real estate taxes paid by the Mortgagor during the calendar year, the amount of hazard insurance paid by the Mortgagor during the calendar year and the beginning and ending unpaid principal balance of the Mortgage Loan.

2.10. Assumptions of Mortgage Loans.

The Servicer acknowledges that no Mortgage Loan may be assumed without the Mortgagor first obtaining the prior written approval of the Division and, if applicable, the Mortgage Insurer. The Division will authorize a person or persons to assume a Mortgage Loan provided that the person or persons qualify as an Eligible Borrower and such person or persons otherwise meet the requirements of the Mortgage Insurer, if applicable, and all applicable state and federal requirements. In the event a person or persons desire to assume the Mortgage Loan, the Servicer shall promptly process an assumption package as outlined in Attachment 7 to the Selling Supplement and, if applicable, as required by the Mortgage Insurer, and submit such package to both the Division and, if applicable, the Mortgage Insurer for approval. In the event that the Servicer is aware of the assumption of a Mortgage Loan, and the Servicer fails to obtain the prior written consent of the Division, the Servicer agrees to purchase/repurchase the Mortgage Loan from the Division in accordance with Section 18 of this Servicing Supplement.

Servicer shall perform all of the necessary processing and underwriting to determine whether the assumption of the Mortgage Loan obligations to the assumer will constitute a prudent, valid and secure investment for the Division. Servicer shall decline any assumption application that does not meet Division and/or Mortgage Insurer criteria.

The use of a cosigner is not permitted for the assumption of a Mortgage Loan. A delinquent Mortgage Loan may be assumed, provided that the Mortgage Loan is brought current on or before the closing of the assumption and that all other assumption requirements have been met. The Division does not permit any Division affidavits or documents to be signed on behalf of the assumer by an attorney-in-fact.

2.11. Late Charges.

Servicers shall only collect late payment charges to the extent expressly provided for in the mortgage instruments, but in no event shall Servicer impose any late payment charge with respect to any payment received within fifteen (15) days after the payment is due, in an amount in excess of five percent (5%) of the monthly installment that is late, or such lesser amount as specified in the Deed of Trust Note.

Late charges may not be collected by charging the Mortgagor's escrow account, deducting from a regular monthly payment or adding to the outstanding principal balance of the Mortgage Loan. Servicer shall be entitled to retain late charges received as additional servicing compensation; provided, however, that no part of any funds received with respect to a delinquent mortgage, that is subsequently never brought current, shall be applied to late charges by Servicer and retained by Servicer as part of servicing compensation, notwithstanding any provision in the Deed of Trust note to the contrary.

2.12. Military Indulgence.

Certain Mortgagors may be entitled to benefits under the Soldier's and Sailor's Civil Relief Act (SSCRA), as amended. Servicer should be familiar with and act in accordance with the requirements of such Act and other pertinent requirements.

Within fifteen (15) days following any relief granted by the Servicer to the Mortgagor under the SSCRA, as amended, the Servicer shall submit to the Division a copy of the Mortgagor's request for relief under such Act, which must include a copy of the orders received by the military branch in which the Mortgagor is affiliated, a copy of the Servicer's response, and in the event relief is granted, the type of relief granted and any schedule relating to a new payment schedule. Servicer shall notify the Division when the Mortgagor shall resume payments at the note rate scheduled under the Mortgage Loan not less than thirty (30) days prior to resumption.

Servicer shall utilize Fannie Mae guidelines in calculating payments due on the Mortgage Loan during the indulgence period and upon cessation of the indulgence period.

2.13. Request for Partial Release; Easements.

The partial release of any real property from the lien of a Mortgage Loan, releases of personal property, grants of easements, the waiver of any right under a Mortgage Loan, consent to substantial alterations, removal, demolition, taking or division of Mortgaged Premises, and other matters relating to changes affecting the Mortgage Loan or Mortgaged Premises shall require specific prior written approval of the Division. Servicer shall request such approval of the Division by providing a written application for such approval accompanied by detailed information such as supporting appraisals, plats, (including a survey, if requested by the Division,) legal instruments, etc., and Servicer's recommendation to the Division of whether or not to approve the application. Approval of FHA, VA or PMI, as they may require, shall be obtained by Servicer prior to delivery of an application package to the Division for its approval.

The Division, in its sole discretion and without obligation to do so, may approve a partial release of real property, provided as a minimum that (a) the partial release is not for the purpose of subdividing the land; (b) the consideration received by the Mortgagor is at least equal to the value of the property released; (c) the amount of such consideration is remitted to Servicer for application on the indebtedness; (d) the current value of the Mortgaged Premises is not reduced; and (e) the consent of the Mortgage Insurer has been given. The Division will consider all requests on a case by case basis.

Servicer shall have the responsibility to see that the instruments used in connection with changes affecting the Mortgage Loan or Mortgaged Premises are in proper form, and that all requirements under applicable law are met. Application of funds against the Mortgage Loan of any proceeds from a release, easement, or other modification, or from a taking by eminent domain, shall be set forth in the Mortgage Loan file. Before submitting a request to the Division to approve a partial release, the Servicer shall determine that the land remaining subject to the Mortgage Loan shall not be smaller in size than required by any local ordinance.

If necessary, the Servicer shall inform the taxing authority of the release of real property and request a division of any taxes levied or to be levied.

A conformed copy of the instrument used to complete the transaction shall be sent to the Division and FHA, VA or PMI, as appropriate, by the Servicer.

The Servicer may charge a reasonable and customary fee to the Mortgagor for the cost of work directly related to the partial release. Any fees charged must be in accordance with Mortgage Insurer, or in the absence of mortgage insurance, Fannie Mae guidelines.

2.14. Irregular Occurrences.

Servicer shall notify the Division and, as applicable, FHA, VA or PMI immediately upon learning of the happening or any planned or pending irregular occurrences described below. Servicer shall notify the Division in writing and, if a situation appears urgent, by telephone (and, as appropriate, foreclosure counsel if foreclosure proceedings have commenced, if a deed-in-lieu of foreclosure has been approved by the Division or if foreclosure counsel is monitoring a bankruptcy). Notification to the Division shall be given within five (5) business days of Servicer's awareness of such irregular occurrences. Servicer shall take all steps necessary to prevent loss of Mortgage Insurance or guarantee benefits by reason of the irregular occurrences listed below:

A. The occurrence of any default under the terms of the Mortgage Loan or violation of any covenant set forth in the Tax Exempt Financing Rider, or of an untrue or incorrect statement in any affidavit delivered by a Mortgagor, by a seller of the Mortgaged Premises or by the Participating Lending Institution with respect to any Mortgage Loan serviced by the Servicer;

B. Abandonment, rental, sale, assumption or other transfer or disposition of the Mortgaged Premises;

C. Any lack of repair or other deterioration or waste suffered, threatened or committed with respect to the Mortgaged Premises;

D. Any state insolvency or Federal bankruptcy proceeding in which the Mortgagor is seeking relief or is a debtor;

E. Attachment of liens that are prior or superior to the Division's Deed of Trust;

F. The death of any Mortgagor or guarantor of the Mortgage Loan;

G. Condemnation of Mortgaged Premises;

H. Forfeiture, seizure or threatened seizure of Mortgaged Premises, related to a criminal offense;

J. The payment of any scheduled Mortgage Loan payment by a person or persons other than the original Mortgagor;

K. Use of the Mortgaged Premises for any trade or business activity;

L. The hazard insurance policy lists as the insured a person or persons other than the Mortgagor;

M. The tax statement lists as the owner of the Mortgaged Premises a person or persons other than the Mortgagor;

O. Any other matters which would adversely affect or result in the diminution of the value of the Mortgaged Premises.

Accurate records of the aforesaid matters shall be retained by Servicer.

2.15. Loan Payoffs.

The Mortgage Loan being serviced provides that the Mortgagor has the right to prepay the Mortgage Loan in full without assessment of any prepayment penalty. For purposes of this section, the term “payoff” shall mean a payment from the Mortgagor to satisfy the entire unpaid principal balance of the Mortgage Loan plus any accrued interest thereon.

In connection with the payoff of the Mortgage Loan, the Servicer agrees to remit to the Trustee of the Division’s Program, the sum of the amount described below:

A. The entire unpaid principal balance of the Mortgage Loan; plus

B. Interest as follows:

1. Which has accrued on the unpaid principal balance of the Mortgage Loan through the end of the month in which the payoff is received by the Servicer for all FHA insured mortgages; or

2. Which has accrued through the date of payoff on all VA guaranteed or conventional Mortgage Loans.

C. Less any servicing fee payable to the Servicer.

Preforeclosure Sale/Third Party Sale. Upon receipt by Servicer of preforeclosure sale proceeds or third party sale proceeds, the Servicer agrees to remit to the Trustee of the Division’s Program, the sum of the amount described below:

A. The entire unpaid principal balance of the Mortgage Loan, or portion received thereof, plus

B. Interest through the date of sale, or portion received thereof.

Third Party Total Debt Sale. Servicer agrees to remit to the Trustee of the Division’s Program the sum of the amount described below:

A. The entire unpaid principal balance of the Mortgage Loan, plus

B. Interest through the date of sale.

On third party total debt sales only, the Servicer may retain funds received to cover expenses after remitting the principal and interest due to the Division as shown above.

All funds required to be remitted by the Servicer in connection with the payoff of the Mortgage Loan must be received by the Trustee of the applicable Program within forty-eight (48) hours following the receipt of the funds. At the same time that the funds are wired to the Trustee, the Servicer agrees to send a completed NHD form 107 (“Loan Paid In Full Statement”) to the Trustee at (801) 524-4838 and the Division at (775) 687-6947, via facsimile. Furthermore, in connection with the payoff of the Mortgage Loan, the Servicer agrees to complete and submit all documents and notices required by the Mortgage Insurer, which shall include all documentation to secure any refunds on behalf of the Mortgagor with respect to any prepaid Mortgage Insurance.

PART III – DELINQUENCY SERVICING

3.01. Guidelines for Dealing with Delinquencies and Defaults.

In the event of any default by the Mortgagor under the Mortgage Loan, the Servicer shall take such actions as directed by the Division, and, if applicable, the Mortgage Insurer. Subject to these directions, the Servicer shall take all appropriate actions to bring the Mortgage Loan current in the shortest possible time.

The Servicer shall treat each delinquent Mortgage Loan on an individual basis, taking into account the Servicer's knowledge of the Mortgagor, the location and type of Mortgaged Premises, and the extent of the default. The Servicer shall make use of notices, letters, telegrams, telephone contact, personal contacts, and all other collection media normally employed by reputable servicers of loans. Particular attention should be paid to the promptness with which payments are received from new Mortgagors. The Servicer shall impress upon new Mortgagors the need to make all payments promptly on or before the due date. Grace periods are included to cover mailing delays and other unusual circumstances, but should not be regularly relied upon.

The Servicer's personnel are to be sufficiently skilled in financial counseling to assist mortgagors in bringing delinquent Mortgage Loans current and protecting their equity and credit rating. The purpose of all collection efforts, including personal interviews, is to bring the delinquent Mortgage Loan current in the shortest possible time. If the Mortgage Loan cannot be brought current immediately, and the Mortgagor's circumstances and past record justify it, the Servicer should arrange for the liquidation of the arrearage in the shortest possible period and in any practical manner which the Servicer deems appropriate. All discussions with the Mortgagor should include a determination of the cause of the delinquency as well as a definite commitment by the Mortgagor as to how and when the delinquency will be cured.

3.02. Delinquency Reporting.

Within five (5) days following the last day of each calendar month, the Servicer agrees to mail to the Division (i) NHD form 109 ("Monthly Delinquency Report") or a similar report in a form acceptable to the Division, listing each Mortgage Loan being serviced for the Division in which payments are in arrears by thirty (30) or more days, and (ii) on Mortgage Loans sixty (60) days or more in arrears, NHD form 110 ("Monthly Servicing Report") or a similar report in a form acceptable to the Division. Programs must be broken out separately on NHD form 109 ("Monthly Servicing Report"). NHD form 110 ("Monthly Servicing Report") must include a statement as to any action taken by the Servicer to bring a delinquent Mortgage Loan current and recap all servicing action with respect to each delinquent Mortgage Loan. Servicer agrees to prepare the foregoing reports for each Program in which the Servicer services Mortgage Loans for the Division. Servicer is to submit the foregoing reports even though foreclosure proceedings have begun with respect to a particular Mortgage Loan. In the event there are no delinquent Mortgage Loans being serviced by the Servicer under a Program of the Division, Servicer shall submit the monthly reports indicating "no delinquencies."

Upon prior approval by the Division, Servicers may send the Delinquency Report via e-mail to vdunmore@nvhousing.state.nv.us in an Excel or Word format.

Failure to provide monthly delinquency reports in the method and time frame described above shall result in the assessment of fees in accordance with Part VI of this Servicing Supplement.

Servicers shall make the timely filing of all notices and reports to FHA, VA and PMI, as well as notices and reports to the Division. Servicer hereby indemnifies the Division for any losses it sustains because of the denial of a claim or the reduction in benefits paid by a Mortgage Insurer or guarantor resulting from the failure of Servicer to satisfy the requirements of the applicable Mortgage Insurer or guarantor.

3.03. Bankruptcy.

The Servicers must have written procedures to control and monitor bankruptcy proceedings effectively. The procedures should cover bankruptcies filed under Chapters 7, 11, 12, and 13. The procedures must address the requirements for:

A. Establishing a case status and portfolio tracking system to permit the proper reporting and analysis of activity for individual cases and to monitor the Servicer's overall bankruptcy management process;

B. Referring the case to the bankruptcy attorney promptly;

C. Filing a proof of claim, either by the Servicer or its bankruptcy attorney, the circumstances under which it is required, how to prepare it, and the time frame for filing;

D. Reviewing proposed payment plans and analyzing the results of the bankruptcy attorney's negotiations to determine that they represent adequate bankruptcy resolution provisions;

E. Pursuing legal action to obtain early dismissal of the case, stay relief, plan objection, or other relevant proceedings if negotiations have failed;

F. Determining when the prerequisites for filing motions for bankruptcy relief and their deadlines have been met;

G. Establishing and maintaining a legal events record to define the status of a case at various times throughout the bankruptcy proceedings and to identify when conditions for additional legal proceedings have been met;

H. Establishing and maintaining a payment compliance record to define the Mortgagor's and/or bankruptcy trustee's compliance with any payment plan or other court-ordered arrangement, to identify when conditions for additional legal proceedings have been met, and to take appropriate action if the Mortgagor fails to make payment under the plan, including filing a motion to have a foreclosure stay lifted when the second payment is missed under the plan, or at an earlier date if permissible and customary in the jurisdiction; and

I. Following the completion, dismissal, discharge, or other relief of the bankruptcy proceedings, promptly initiating foreclosure proceedings or finalizing a loss mitigation alternative, if appropriate.

The Servicer shall protect the Division's interest in any bankruptcy proceedings of the Mortgagor. The Servicer shall monitor and take appropriate actions to obtain relief from any bankruptcy stay. Noncompliance with this provision, failure to follow Mortgage Insurer guidelines, or the lack of prompt and proper servicing shall constitute a default under the Mortgage Purchase Agreement and this Servicing Supplement and require the Servicer to purchase/repurchase the Mortgage Loan. The Division shall reimburse Servicer for reasonable fees and expenses, including reasonable attorneys' fees, incurred by the Servicer in connection with any reasonable actions taken by the Servicer pursuant to Part 4.07 of this Servicing Supplement. Servicer shall maintain accurate records of the aforesaid matter.

3.04. Loss Mitigation.

The Division grants the Servicer broad discretion to extend appropriate relief to Mortgagors whom have proper regard for their obligations. The Servicer should be readily available to Mortgagors to offer skilled financial counseling and advice. The Servicer may not, under any circumstances, offer a modification of any Mortgage Loan it services for the Division as a form of relief.

If the Mortgage Loan is in default, the Servicer should contact the Mortgagor within fifteen (15) days following the date of default to attempt to achieve a solution, which will cure the existing default under the Mortgage Loan. If the Mortgage Loan is insured by Mortgage Insurance it is expected that the Servicer will be fully familiar with the various forms of relief to Mortgagors authorized by the Mortgage Insurer of the Mortgage Loan, and will employ such relief whenever appropriate. However, no such relief should be recommended with respect to a Mortgage Loan unless there is a reasonable expectation that the relief recommended would cure the default under the Mortgage Loan.

Prior to recommending relief as herein provided, the Servicer shall inspect the Mortgaged Premises and ascertain the reason for the default of the Mortgagor. The Servicer shall be responsible for satisfying all applicable requirements of the Division and, if applicable, the Mortgage Insurer with respect to the relief which is recommended.

Servicers should accept a partial payment, and hold it as "unapplied funds," if the mortgagor has a good attitude toward the mortgage obligation, is not habitually delinquent, does not have a history of remitting checks that are returned for "insufficient funds," and can pay the balance of the payment within the next thirty (30) days. In addition, Servicers must follow HUD and VA guidelines with respect to handling partial payments.

In cases where the reason for delinquency has been cured, Servicers should employ all loss mitigation tools allowable under Division and Mortgage Insurer guidelines before commencing foreclosure.

If the reason for delinquency appears to be permanent, the Servicer should suggest that the mortgagor sell the Mortgaged Premises, allowing the mortgagor to pay off the Mortgage Loan. If sale of the Mortgaged Premises is not feasible due to market conditions, etc., the Servicer shall explore alternatives to foreclosure such as Preforeclosure Sale, Deed in Lieu of Foreclosure, Short Sale, and VA Compromise Sale.

The Servicer shall not be required to obtain prior approval from the Division before executing any loss mitigation measures in the event a notice of default has not yet been executed

by the Division and furnished to the Mortgagor. If the Notice of Default has been executed by the Division, the Servicer shall obtain the prior written approval of the Division before agreeing to any loss mitigation measures.

In the event the Notice of Default has been executed by the Division, prior to approving any loss mitigation measure, the Servicer shall provide the Division with the following documentation:

- A. Copy of hardship letter from Mortgagor;
- B. Copy of financial statement as required by Mortgage Insurer;
- C. Servicer's loss mitigation calculation worksheet; and
- D. Copy of the repayment or forbearance agreement, or in the absence of a written agreement, a complete breakdown of the payments due under the repayment plan.

The Division will notify the Servicer of its approval or decline of the proposed loss mitigation.

PART IV - FORECLOSURE

4.01. Enforcement of Division's Rights under a Mortgage Loan in Default.

Unless otherwise directed by the Division, the Servicer agrees to take all actions necessary to enforce the rights of the Division under the Mortgage Loan if it is in default, and obtain the full benefits of the Mortgage Insurance. The Servicer shall keep the Division fully informed on a monthly basis of such actions, which actions may include, but shall not be limited to, the institution and prosecution of foreclosure proceedings or similar legal proceedings on behalf of the Division, and, if applicable, the conveyance of the Mortgaged Premises to the Mortgage Insurer.

4.02. Institution of Foreclosure.

If the Mortgage Loan is in default, the Servicer shall not recommend foreclosure proceedings until all reasonable efforts have been made to arrive at a solution to cure the default. However, once the Servicer determines that no other course of action will cure the default, the Servicer shall promptly recommend foreclosure, and shall include in an accompanying report to the Division, a brief servicing history to date, a statement of the reasons for recommending foreclosure, and all findings in connection with any inspection of the Mortgaged Premises. The Servicer shall continue all efforts to cure the default until the Division directs the Servicer to commence foreclosure proceedings. The Servicer may provide notice of impending foreclosure proceeding to the Mortgagor prior to approval of the action by the Division. However, no action to foreclose may be commenced by the Servicer until approved by the Division. The Servicer shall request permission from the Division to commence foreclosure proceedings utilizing NHD form 111, ("Servicer's Foreclosure Recommendation and Request") or a similar report in a form acceptable to the Division.

Upon receipt of the Division's approval to commence foreclosure, the Servicer shall prepare and forward to the Division all documents necessary to commence foreclosure proceedings, and if necessary, request the Division to furnish the Servicer with any information or documents needed by the Servicer to proceed with the foreclosure proceedings. If the Division directs the Servicer to institute foreclosure proceedings, the Servicer agrees to comply with all requirements and guidelines of the Division and Mortgage Insurer. In connection with the foreclosure of the Mortgage Loan, only the Division shall be authorized to execute the following documents:

- A. Substitution of Trustee;
- B. Notice of Default;
- C. Assignment of Deed of Trust in favor of FHA, VA, or PMI;
- D. Notice of Rescission; and
- E. Grant, Bargain and Sale Deed.

Upon receipt of the prepared Grant Deed, the Division will execute the Deed. At that time the original documents maintained by the Division will be sent to the Servicer.

4.03. Actions During Foreclosure.

The Servicer shall take all appropriate action during foreclosure proceedings to protect the Mortgaged Premises and must take all actions required by the Mortgage Insurer or in the absence of Mortgage Insurance, Fannie Mae.

With respect to the foreclosure of the Mortgage Loan, the Servicer shall retain the Mortgagor's unapplied impound accounts, if any, insurance policies, tax receipts, and all bills for expenses relating to the Mortgage Loan. If the Mortgagor's impound account is insufficient to pay taxes, insurance premiums, and other charges under the Mortgage Loan, as they become due, the Servicer shall advance funds for the payment of such expenses, together with all costs incurred during the foreclosure proceedings, to the extent necessary to protect the Division's interest in the Mortgage Loan. Such advances made by the Servicer will be repaid by the Division upon completion of the foreclosure proceedings and receipt by the Division of the Mortgage Insurance or in the absence of Mortgage Insurance, sale proceeds. The Servicer shall be responsible for satisfying all requirements in connection with the foreclosure proceedings and promptly forward all required reports and other documents to the Mortgage Insurer, if applicable, to insure receipt of the maximum benefits of the Mortgage Insurance. In the event the Servicer fails to take appropriate steps or actions to obtain the maximum benefits under the Mortgage Insurance the Servicer shall be in default under the Mortgage Purchase Agreement and this Servicing Supplement, and the Division may require the Servicer to purchase/repurchase the Mortgage Loan.

Inspections of the Mortgaged Premises and reports of such inspections must be made in accordance with any guidelines issued by the Mortgage Insurer or in the absence of Mortgage Insurance, Fannie Mae, and the Servicer shall provide the Division with copies of the inspection report.

Property preservation, including winterization as appropriate, shall be made in accordance with Mortgage Insurer guidelines, or in the absence of Mortgage Insurance, Fannie Mae. Expenses incurred by Servicer for the protection and preservation of the Mortgaged Premises shall not exceed costs allowed by FHA or VA, as applicable, unless Servicer has obtained prior written approval from FHA or VA, unless otherwise approved by the Division.

In the event that foreclosure proceedings are instituted, the Servicer, or its attorney or agent (such as a title company) acceptable to the Division, shall conduct all such proceedings as directed by the Division and, if applicable, the Mortgage Insurer and take title to the Mortgaged Premises, when required, in the name designated by the Division. During the foreclosure proceedings, the Servicer shall manage and protect the Mortgaged Premises subject to foreclosure proceedings in accordance with the terms of the Mortgage Loan and any applicable requirements of the Division and the Mortgage Insurer or in the absence of Mortgage Insurance, Fannie Mae.

4.04. Covenant Defaults.

The Tax-Exempt Financing Rider attached to and recorded as part of the Deed of Trust on Mortgage Loans under the Program describe certain situations that may require the immediate payment in full of all sums secured by the Deed of Trust. A breach of the covenants and agreements made within the rider by the Mortgagor may result in a covenant default and requires

special handling by the Servicer.

As described in Part 2.14 of this Servicing Supplement, the Servicer shall promptly notify the Division, in writing, of the occurrence of any default under the terms of the Mortgage Loan. Upon receipt of written notification from the Servicer the Division will provide instructions for the handling of the covenant default. In the event the covenant default results in all sums secured by the Deed of Trust being called due and payable, the Servicer shall make certain the foreclosure documents spell out the covenant default in addition to any monetary default that may exist.

4.05. Bidding Instructions.

The Servicer shall provide bidding instructions to its employee, agent or the attorney attending any foreclosure sale. Bidding instructions shall be in conformity with procedures required by the Mortgage Insurer or in the absence of Mortgage Insurance, Fannie Mae. No bid in excess of the amount authorized by the Mortgage Insurer or in the absence of Mortgage Insurance, Fannie Mae, shall be entered on behalf of the Division. If the bid amount has not been approved by Mortgage Insurer as of the date of the foreclosure sale, the Servicer shall postpone the sale. Non-compliance with these requirements shall constitute a default by the Servicer under the Mortgage Purchase Agreement and this Servicing Supplement.

4.06. Offer of Payment During Foreclosure.

Except in the event of covenant default, if during foreclosure proceedings, the Mortgagor offers payment of the full amount which is in default, including advances, legal costs, and other foreclosure costs and expenses that have been incurred, or will be incurred, such an offer may be accepted by the Servicer. Additionally, such an offer may not be declined by the Servicer without obtaining the Division's prior written consent, and, if applicable, considering the requirements of the Mortgage Insurer. If the Servicer has determined a covenant default exists, evidence that the covenant default has been cured must be obtained by the Servicer prior to accepting any offer of payment. In the event of the death of the Mortgagor(s), the Division may accept an offer of payment from a third party on a case by case basis.

If the offer by the Mortgagor to pay the full amount in default is accepted, upon the receipt of the funds, the Servicer shall take action to prevent additional foreclosure costs and expenses from being incurred, apply such funds (exclusive of foreclosure costs and expenses) to the Mortgagor's account, and pay the foreclosure costs and expenses. The Servicer shall report all details of the transaction to the Division.

If during foreclosure proceedings, the Mortgagor offers to pay an amount less than the full amount in default (including, but not limited to, advances and legal costs), the Servicer shall estimate the amount of the foreclosure costs and expenses that have been or will be incurred if the offer is accepted. After complete review of all loss mitigation options available under Mortgage Insurer guidelines and determination that the Mortgagor and/or Mortgaged Premises do not qualify for such options, the Servicer may decline the offer of partial payment without the Division's consent, but must obtain the Division's written approval prior to acceptance of such offer. The Servicer shall also include a recommendation to the Division as to whether the foreclosure action should continue, be suspended or dismissed and how the remaining default will be cured.

4.07. Acquired Properties; Disposition.

The Servicer shall report foreclosure sale results to the Division via e-mail to lvloans@nvhousing.state.nv.us within five (5) business days of the date of the foreclosure sale or the date a deed-in-lieu is recorded.

The Servicer shall be responsible for the maintenance of the Mortgaged Premises if acquired by the Division through foreclosure proceedings until the Mortgaged Premises is deeded to the Mortgage Insurer or in the absence of Mortgage Insurance, until the Mortgaged Premises is successfully remarketed. The Servicer shall make regular inspections of the Mortgaged Premises and report to the Division its condition and occupancy, take protective actions when necessary, collect and remit rents, if any, and pay minor expenses.

The Servicer agrees to maintain fire and hazard insurance with extended coverage on the Mortgaged Premises acquired by the Division upon foreclosure or by deed in lieu of foreclosure until such time as the Mortgaged Premises are conveyed to the Mortgage Insurer, or until title is otherwise transferred. The Servicer shall indemnify and hold the Division harmless from any and all damages, costs and attorney's fees resulting from the Servicer's failure to properly perform this obligation.

The Servicer shall notify the insurance carrier who insures the Mortgaged Premises of any changes in occupancy and/or ownership. If the Mortgaged Premises is vacant, the Servicer shall promptly investigate the availability and cost of vandalism and malicious mischief insurance and make a recommendation as to whether such insurance should be purchased by the Division. Any damage or destruction to the Mortgaged Premises must be immediately reported in writing to the Division.

With respect to Mortgaged Premises acquired through foreclosure, the Servicer shall arrange for the prompt conveyance of the Mortgaged Premises pursuant to the requirements set forth by the Mortgage Insurer or in the absence of Mortgage Insurance, Fannie Mae. The Servicer shall file all necessary notices and satisfy all requirements of the Mortgage Insurer.

Upon receipt of all claim benefits from the Mortgage Insurer and within the guidelines prescribed below the Division will reimburse the Servicer for the funds advanced for the payment of expenses and costs necessary to protect the Division's interest in a Mortgage Loan. In the absence of Mortgage Insurance, the Division will reimburse the Servicer for funds advanced for the payment of expenses and costs necessary to protect the Division's interest in a Mortgage Loan pursuant to Fannie Mae guidelines.

- A. Trustee's and Attorneys' Fees allowable by FHA, VA or the Mortgage Insurer.
- B. If required by the Mortgage Insurer, expenses for the Trustee Sale Guarantee will be reimbursed.
- C. Additional photographs will be reimbursed if prior written authorization is received from the Division or the Mortgage Insurer.
- D. Additional expenses for protection and preservation beyond the amount allowable by the Mortgage Insurer will be reimbursed if prior written authorization is received from the Division or the Mortgage Insurer.

E. Eviction expenses shall be reimbursed in an amount not to exceed Mortgage Insurer guidelines. On FHA insured Mortgage Loans, the Division authorizes the Servicer to utilize HUD's "Cash for Keys" program when the cost of eviction will exceed the amount to be paid to the Mortgagor under said program.

F. Penalties and interest assessed as a result of escrow disbursements, homeowner's association dues and utilities not being paid in a timely manner will not be reimbursed by the Division.

G. If the Servicer fails to take the appropriate steps to obtain the maximum benefits under the Mortgage Insurance, the Servicer shall be responsible to reimburse the Division the difference between the maximum benefits and the amount of the actual benefits received.

H. Attorneys' fees for the handling of a bankruptcy will be reimbursed in an amount not to exceed Mortgage Insurer guidelines.

I. Fees for handling of a possessory action will be reimbursed in an amount not to exceed Mortgage Insurer guidelines.

J. Fees for processing a Deed-in-Lieu will be reimbursed in an amount not to exceed Mortgage Insurer guidelines.

K. The Division will not reimburse curtailments in expenses by the Mortgage Insurer as a result of claim preparation error. Servicer is responsible for filing a supplemental claim.

L. Curtailments in interest by the Mortgage Insurer as a result of claim submission requirements not being met will be assessed to the Servicer.

4.08. Deed-in-Lieu of Foreclosure.

If the Mortgagor offers or is willing to execute a voluntary deed-in-lieu of foreclosure, the Servicer shall take into account all pertinent factors and should not accept the deed-in-lieu unless the acceptance of deed-in-lieu is, in the opinion of the Servicer, the best alternative for the Division.

Servicer shall not accept a deed-in-lieu for any Mortgage Loan which is not insured by FHA or VA. Servicer shall secure Mortgage Insurer approval and all Mortgage Insurer guidelines must be met prior to executing a deed-in-lieu of foreclosure. Servicer shall also ensure that full benefits of any Mortgage Insurance or guarantee will be received by the Division.

On a case-by-case basis, the Division may be willing to accept a deed-in-lieu of foreclosure on Mortgaged Premises that are subject to a Division subordinate deed of trust. Such determination will be made by the Division. Should the Division approve the deed-in-lieu, any incentives normally paid by the Mortgage Insurer to the Mortgagor shall inure to the benefit of the Division towards satisfaction of the debt. In such case, the grantee in the warranty deed will be the "Nevada Housing Division."

All documents needed to complete the processing of a deed-in-lieu of foreclosure must be prepared by the Servicer or its designated counsel. Servicer shall work to ensure the prompt and

efficient completion of each deed-in-lieu of foreclosure. Prior to the recording of the deed, the Servicer, or its counsel, must obtain an update to assure that the deed to the Mortgaged Premises will not be subject to any other liens.

Within five (5) business of the recording date, the Servicer shall notify the Division of the recording of the deed to the Mortgaged Premises by telephone or fax to the Division's Las Vegas office or via e-mail to lvloans@nvhousing.state.nv.us. The Servicer shall provide a conformed copy of the executed deed within five (5) business days of the recording of the deed.

4.09. Claims.

Servicer shall file claims under FHA, VA or PMI, as applicable in the name of the Nevada Housing Division to ensure claim funds are remitted directly to the Division. In completing the Part B claim form, Servicer shall insert the Division's mortgagee number 2704309991 as the holding mortgagee in box 12. The servicing mortgagee number entered in box 13 must be that of the Servicer. Servicer shall pay FHA and PMI premiums for Mortgage Loans in foreclosure, as required by FHA and the Mortgage Insurer.

In the event a Mortgage Insurer or guarantor denies or refuses to pay a claim, the Servicer shall, within fifteen (15) business days notify the Division in writing and provide copies of any correspondence from the Mortgage Insurer with respect to such denial or refusal. Suspended claims must be resolved within 30 day of the date of suspension.

The Servicer shall submit NHD form 112 ("Statement of Foreclosure Expenses") or a similar form containing the same data elements acceptable to the Division within thirty (30) business days of receipt of the final claim payment. The Division will only reimburse expenses included as part of the claim to the Mortgage Insurer. The Division reserves the right to refuse payment for reimbursement of foreclosure expenses when filings for reimbursement are not submitted within the required timeframe.

The Servicer shall process the necessary claims for insurance and guaranty benefits on behalf of the Division within the time frames prescribed by the Mortgage Insurer. Failure to do so may result in the levy of charges to the Servicer by the Division as outlined in Part VI of this Servicing Supplement, or the Division may require that the Servicer purchase/repurchase the Mortgage Loan. A copy of claim packages must be forwarded to the Division within fifteen (15) calendar days of submission to the Mortgage Insurer.

Claims filed incorrectly which result in a loss of benefits to the Division will be assessed to the Servicer and deducted from the Servicer's reimbursement of foreclosure expenses as shown on NHD form 112.. In the event claims payments are inadvertently received by the Servicer said funds must be remitted by wire to the Division's Trustee within forty-eight (48) hours of receipt by the Servicer. If the Servicer does not remit the claim proceeds to the Division within these time frames, the Division may impose a daily interest charge until the funds are received by the Division. Simultaneously with the wire transfer, the Servicer shall provide to the Division a copy of any advice of payment provided by the Mortgage Insurer.

Whenever an audit is made or required by a Mortgage Insurer or guarantor with respect to claims filed, the Servicer shall submit a copy of the request or demand of the Mortgage Insurer or guarantor to the Division within ten (10) days of its receipt by the Servicer. Servicer shall submit a copy of the audit findings to the Division within ten (10) days of its receipt by the Servicer.

PART V - REPRESENTATIONS, WARRANTIES, AMENDMENTS, REMEDIES AND OTHER CONTACTUAL MATTERS

5.01. Representations of the Servicer.

As of the date that title to the Mortgage Loan is transferred from the Servicer to the Division, the Servicer represents and warrants to the Division the following:

A. The Servicer is a business enterprise which has as one of its principal purposes the servicing of loans secured by real estate and the servicing of such loans is part of the Servicer's regular, usual and normal course of business.

B. The Servicer is duly organized and existing under the laws of the state in which it is formed, it is duly qualified and licensed to do business in the State of Nevada, and has not been disapproved or suspended as a seller or servicer of Mortgage Loans by Fannie Mae or FHLMC.

C. The Servicer is (i) an approved FHA mortgagee, as defined in the National Housing Act, as amended, and the applicable rules and regulations thereunder, and (ii) an approved VA mortgagee pursuant to the Veteran's Benefit Act, as amended, and the applicable rules and regulations thereunder. It is agreed that if at any time the Servicer ceases to be an approved FHA or VA mortgagee, whether by cancellation, revocation, suspension or otherwise, or in the event that any governmental agency, body or department that has insured or guaranteed the Mortgage Loan or has jurisdiction over the operations of the Servicer shall cancel, revoke or suspend the authority of the Servicer to carry on the business of the Servicer as a lender or servicer, or shall otherwise forbid or impair the rights or privilege of the Servicer to carry on its business operations, notwithstanding anything herein to the contrary, the Division reserves the right to terminate all rights of the Servicer to service the Mortgage Loan purchased by the Division from the Servicer. The Servicer agrees that if any of the events specified in this paragraph shall occur, it must give notice, in writing, to the Division, within five (5) days after the occurrence of such event.

5.02. Purchase/Repurchase of Mortgage Loans.

Upon the occurrence of any event described in this Section with respect to the Mortgage Loan being serviced for the Division, the Servicer agrees to purchase/repurchase the Mortgage Loan from the Division at the price and upon the terms specified in this Section:

A. The events which will cause the Servicer to purchase/repurchase the Mortgage Loan are as follows: (1) the Mortgage Insurance with respect to such Mortgage Loan shall lapse at any time during the term of the Mortgage Loan; (2) the Division suffers, or is threatened with, losses, damages, judgments, costs or legal expenses that result from the Servicer failing to perform its services and duties for the Mortgage Loans it services for Division in accordance with the Mortgage Purchase Agreement, this Servicing Supplement, the Uniform Reporting Supplement, or Program Bulletin; (3) the Servicer, without the prior written consent of the Division, waives the enforcement of any of the provisions of the Mortgage Loan or the Servicer authorizes a modification of the original terms of the Mortgage Loan; (4) any transfer of title or assumption of the Mortgage Loan occurs without the prior written consent of the Division, where the Servicer is aware of such transfer or assumption, or the Servicer fails to comply with the provisions set forth in the Division's Assumption Procedures, Attachment "7" of the Selling

Supplement; (5) the Servicer fails to take appropriate steps to obtain the maximum benefits under the Mortgage Insurance or the Servicer fails to submit the claim for mortgage insurance benefits to the Mortgage Insurer within the required timeframes of the Mortgage Insurer; or (6) the Division determines at any time that a Mortgage Loan does not meet the requirements of the Code, the Act, or this Servicing Supplement.

B. Upon the occurrence of any event described in this Section, the Division shall notify the Servicer, in writing, of (1) the nature of the event causing the Mortgage Loan to be purchased/repurchased by the Servicer; (2) the purchase price to be paid by the Servicer; and (3) the date on which the purchase/repurchase shall occur (the "Repurchase Date"). The Repurchase Date shall be established by the Division, but in no event shall it be less than fifteen (15) business days from the date the Division notified the Servicer that it was required to purchase/repurchase the Mortgage Loan. The purchase price to be paid by the Servicer on the Repurchase Date shall be equal to the sum of the following amounts:

1. The unpaid principal balance of the Mortgage Loan and accrued interest due under the Mortgage Loan as of the Repurchase Date;
2. The aggregate amount of any advances made by the Division on behalf of the Mortgagor; and
3. Any unreimbursed amounts for attorneys' fees, legal expenses, court costs, or other expenses which have been incurred or expended by the Division in the connection with the purchase/repurchase of said Mortgage Loan.

C. On the Repurchase Date, and upon receipt of funds described in this Section, the Division shall convey all of its interest in the Mortgage Loan to the Servicer. The Division shall convey its interest in the Mortgage Loan to the Servicer by endorsing the Deed of Trust Note to the Servicer and by assigning its interest in the Deed of Trust to the Servicer. It shall be the responsibility of the Servicer to ensure the assignment is recorded in the office of the county recorder in which the Mortgaged Premises reside. Furthermore, the Division shall take all actions necessary to transfer any interest of the Division in the ALTA Policy of title insurance, the Mortgage Insurance, and any hazard, flood or other insurance to the Servicer.

D. The Servicer hereby agrees to indemnify and defend the Division and hold the Division harmless for any loss, liability, claim, action, damages, and expenses, including, without limitation, reasonable attorneys' fees and costs, that the Division may sustain as a result of the occurrence of any of the events described in this Section.

5.03. Termination; Accounting.

Upon the occurrence of any of the following events, the Servicer's right to service Mortgage Loans for the Division shall be terminated immediately upon the mailing of written notice of termination by the Division to the Servicer:

- A. The violation by the Servicer of any provision of this Servicing Supplement or any other agreement in connection with the Mortgage Loans;
- B. Upon cancellation of the fidelity bond or errors and omissions insurance required to be maintained by the Servicer;

C. The Servicer fails to submit audited annual financial statements within one hundred twenty (120) days of its fiscal year end;

D. The Servicer shall institute proceedings for voluntary bankruptcy, or suffer involuntary bankruptcy or shall file a petition seeking reorganization under the Federal bankruptcy laws or for relief under any other law for relief of debtors, or shall consent to the appointment of a receiver of all or substantially all of its property, or shall make a general assignment for the benefit of its creditors, or shall admit, in writing, its inability to pay its debts as they become due, or shall be adjudged bankrupt or insolvent by a court of competent jurisdiction, or if an order shall be entered by a competent jurisdiction appointing a receiver, liquidator or trustee of the Servicer or if all or substantially all of its property or approving any petition filed against the Servicer for its reorganization and such adjudication or order shall remain in force or unstayed for a period of twenty days. The Servicer agrees that if any of the foregoing events shall occur, it will give written notice thereof to the Division within five (5) days after the occurrence of such event;

E. The Servicer shall otherwise become unable to faithfully perform its duties or obligations under the terms of this Servicing Supplement;

F. The Servicer fails to perform any of its duties or obligations hereunder including, but not limited to, its duty to purchase/repurchase Mortgage Loans according to Section 18 of this Servicing and fails, for a period of fifteen (15) days after written notice from the Division, to correct or cure such failure unless such fifteen (15) day period shall be extended in writing by the Division;

G. At any time during the term of a Mortgage Loan any representation or warranty of the Servicer shall be found to be untrue or breached;

H. The Servicer transfers or assigns any or all Mortgage Loans to another entity for servicing without obtaining the Division's written permission; or

I. The Servicer is subject to an ongoing investigation by FHA or VA which goes beyond ninety (90) days in duration.

From and after the effective date of the termination of the Servicer's right to service Mortgage Loans, the Servicer shall be relieved of further responsibility in connection with the servicing of the Mortgage Loans. Upon termination of the Servicer's right to service Mortgage Loans, the Servicer shall (i) pay over to the Division all monies collected and held by it pursuant to this Servicing Supplement and/or pursuant to any agreement, letter or arrangement relating to the Mortgage Loans; (ii) deliver to the Division all loan documents, insurance policies and records in connection therewith; (iii) deliver to the Division a full accounting, including a statement showing the monthly payments collected by it and a statement of monies held in impound accounts; and (iv) cooperate fully with the succeeding Servicer to ensure an efficient transfer of servicing.

No compensation will be paid to the Servicer for the value of the servicing portfolio if the Division exercises its right to terminate the Servicer.

5.04. Remedies.

Except as otherwise provided for by law or this Servicing Supplement, the rights and remedies of the parties shall not be exclusive and are in addition to any other rights and remedies provided by law or equity, including, without limitation, actual damages, and to a prevailing party reasonable attorney's fees and costs. It is specifically agreed that reasonable attorneys' fees shall include without limitation \$250 per hour for attorneys representing the Division or the Servicer. The Division may off set consideration against any unpaid obligation of the Servicer to any State agency, including the Division.

5.05. Term of Agreement.

Unless sooner terminated as provided in Part 5.03 or by mutual agreement of the Servicer and the Division, all responsibilities of the Servicer in connection with the Servicing of the Mortgage Loan shall continue from the date the Mortgage Loan is purchased by the Division, until the earlier of (1) the entire principal balance and interest of the Mortgage Loan is paid in full, (2) until proceedings to foreclose the Mortgage Loan are completed and the final claims have been received by the Division or (3) until the Mortgage Loan is assigned to the issuer of the Mortgage Insurance.

5.06. Indemnification.

Servicer agrees to indemnify and hold the Division harmless from any and all losses, damages and/or expenses which the Division may incur (including reasonable attorneys' fees and costs) as a result of any act or failure to act on the part of the Servicer in connection with the servicing of the Mortgage Loan.

5.07. Assignment by Servicer.

Servicer may not delegate or subcontract the performance of its duties and obligations under this Servicing Supplement. A Servicer shall obtain the Division's approval of any servicing transfer (including one that results from a change in the Servicer's name, corporate ownership or structure). Written permission to act as a Servicer for the Division must be obtained within thirty (30) days of the merger, acquisition or association. Upon Division approval, the transferrer and transferee Servicers must execute an Assignment and Delegation Agreement, in triplicate, and forward to the Division for final approval. A trial balance of all Mortgage Loans to be transferred must accompany the Assignment and Delegation Agreement.

5.08. Choice of Law.

This Servicing Supplement shall be interpreted and construed in accordance with the laws of the State of Nevada.

5.09. Binding on Successors.

The Mortgage Purchase Agreement and this Servicing Supplement shall be binding upon and shall inure to the benefit and detriment of the parties to the Mortgage Purchase Agreement and their respective heirs, personal representatives, successors, and assigns.

5.10. Jurisdiction of District Courts.

The Servicer hereby submits to the jurisdiction of the First Judicial District Court (Carson City) of the State of Nevada in any action or proceeding arising out of, or as a result of, this Servicing Supplement or the alleged or anticipated breach of any of the provisions, representations or warranties contained therein.

PART VI - Imposition of Fees and Charges

If a Servicer fails to comply with the requirements set forth in this Servicing Supplement, the Division may pursue a variety of remedies, either to correct a specific problem or to improve the Servicer's overall performance. One possible remedy is the imposition of fees and charges to compensate the Division for damages and to emphasize the importance the Division places on a particular aspect of the Servicer's performance.

6.01. Delayed Remittance of Claim Proceeds.

In the event claim proceeds are remitted by the Mortgage Insurer directly to the Servicer, due to Servicer error in the preparation of the claim, said proceeds must be remitted to and received by the Division's Trustee within forty-eight (48) hours of receipt by Servicer. If the Servicer does not remit the claim proceeds within this time frame, the Division may impose a daily interest charge until such time funds are received. The interest charge will be calculated at the note rate.

6.02. Disallowed Foreclosure Costs or Curtailed Interest.

If the Mortgage Insurer or guarantor disallows a specific foreclosure expense or curtails the amount of interest paid due to failure by the Servicer to follow required procedures, the Division will not reimburse the Servicer for the disallowed expense or the curtailed interest.

6.03. Notification of Foreclosure.

The Servicer shall report foreclosure sale results to the Division via e-mail to lvloans@nvhousing.state.nv.us within five (5) business days of the date of the foreclosure sale or the date a deed-in-lieu is recorded. If such notification is not received within this time frame, the Division may charge the Servicer \$20.00 per day until notification is made. However, the Servicer shall indemnify the Division against all losses, expenses, judgments, costs and attorney fees that the Division sustains as a result of its failure to notify the Division in a timely manner.

6.04. Unauthorized Transfers of Servicing.

A Servicer shall obtain the Division's approval of any servicing transfer (including one that results from a change in the Servicer's name, corporate ownership or structure). If a Servicer fails to obtain our prior approval of a proposed transfer, or does not submit its request for approval at least thirty (30) days in advance of the effective date of the transfer of servicing, the Division may assess a compensatory fee and exercise any other available remedy, including termination. The fee charged by the Division will not exceed 1% of the unpaid principal balances of the Mortgage Loans that are being transferred.

6.05. Late Submission of Annual Financial Statements/Reports.

The Servicer shall submit its annual financial statements within 90 days of its fiscal year-end. If Servicer fails to do so, the Division may charge a compensatory fee of \$25 per month until we receive them. If the Division has not received the financial statements within 120 days of the Servicer's fiscal year-end, it may terminate the Servicer's servicing rights.

6.06. Late Submission of Monthly Reports.

The Servicer shall submit the various monthly reports in time to reach the Division by the fifth business day of the month following its cutoff date. A Servicer that fails to submit its reports by the required deadlines or that fails to report using the correct data and formats may be subject to the following compensatory fees:

- A. \$100 for the first instance of late or inaccurate reporting;
- B. \$250 for the second instance of late or inaccurate reporting (if it occurs within one year of the first instance); and
- C. \$500 for subsequent instances of late or inaccurate reporting (if any instance occurs within one year of the most recent previous instance).

6.07. Request for Duplicate Documents.

In the event the Servicer loses documents sent by the Division as the result of a Mortgage Loan payoff, the Division may impose a duplicate document fee of \$25.00 for every duplicate document requested or for a lost note affidavit if the original note has been released to the Servicer.